

**Important:**

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

None of Directors, Supervisors and the Senior Management are unable to guarantee the truthfulness, accuracy and completeness of the annual report or disagree with the content of the annual report.

All Directors other than Ms. Wang Yumei, an independent Director, who was absent due to sick leave, were present at the Board meeting which approved this annual report.

Chen Hongguo, the chairman of the Company, Wang Chunfang, the financial controller of the Company, and Li Dong, the head of the finance department, declare that they guarantee the truthfulness and completeness of the financial statements of the 2010 Annual Report.

Definitions: "Company", "the Company", and "Chenming Paper", "us", and "we" refer to Shandong Chenming Paper Holdings Limited, and the Company and its subsidiaries are collectively referred to as "the Group" in this report, unless otherwise specified.

## Contents

|   |     |
|---|-----|
| I. Company Information  | 2   |
| II. Summary of Financial and Operating Results  | 4   |
| III. Changes in Share Capital and Shareholders  | 8   |
| IV. Directors, Supervisors and Senior Management and the Staff  | 13  |
| V. Corporate Governance Report  | 23  |
| VI. Particulars about the General Meeting   | 31  |
| VII. Director's Report  | 32  |
| VIII. Supervisory Committee's Report  | 55  |
| IX. Material Matters  | 57  |
| X. PRC Auditors' Report and Financial Statements and Notes<br>thereto Prepared in Accordance with Accounting Standards for Business Enterprises | 73  |
| XI. Documents Available for Inspection  | 211 |

## I Company Information

1. Legal Chinese name of the Company: 山東晨鳴紙業集團股份有限公司  
Legal English name of the Company: SHANDONG CHENMING PAPER HOLDINGS LIMITED  
Abbreviation of the English name: SCPH
2. Legal Representative of the Company: Chen Hongguo
3. Secretary to the Board of the Company: Hao Yun  
Company Secretary: Poon Shiu Cheong  
Securities Affairs Representatives: Fan Yingjie  
Correspondence Address: No. 595 Shengcheng Road, Shouguang City, Shandong Province  
Telephone: (86)-0536-2158011, (86)-0536-2156488  
Facsimile: (86)-0536-2158640  
Email address: chenmmingpaper@163.com
4. Registered Address and Office address of the Company: No. 595 Shengcheng Road, Shouguang City, Shandong Province  
Postal Code: 262700  
Website of the Company: <http://www.chenmingpaper.com>
5. Designated Newspapers for Information Disclosure: China Securities Journal and Hong Kong Commercial Daily  
Designated Domestic Website for the Publication of the Annual Report as approved by China Securities Regulatory Commission: <http://www.cninfo.com.cn>  
Designated Overseas Website for the Publication of the Annual Report: <http://www.hkex.com.hk>  
Places for Inspection of the Company's Annual Report: Capital operation department of the Company
6. Stock Information  
A shares  
Shenzhen Stock Exchange  
Stock Abbreviation: 晨鳴紙業  
Stock Code: 000488  
  
B shares  
Shenzhen Stock Exchange  
Stock Abbreviation: 晨鳴B  
Stock Code: 200488  
  
H shares  
The Stock Exchange of Hong Kong Limited  
Stock Abbreviation: Chenming Paper  
Stock Code: 1812

7. Share Registrar  
A Share and B Share Registrar: China Securities Depository and Clearing Corporation Limited Shenzhen Branch  
18th Floor, CITIC Plaza, 1093 Shennan Zhong Road, Shenzhen  
H Share Registrar: Computershare Hong Kong Investor Services Limited  
Shops 1712-16, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
8. Other Relevant Information  
Date of Change in Registration of the Company: 27 September 2008  
Registered Address: No. 595 Shengcheng Road, Shouguang City, Shandong Province  
Legal Person Business License Registration Number: 370000400001170  
Taxation Registration Number: 370783613588986  
Organisation No.: 61358898-6
9. PRC and International Auditors Retained by the Company  
PRC Auditors: RSM China Certified Public Accountants  
Office Address: 23/F., Block A, No.8 Building, Shuntai Square, 2000, Shunhua Road, Jinan High-tech Industrial Development Zone  
International Auditors: RSM Nelson Wheeler  
Office Address: 29/F., Caroline Centre, Lee Gardens Two, 28 Yun Ping Road, Hong Kong
10. PRC and Hong Kong Legal Advisers Retained by the Company  
PRC Legal Advisers: Beijing Hylands Law Firm  
5A1, 5th Floor, East Zone, Hanwei Plaza, No. 7 Guanghua Road, Chaoyang District  
Hong Kong Legal Advisers: Li & Partners  
22nd Floor, World Wide House, Central, Hong Kong
11. Principal Bankers  
Industrial and Commercial Bank of China, Shouguang Branch  
No. 118 Guangchang Street, Shouguang City, Shandong Province, PRC

## II Summary of Financial and Operating Results

### I. Major financial data for the year of the Group

#### (I) Financial highlights prepared in accordance with Accounting Standards for Business Enterprises

Unit: RMB

| No | Key financial indicators   | Amounts          |
|----|--|------------------|
| 1  | Operating profit   | 1,433,750,743.06 |
| 2  | Total profit   | 1,562,354,564.20 |
| 3  | Net profit attributable to equity holders of the Company                                     | 1,163,341,066.21 |
| 4  | Net profit after extraordinary gains or losses attributable to equity holders of the Company | 1,034,233,761.46 |
| 5  | Net cash flows from operating activities   | 850,328,927.00   |

Unit: RMB

| Extraordinary gains or losses items  | Amounts        |
|--|----------------|
| Gains or losses on held-for-trading financial assets, other than effective hedging activities associated with the ordinary course of business of the Company   | 1,521,172.98   |
| Reversal of impairment provision on receivables tested for impairment on individual basis  |                |
| Net gain or loss on disposal of non-current assets   | -5,495,594.30  |
| Government grants received   | 96,530,256.72  |
| Net gains or losses attributable to debt restructuring   | 54,841.22      |
| Gains or losses on change in fair value of consumable biological assets  | 54,752,250.58  |
| Profit or loss arising from investment costs for acquisition of a subsidiary by the corporation being less than its share of fair value of identifiable net assets of the invested entity on acquisition |                |
| Non-operating net gain or loss other than the above  | 5,913,389.74   |
| Effect of extraordinary gains or losses on income tax  | -4,961,885.60  |
| Effect of minority interests   | -19,207,126.59 |
| Total  | 129,107,304.75 |

## II. Effect of adjustment in accordance with International Financial Reporting Standards on net profit and net assets

Net profit attributable to owners of the Company in the consolidated Financial Statements 2010 prepared in accordance with Accounting Standards for Business Enterprises by the Company was RMB1,163,341,066.21, and net assets attributable to shareholders' equity of the Company were RMB13,535,785,794.54. The main differences with the net profit and net assets set out in the financial statements prepared in accordance with International Financial Reporting Standards were as follows:

Unit: RMB

| Items   | As at<br>31 December<br>31 December<br>2010<br>Net assets<br>attributable to<br>owners of<br>the Company | For the year<br>ended<br>2010<br>Net profit<br>attributable to<br>owners of<br>the Company |
|---|--|--|
| Amounts set out in the financial statements prepared in accordance with International Financial Reporting Standards   | 13,242,894,916.36  | 1,190,339,176.67   |
| Special fund for treasury bonds received and special accounts payables  | 278,967,193.37   | -24,031,194.45   |
| Exchange gains or losses from special foreign currency borrowings   | 13,923,684.81  | -2,966,916.01  |
| Amounts set out in the financial statements prepared in accordance with Accounting Standards for Business Enterprises | 13,535,785,794.54  | 1,163,341,066.21   |

Note: In years prior to 2006, according to the principles of the Accounting Standards for Business Enterprises, the Company accounted for special fund for treasury bond received and special accounts payable related to construction of relevant fixed assets into capital reserve. However, according to the International Financial Reporting Standards, the Group accounted for such special fund for treasury bond received and special accounts payable into deferred income and such deferred income were amortised by instalments over the useful lives of the fixed assets.

### III. Major financial data and indicators of the last three years prepared in accordance with Accounting Standards for Business Enterprises

Unite: RMB

| Items / Indicators   | 2010                          | 2009                          | Increase / decrease (%)             | 2008                          |
|--|-------------------------------|-------------------------------|-------------------------------------|-------------------------------|
| Revenue from operations  | 17,203,123,029.49             | 14,884,629,349.50             | 15.58%                              | 15,529,593,435.77             |
| Total profit   | 1,562,354,564.20              | 1,172,922,631.23              | 33.20%                              | 1,555,339,310.69              |
| Net profit attributable to equity holders of the Company                                     | 1,163,341,066.21              | 835,947,981.16                | 39.16%                              | 1,075,291,741.53              |
| Net profit after extraordinary gains or losses attributable to equity holders of the Company | 1,034,233,761.46              | 715,103,042.84                | 44.63%                              | 854,268,917.39                |
| Net cash flows from operating activities   | 850,328,927.00                | 1,639,034,259.99              | -48.12%                             | 1,934,140,803.04              |
| Basic earnings per share   | 0.56                          | 0.41                          | 36.59%                              | 0.57                          |
| Diluted earnings per share   | N/A                           | N/A                           | N/A                                 | N/A                           |
| Basic earnings per share after extraordinary gains or losses                                 | 0.50                          | 0.35                          | 42.86%                              | 0.45                          |
| Fully diluted return on net assets   | 8.59%                         | 6.43%                         | Increased by 2.16 percentage points | 8.77%                         |
| Weighted average return on net assets  | 8.80%                         | 6.63%                         | Increased by 2.17 percentage points | 10.24%                        |
| Fully diluted return on net assets after extraordinary gains or losses                       | 7.64%                         | 5.50%                         | Increased by 2.14 percentage points | 6.97%                         |
| Weighted average return on net assets after extraordinary gains or losses                    | 7.87%                         | 5.67%                         | Increased by 2.2 percentage points  | 8.13%                         |
| Net cash flows per share from operating activities   | 0.41                          | 0.79                          | -48.10%                             | 0.94                          |
|  | <b>As at 31 December 2010</b> | <b>As at 31 December 2009</b> | <b>Increase / decrease (%)</b>      | <b>As at 31 December 2008</b> |
| Total assets   | 35,077,132,129.98             | 28,213,084,875.02             | 24.33%                              | 26,299,495,745.01             |
| Owners' equity (or shareholders' equity)   | 13,535,785,794.54             | 12,991,904,321.68             | 4.19%                               | 12,259,078,901.99             |
| Net assets per share attributable to equity holders of the Company                           | 6.56                          | 6.30                          | 4.13%                               | 5.95                          |

**IV. Rate of Return on net assets and earnings per share in accordance with Preparation Criteria of Information Disclosure by Companies Offering Securities to the Public No. 9 issued by China Securities Regulatory Commission**

|  | Return on net assets (%) |                  | Earnings per share (RMB) |                                  |
|--|--------------------------|------------------|--------------------------|----------------------------------|
|  | Fully diluted            | Weighted average | Basic earnings per share | Fully diluted earnings per share |
| Net profit attributable to equity holders of the Company                                     | 8.59%                    | 8.80%            | 0.56                     | N/A                              |
| Net profit after extraordinary gains or losses attributable to equity holders of the Company | 7.64%                    | 7.87%            | 0.50                     | N/A                              |



### III Changes in Share Capital and Shareholders

#### I. Changes in share capital

Unit: shares

|   | Opening balance  |            | Increase/decrease (+/-)                        |                              |                                |                     | Closing balance |                  | Percentage |
|---|------------------|------------|--|------------------------------|--------------------------------|---------------------|-----------------|------------------|------------|
|   |                  |            | resulting from changes in the reporting period |                              |                                |                     |                 |                  |            |
|   | Number of shares | Percentage | Increase in lock-up shares                     | Release of restricted shares | Disposal of state-owned shares | Issue of new shares | Sub-total       | Number of shares |            |
| I. Restricted shares                          | 303,298,805      | 14.71%     | 444,918  | -731,751                     | —                              | —                   | -286,833        | 303,011,972      | 14.69%     |
| of which: State-owned legal person shares     | 293,003,657      | 14.21%     | —  | —                            | —                              | —                   | —               | 293,003,657      | 14.21%     |
| Shares held by Senior Management              | 10,295,148       | 0.5%       | 444,918  | -731,751                     | —                              | —                   | -286,833        | 10,008,315       | 0.48%      |
| II. Non-restricted shares                     | 1,758,747,136    | 85.29%     | -444,918                                       | 731,751                      | —                              | —                   | 286,833         | 1,759,033,969    | 85.31%     |
| of which: Renminbi ordinary shares (A shares) | 809,979,651      | 39.28%     | -444,918                                       | 731,751                      | —                              | —                   | 286,833         | 810,266,484      | 39.30%     |
| Domestic listed foreign shares (B shares)     | 557,497,485      | 27.04%     | —  | —                            | —                              | —                   | —               | 557,497,485      | 27.04%     |
| Overseas listed foreign shares (H shares)     | 391,270,000      | 18.97%     | —  | —                            | —                              | —                   | —               | 391,270,000      | 18.97%     |
| III. Total number of sharesx                  | 2,062,045,941    | 100.00%    | —  | —                            | —                              | —                   | —               | 2,062,045,941    | 100.00%    |

Note: During the reporting period, the restricted shares held by the Senior Management changed by 286,833 shares from 10,295,148 shares to 10,008,315 shares. The reasons for such change were as follows:

- (1) According to the Practice Guidance for the Company's shares held by the directors, supervisors and senior management of the listed companies of Shenzhen Stock Exchange (《深圳證券交易所上市公司董事、監事和高級管理人員所持本公司股份管理業務操作指南》), the shares held by the existing Directors, Supervisors and Senior Management would be unlocked up on the basis of the percentage of 25% of the shares held as at the beginning of each year. During the reporting period, 25% of the non-restricted RMB ordinary shares (A shares) held by former Senior Management of the Company less than six months after leaving office changed to restricted shares, i.e. 182,938 shares, and the nature of the 261,980 shares held by newly appointed Senior Management changed from non-restricted RMB ordinary shares (A shares) to restricted shares held by Senior Management.

## I. Changes in share capital (Cont'd)

Note (Cont'd)

- (2) During the reporting period, the sales restriction on the shares held by former Directors and Senior Management of the Company more than six months after leaving office expired and was released. Therefore, the nature of the 731,751 shares, used to be held by the Senior Management, was changed from restricted shares held by the senior management to the non-restricted RMB ordinary shares (A shares).

## II. Offering of shares and listing of the company in the last three years

- As approved by the approval document [2008] No. 290 "On Approval of the Issue of Overseas Listed Foreign Shares by Shandong Chenming Paper Holdings Ltd. from China Securities Regulatory Commission (the "CSRC")", and the approval from the Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"), the Company issued overseas listed foreign shares (H shares) through public offer. The offer price of this global offering was HK\$9.00 per H share, and the Company offered 355,700,000 H shares for the global offering, of which, 35,570,000 H shares were offered in the Hong Kong public offering and the remaining 320,130,000 H shares were offered in the international offering. 35,570,000 state-owned legal person shares were transferred to NSSF Council due to the reduction of shareholding of state-owned shares by the Company's relevant state-owned corporate shareholders, and were converted into overseas listed foreign shares (H shares). A total of 391,270,000 H shares were listed on the main board of the Hong Kong Stock Exchange on 18 June 2008. The Company's English abbreviation is "Chenming Paper" and its stock code is "1812".
- No staff shares of the Company have been issued.

## III. Shareholders' profiles

### 1. Change in restricted shares

| Names of shareholders                           | Opening of balance restricted shares | Restricted shares released during the year | Restricted shares increased during the year | Closing balance of restricted shares | Reasons for restriction                                    | Date of release from restriction                                    | Unit: shares |
|---|--------------------------------------|--|---|--------------------------------------|--|---|--------------|
|   |                                      |  |   |                                      |  |   |              |
| Shouguang Chenming Holdings Company Limited     | 293,003,657                          | 0  | 0   | 293,003,657                          | Restriction under the Reform of Non-tradable shares        | 29 March 2010   |              |
| Shares held by Senior Management of the Company | 10,295,148                           | 731,751                                    | 444,918                                     | 10,008,315                           | Lock-up of shares held by senior management of the Company | Released under the relevant requirements of Shenzhen Stock Exchange |              |
| Total   | 303,298,805                          | 731,751                                    | 444,918                                     | 303,011,972                          | —  | —   |              |

Note: The restriction period for the 293,003,657 restricted shares of the Company held by Shouguang Chenming Holdings Company Limited, the controlling shareholder of the Company, expired on 29 March 2010. The relevant procedure for the release from sales restriction will be processed upon confirmation from the controlling shareholder regarding such release from sales restriction.

### III. Shareholders' profiles (Cont'd)

#### 2. Top ten shareholders and the top ten shareholders of non-restricted shares

Unit: shares

Total number of shareholders      The total number of shareholders was 168,277, of which, 137,413 were holders of A shares, 30,232 were holders of B shares and 632 were holders of H shares.

Shareholdings of the top ten shareholders

| Name of shareholders  | Nature of shareholders                                      | Percentage of shareholding | Total number of shares held | Number of restricted shares held | Number of shares pledged or locked-up |
|---|---|----------------------------|-----------------------------|----------------------------------|---------------------------------------|
| HKSCC Nominees Limited  | Overseas non-state-owned legal person (foreign shareholder) | 18.91%                     | 389,900,000                 | 0                                | Unknown                               |
| Shouguang Chenming Holdings Company Limited   | State-owned legal person                                    | 14.21%                     | 293,003,657                 | 293,003,657                      | None                                  |
| PLATINUM ASIA FUND  | Overseas legal person                                       | 2.15%                      | 44,366,377                  | 0                                | Unknown                               |
| BBH BOS S/A FIDELITY FD – CHINA FOCUS FD  | Overseas legal person                                       | 1.38%                      | 28,500,195                  | 0                                | Unknown                               |
| HTHK-MANULIFE CHINA VALUE FUND  | Overseas legal person                                       | 1.11%                      | 22,892,182                  | 0                                | Unknown                               |
| MANULIFE GLOBAL FUND  | Overseas legal person                                       | 0.99%                      | 20,324,321                  | 0                                | Unknown                               |
| BILL & MELINDA GATES FOUNDATION TRUST   | Overseas legal person                                       | 0.75%                      | 15,407,244                  | 0                                | Unknown                               |
| DRAGON BILLION CHINA MASTER FUND  | Overseas legal person                                       | 0.67%                      | 13,853,877                  | 0                                | Unknown                               |
| China Life Insurance Company Limited - Dividend - Individual Dividend - 005L - FH002 Shenzhen | Domestic non-state-owned legal person                       | 0.62%                      | 12,819,945                  | 0                                | Unknown                               |
| Bank of China - EFUND SSE100 ETF  | Domestic non-state-owned legal person                       | 0.57%                      | 11,723,527                  | 0                                | Unknown                               |

### III. Shareholders' profiles (Cont'd)

#### 2. Top ten shareholders and the top ten shareholders of non-restricted shares (Cont'd)

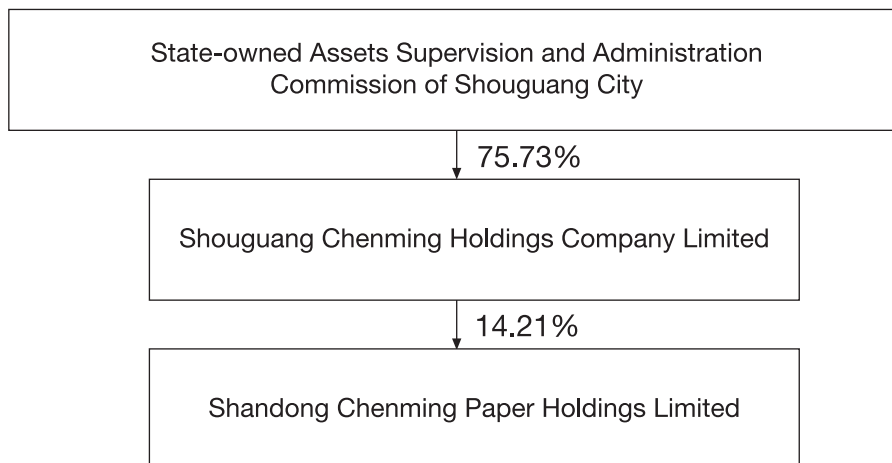
##### Shareholding of the top ten shareholders of non-restricted shares

| Name of shareholders  | Number of non-restricted shares held  | Class of shares |
|---|---|-----------------|
| HKSCC Nominees Limited  | 389,900,000   | H share         |
| PLATINUM ASIA FUND  | 44,366,377  | B share         |
| BBH BOS S/A FIDELITY FD - CHINA FOCUS FD  | 28,500,195  | B share         |
| HTHK-MANULIFE CHINA VALUE FUND  | 22,892,182  | B share         |
| MANULIFE GLOBAL FUND  | 20,324,321  | B share         |
| BILL & MELINDA GATES FOUNDATION TRUST   | 15,407,244  | A share         |
| DRAGON BILLION CHINA MASTER FUND  | 13,853,877  | B share         |
| China Life Insurance Company Limited - Dividend - Individual Dividend - 005L - FH002 Shenzhen | 12,819,945  | A share         |
| Bank of China - EFUND SSE100 ETF  | 11,723,527  | A share         |
| China Everbright Bank Co., Ltd. - 光大保德信量化核心證券投資基金   | 10,355,145  | A share         |
| Connected relationship or concert-party relationship among the above shareholders             | Among the top ten shareholders of the Company, Shouguang Chenming Holdings Company Limited, a state-owned legal person shareholder, is not connected with any of the other shareholders. Save for the above, the Company is not aware that any other shareholders of outstanding shares as aforesaid are connected with others. |                 |

### III. Shareholders' profiles (Cont'd)

#### 3. Profile of controlling shareholders and beneficial controllers

- (1) The Company's controlling shareholders and beneficial controllers remained unchanged during the reporting period.
- (2) The controlling shareholder of the Company, Shouguang Chenming Holdings Company Limited (hereinafter referred to as "Chenming Holdings"), was established on 30 December 2005 with registered capital of RMB1.685 billion. Its legal representative is Chen Hongguo and its scope of business is investment in paper-making, electricity, steam and forestry projects. At the end of the reporting period, it held 293,003,657 state-owned legal person shares, representing 14.21% of the total share capital of the Company.
- (3) State-owned Assets Supervision and Administration Commission of Shouguang City is the controlling shareholder of Chenming Holdings, holding 75.73% equity interests in Chenming Holdings. Person in charge of the unit is Zhang Yuhua. Scope of business is administration and supervision of state-owned assets, properties and titles belonging to Shouguang City.
- (4) Chart illustrating the relationship between the Company and the beneficial controllers



## IV Directors, Supervisors and Senior Management

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

| Name  | Position   | Sex | Age | Terms in office         | Shares held as at the beginning of the year (shares) | Shares held as at the end of the year (shares) | Change in number of shares (shares) | Reasons for change | Total remuneration received from the Company during the reporting period (RMB'0000) (before tax) | Specify whether or not he/she received any remuneration from any shareholder of the Company or any other related parties |
|---|--|-----|-----|-------------------------|--|--|-------------------------------------|--------------------|--|--|
| <b>I. Executive Directors</b>                   |  |     |     |                         |  |  |                                     |                    |  |  |
| Chen Hongguo                                    | Chairman   | M   | 46  | April 2010 - April 2013 | 6,334,527  | 6,334,527                                      | 0                                   | —                  | 498  | No   |
| Yin Tongyuan                                    | Vice-chairman  | M   | 53  | April 2010 - April 2013 | 3,231,520  | 2,423,640                                      | -807,880                            | —                  | 298  | No   |
| Li Feng   | Director, standing deputy general manager and sales controller | M   | 38  | April 2010 - April 2013 | 471,818  | 471,818  | 0                                   | —                  | 142.75   | No   |
| Geng Guanglin                                   | Director amd deputy general manager                            | M   | 37  | April 2010 - April 2013 | 437,433  | 437,433  | 0                                   | —                  | 107.85   | No   |
| Tan Daocheng                                    | Director   | M   | 44  | April 2010 - April 2013 | 185,700  | 185,700  | 0                                   | —                  | 108.04   | No   |
| Hou Huancai                                     | Director   | M   | 49  | April 2010 - April 2013 | 628,915  | 628,915  | 0                                   | —                  | 115.53   | No   |
| Zhou Shaohua                                    | Director   | M   | 49  | April 2010 - April 2013 | 123,007  | 123,007  | 0                                   | —                  | 130.16   | No   |
| <b>II. Non-executive Directors</b>              |  |     |     |                         |  |  |                                     |                    |  |  |
| Cui Youping                                     | Director   | M   | 47  | April 2010 - April 2013 | 0  | 0  | 0                                   | —                  | 5  | No   |
| Wang Xiaoqun                                    | Director   | M   | 55  | April 2010 - April 2013 | 0  | 0  | 0                                   | —                  | 5  | No   |
| Wang Fengrong                                   | Director   | F   | 42  | April 2010 - April 2013 | 0  | 0  | 0                                   | —                  | 5  | No   |
| <b>III. Independent non-executive Directors</b> |  |     |     |                         |  |  |                                     |                    |  |  |
| Zhang Zhiyuan                                   | Independent Director   | M   | 48  | April 2010 - April 2013 | 0  | 0  | 0                                   | —                  | 5  | No   |
| Wang Aiguo                                      | Independent Director   | M   | 47  | April 2010 - April 2013 | 0  | 0  | 0                                   | —                  | 5  | No   |
| Zhang Hong                                      | Independent Director   | F   | 46  | April 2010 - April 2013 | 0  | 0  | 0                                   | —                  | 5  | No   |
| Wang Yumei                                      | Independent Director   | F   | 48  | April 2010 - April 2013 | 0  | 0  | 0                                   | —                  | 5  | No   |
| Wang Xiangfei                                   | Independent Director   | M   | 60  | April 2010 - April 2013 | 0  | 0  | 0                                   | —                  | 12.50  | No   |
| <b>IV. Supervisors</b>                          |  |     |     |                         |  |  |                                     |                    |  |  |
| Gao Junjie                                      | Chairman of Supervisory Committee                              | M   | 40  | April 2010 - April 2013 | 39,606   | 39,606   | 0                                   | —                  | 39.59  | No   |
| Wang Ju   | Supervisor   | F   | 45  | April 2010 - April 2013 | 0  | 0  | 0                                   | —                  | 14.79  | No   |
| Yang Hongqin                                    | Supervisor   | F   | 43  | April 2010 - April 2013 | 0  | 0  | 0                                   | —                  | 17.05  | No   |
| Yin Qixiang                                     | Supervisor   | M   | 73  | April 2010 - April 2013 | 0  | 0  | 0                                   | —                  | 2.5  | No   |
| Guo Guangyao                                    | Supervisor   | M   | 68  | April 2010 - April 2013 | 0  | 0  | 0                                   | —                  | 2.5  | No   |

**I. Changes in shareholdings and remunerations of the Directors, Supervisors and Senior Management (Cont'd)**

| Name                        | Position  | Sex | Age | Terms in office           | Shares held as at the beginning of the year (shares) | Shares held as at the end of the year (shares) | Change in number of shares (shares) | Reasons for change | Total remuneration received from the Company during the reporting period (RMB'0000) (before tax) | Specify whether or not he/she received any remuneration from any shareholder of the Company or any other related parties |
|-----------------------------|---|-----|-----|---------------------------|--|--|-------------------------------------|--------------------|--|--|
| <b>V. Senior Management</b> |   |     |     |                           |  |  |                                     |                    |  |  |
| Wang Baoliang               | Deputy general manager                                      | M   | 37  | April 2010 - April 2013   | 209,200  | 209,200  | 0                                   | —                  | 97.90  | No   |
| Li Xueqin                   | Deputy general manager                                      | F   | 45  | April 2010 - April 2013   | 429,348  | 429,348  | 0                                   | —                  | 109.96   | No   |
| Hao Yun                     | Deputy general manager, secretary to the Board of Directors | M   | 48  | April 2010 - April 2013   | 708,441  | 708,441  | 0                                   | —                  | 76.97  | No   |
| Wang Zaiguo                 | Deputy general manager                                      | M   | 48  | April 2010 - April 2013   | 195,600  | 146,700  | -48,900                             | —                  | 103.77   | No   |
| Wang Shihong                | Deputy general manager                                      | M   | 47  | April 2010 - April 2013   | 0  | 0  | 0                                   | —                  | 47.76  | No   |
| Zhao Liqun                  | Deputy general manager                                      | M   | 39  | August 2010 - August 2013 | 0  | 0  | 0                                   | —                  | 91.19  | No   |
| Zhang Yanjun                | Deputy general manager                                      | M   | 45  | August 2010 - August 2013 | 102,393  | 102,393  | 0                                   | —                  | 87.55  | No   |
| Hu Changqing                | Deputy general manager                                      | M   | 45  | April 2010 - April 2013   | 1,238  | 1,238  | 0                                   | —                  | 166  | No   |
| Zhang Chunlin               | Deputy general manager                                      | M   | 42  | April 2010 - April 2013   | 245,674  | 245,674  | 0                                   | —                  | 101.85   | No   |
| Wang Chunfang               | Financial controller  | M   | 35  | April 2010 - April 2013   | 0  | 0  | 0                                   | —                  | 105.58   | No   |
| Poon Shiu Cheong            | Company secretary   | M   | 41  | April 2010 - April 2013   | 0  | 0  | 0                                   | —                  | 12.85  | No   |
| <b>Total</b>                | —   | —   | —   | —                         | 13,344,420   | 12,487,640                                     | -856,780                            | —                  | 2,525.64   | —  |

Note: None of the Directors, Supervisors and Senior Management of the Company had received any remuneration from any shareholder of the Company or any other related parties. The remuneration for Poon Shiu Cheong, the company secretary of the Company, was HK\$151,200.

## II. Major career histories of Directors, Supervisors and Senior Management and their positions

### 1. Brief Biographies of Directors

(1) Brief biographies of executive Directors

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

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

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

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

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

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

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



## II. Major career histories of Directors, Supervisors and Senior Management and their positions (*Cont'd*)

### 1. Brief Biographies of Directors (*Cont'd*)

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

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

Ms. Wang Fengrong was previously a lecturer at the Department of Finance of Shandong Economic University (山東經濟學院財金系) and an associate professor at the Economic Research Center of Shandong University (山東大學經濟研究中心). She currently holds positions including assistant to Dean of school of Economic of Shandong University (山東大學經濟學院), and is also an advisor to doctoral students of Massey University in New Zealand, as well as guest analyst regarding policy implementation of currency and credit matters for the Jinan branch of the People's Bank of China. She has served as an independent non-executive Director of the Company since April 2010.

Mr. Wang Xiaoqun was the chief of the corporate finance unit of the Shouguang City Finance Bureau (壽光市財政局企財材料科長) between 1984 and 1988, and was the deputy chief of the State-owned Assets Supervision and Administration Commission of Shouguang City between 1989 and 2008. He retired in December 2008. He has served as a non-executive Director of the Company since April 2010.

#### (3) Brief biographies of independent non-executive Directors

Mr. Wang Aiguo, previously held positions including deputy chief of Department of Accounting of Shandong Economic University and deputy chief of the Department of Post-graduate Students of Shandong Economic University. He is currently the Dean of the School of Accounting of Shandong Economic University and executive chairman of the Nationwide Asset Valuation Education Association (全國資產評估教學研究會), director of the Accounting Society of China (中國會計學會), vice-chairman and secretary-general of Shandong Province Accounting Education Committee (山東省會計教育委員會) and member of the Shandong Province Enterprise Credit Rating Experts Commission (山東省企業信用評級專家委員會). He also serves as an independent director of Shandong Laiwu Steel Corporation, China Corn Oil Company Limited and Hisense Kelon Electrical Holdings Co. Ltd. He has served as an independent non-executive Director of the Company since April 2010.

Mr. Zhang Zhiyuan previously served as the deputy chief of Department of Finance of Shandong Economic University, and is currently the Dean of the School of Finance of Shandong Economic University, deputy chief of the Blue Shandong Peninsula Economic Zone Research Center (山東半島藍色經濟研究中心), Dean of Shandong Regional Economic Research School (山東區域經濟研究院), as well as standing director and member of the academic committee of Shandong Province Finance Association (山東省金融學會常務理事、學術委員會委員). He also serves as an independent director of Shandong Tyan Home Co., Ltd. He has served as an independent non-executive Director of the Company since April 2010.

## II. Major career histories of Directors, Supervisors and Senior Management and their positions (*Cont'd*)

### 1. Brief Biographies of Directors (*Cont'd*)

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

Ms. Wang Yumei had held positions including committee member of the 6th and 7th People's Political Consultative Committee of Haidian District, Beijing City and committee member of the Committee for Social and Legal Affairs. She has undertaken teaching, research and managerial duties at the Department of Economics and Management and School of Insurance of the Central University of Finance and Economics (中央財經大學經濟管理系、保險學院). She is currently the associate Dean at the School of Insurance of the Central University of Finance and Economics, a standing director of the Labor Science Education Branch of the China Association for Labor Studies (中國勞動學會勞動科學教育分會) and a committee member of the Beijing City Economic Committee of the China National Democratic Construction Association (北京市經濟企業委員會), etc. She has served as an independent non-executive Director of the Company since April 2007.

Ms. Zhang Hong currently a professor and advisor to doctoral students at Shandong University, head of a multi-national corporation research institute, director of China Association of International Trade (中國國際貿易學會), director of Shandong Province External Trade Association (山東省對外貿易學會), director of Shandong Province Commerce Association (山東省商業學會) and director of Shandong Province Japanese Association (山東省日本學會). She is also an independent director of Zhongtong Bus & Holding Co., Ltd. and Shandong Haihua Company Limited. She has served as an independent non-executive Director of the Company since April 2010.

Mr. Wang Xiangfei was the director and assistant general manager of China Everbright Holdings Co., Ltd. and was the executive director in various companies controlled by China Everbright Holdings Co., Ltd., while he also held positions including chief of office of Asset Disposal Committee of China Everbright Group (光大集團資產處置委員會辦公室) and director of China Everbright Investment Management Corporation. Mr. Wang has extensive experience in the fields of investment, management, finance, accounting and treasury, etc. He currently serves as an independent non-executive director of China CITIC bank Corporation Limited and SEEC Media Group Limited (Hong Kong-listed companies). He has served as an independent non-executive Director of the Company since April 2010.

## II. Major career histories of Directors, Supervisors and Senior Management and their positions (*Cont'd*)

### 2. Brief biographies of Supervisors of the Company

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

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

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

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

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

## II. Major career histories of Directors, Supervisors and Senior Management and their positions (*Cont'd*)

### 3. Brief biographies of Senior Management of the Company

Mr. Wang Baoliang held the positions of secretary, deputy chief, deputy chief of Bureau of Investigation, deputy chief of the Office and deputy secretary-general of the committee office of Shouguang City, etc. He joined the Company in October 2003, and currently serves as deputy general manager of the Company and a director of Shouguang Chenming Holdings Company Limited.

Mr. Hu Changqing joined the Company in 1988 and had held positions including the chief of the technological reform department, chief officer of branch factory, deputy general manager and Director of the Company, etc. He is currently the deputy general manager of the Company.

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

Mr. Hao Yun, who joined the Company in 1984, had held the positions of secretary of the communist youth league of the Company, chief of the labor & personnel department, chief of shares and securities office and assistant to the general manager, etc. He is currently a deputy general manager of the Company and secretary to the Board. He was named the “Golden Secretary to the Board” (金牌董秘) by New Fortune magazine (《新財富》) multiple times.

Mr. Wang Zaiguo, who joined the Company in 1987, had held the positions of the deputy chief of office, assistant to the general manager, deputy general manager of Shouguang Chenming, Supervisor of the Company, etc. He is currently a deputy general manager of the Company and the chairman of Zhanjiang Chenming Arboriculture Co., Ltd, Huanggang Chemical Arboriculture Co., Ltd., Xianning Chenming Arboriculture Co., Ltd., in charge of duties in arboriculture management department of the Company and the Chenming International Hotel.

Mr. Wang Shihong had held the positions of deputy secretary of China National Development and Planning Committee, general manager of administration department of Fuxing Pulp Co., Ltd., head of Office of Party Committee and assistant to the general manager of China Gaoxin Investment Group Corp. He became a deputy general manager of the Company in March 2006.

Mr. Zhang Chunlin joined the Company in 1986 and had held different positions including head of the production office, factory chief, the chairman of Jilin Chenming Paper Co., Ltd. and Shandong Chenming Paper Group Qihe Paperboard Co., Ltd., as well as the chairman of Yanbian Chenming Paper Co., Ltd. and Fuyu Chenming Paper Co., Ltd. He is currently serving as the deputy general manager of the Company and the general manager of Jiangxi Chenming Paper Co., Ltd.

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

## **II. Major career histories of Directors, Supervisors and Senior Management and their positions (Cont'd)**

### **3. Brief biographies of Senior Management of the Company (Cont'd)**

Mr. Zhao Liqun, who joined the Company in 1996, had held the positions of a manager of sales branch company and the chief representative of the sales management section. He is currently a deputy general manager and the deputy sales controller of the Company.

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

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

## **III. Annual Remunerations of Directors, Supervisors and Senior Management**

1. The Company will pay each of the independent non-executive Directors and non-executive Directors of the Company annual allowance of RMB40,000 – RMB100,000 (after tax). The travel expenses for attending board meetings and general meetings of the Company and fees incurred reasonably in the performance of their duties under the Articles of Association by independent non-executive Directors and non-executive Directors are reimbursed as expensed.
2. The annual remuneration of each of the executive Directors and senior management of the Company fall between the range of RMB200,000-RMB 5,000,000, while actual amount shall be determined based on the main financial indicators and operation target completion of the Company, the scope of work and main responsibilities of the Directors and senior management of the Company, the target completion of Directors and senior management as assessed by the duty and performance appraisal system, as well as business innovation capability and profit generation ability of the Directors and senior management. The actual implementation proposal shall be determined by the internal remuneration committee of the Board as well as considered and decided by the Board.
3. For the remunerations received from the Company by Directors, Supervisors and Senior Management in 2010, please refer to Part I of this section.

#### IV. Change of Directors, Supervisors and Senior Management

1. On 12 April 2010, the Board of the Company held an election of directors. After the consideration of the first extraordinary general meeting of the Company in 2010, Chen Hongguo, Yin Tongyuan, Li Feng, Geng Guanglin, Tan Daocheng, Hou Huancai, Zhou Shaohua, Cui Youping, Wang Fengrong and Wang Xiaoqun were appointed as non-independent Directors of the sixth session of the Board of the Company for three years; and Wang Aiguo, Zhang Zhiyuan, Wang Xiangfei, Wang Yumei and Zhang Hong were appointed as independent non-executive Directors of the sixth session of the Board of the Company for three years.

For specific details, please refer to the relevant announcements published in China Securities Journal, Hong Kong Commercial Daily and on the website of CNINF (<http://www.cninfo.com.cn>) on 13 April 2010, and the website of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") ([www.hkex.com.hk](http://www.hkex.com.hk)) on 12 April 2010.

2. On 12 April 2010, the Supervisory Committee of the Company held an election of Supervisors. After the consideration of the first extraordinary general meeting of the Company in 2010, Gao Junjie, Guo Guangyao and Yin Qixiang were appointed as Supervisors representing shareholders of the sixth session of the Supervisory Committee for three years, and Wang Ju and Yang Hongqin were appointed as Supervisors representing the employees of the sixth session of the Supervisory Committee for three years.

For specific details, please refer to the relevant announcements published in China Securities Journal, Hong Kong Commercial Daily and on the website of CNINF (<http://www.cninfo.com.cn>) on 13 April 2010, and the website of the Hong Kong Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) on 12 April 2010.

3. On 12 April 2010, after the consideration of the first meeting of the sixth session of the Board, Mr. Chen Chunfu was appointed as the general manager of the Company, Mr. Hao Yun as the secretary to the Board of the Company, Mr. Poon Shiu Cheong as the qualified accountant and company secretary (Hong Kong), Mr. Li Feng as the standing deputy general manager and sales controller of the Company, Mr. Hu Changqing, Mr. Wang Baoliang, Mr. Geng Guanglin, Ms. Li Xueqin, Mr. Hao Yun, Mr. Wang Zaiguo, Mr. Zhang Chunlin, Mr. Hong Zhuxiong, and Mr. Wang Shihong as deputy general managers of the Company, and Mr. Wang Chunfang as the financial controller of the Company.

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For specific details, please refer to the relevant announcements published in China Securities Journal, Hong Kong Commercial Daily and on the website of CNINF (<http://www.cninfo.com.cn>) on 13 April 2010, and the website of the Hong Kong Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) on 12 April 2010.

4. On 24 August 2010, after the consideration of the third meeting of the sixth session of the Board, the Board approved that Mr. Chen Chunfu resigned as the general manager of the Company for health reasons and Mr. Hong Zhuxiong resigned as a deputy manager of the Company respectively. The Board approved that Mr. Chen Hongguo, the chairman of the Company, would concurrently hold the position of the general manager of the Company and Mr. Zhang Yanjun and Mr. Zhao Liqun were appointed as deputy managers of the Company.

For specific details, please refer to the relevant announcements published in China Securities Journal, Hong Kong Commercial Daily and on the website of CNINF (<http://www.cninfo.com.cn>) on 25 August 2010, and the website of the Hong Kong Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) on 24 August 2010.

## **V. Personnel of the Company**

At the end of the reporting period, the Group had 17,679 employees in aggregate, including 11,900 production staff, 690 sales staff, 1,640 technical staff, 277 financial staff, 1,168 administrative staff and 1,914 other staff. By level of education, there were 1,031 employees with bachelor's degree or above, 2,878 employees with college degree, 4,661 employees with technical secondary school education and 9,109 employees with high school, technical school education and levels below technical secondary school education.

The Company had obligations for 0 ex-employees or retired employees, including employees of subsidiaries. The remuneration of the employees of the Company includes their salaries, bonuses and other fringe benefits. Subject to the relevant laws and regulations of the PRC, the Company adopts different standards of remuneration for different employees, which are determined based on their performance, experience, position, etc. Details of the remuneration of employees of the Group in 2010 are set out in Note 13 to the financial statements prepared in accordance with International Financial Reporting Standards.

Meanwhile, employees of the Group in the PRC participate in state-managed retirement benefit schemes operated by local governments. The Group is required to contribute a specified percentage of the employees' payroll costs to the retirement benefit scheme to fund the benefits. Details of the employee pension benefits provided by the Group are set out on Note 13 of the financial statements prepared in accordance with International Financial Reporting Standards.

## V Corporate Governance Report

### I Disclosures As Required by China Securities Regulatory Commission

#### (I) Corporate Governance

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

#### (II) Performance of the independent non-executive Directors

In the reporting period, each of the independent non-executive Directors continued to suggest constructive opinion on the material matters relating to operations and management and internal control of the Company. They issued their independent opinion on related matter pursuant to related requirements, thus raising the science and objectiveness of Board decisions. Attendance of independent non-executive Directors at Board meetings in 2010 is as follows:

| Name of independent non-executive Directors | Number of Board meetings requiring attendance | Number of Attendance in person | Number of Attendance by proxy | Number of Absence |
|---|---|--------------------------------|-------------------------------|-------------------|
| Diao Yuntao                                 | 2   | 2                              | 0                             | 0                 |
| Wang Zhihua                                 | 2   | 2                              | 0                             | 0                 |
| Zhou Chengjuan                              | 2   | 2                              | 0                             | 0                 |
| Wang Yumei                                  | 6   | 6                              | 0                             | 0                 |
| Lau Ying Kit                                | 2   | 2                              | 0                             | 0                 |
| Wang Xiangfei                               | 4   | 4                              | 0                             | 0                 |
| Zhang Zhiyuan                               | 4   | 4                              | 0                             | 0                 |
| Wang Aiguo                                  | 4   | 4                              | 0                             | 0                 |
| Zhang Hong                                  | 4   | 3                              | 1                             | 0                 |

Note: An election of directors was held in the first extraordinary general meeting of the Company in 2010. Diao Yuntao, Wang Zhihua, Zhou Chengjuan, Wang Yumei and Lau Ying Kit were independent Directors of the fifth session of the Board of the Company. After the election, the five existing independent Directors are Wang Xiangfei, Zhang Zhiyuan, Wang Aiguo, Zhang Hong and Wang Yumei.

During the reporting period, independent non-executive Directors of the Company issued their independent opinions on the connected transactions pursuant to the related laws and regulations. They raised no objection opinion on the proposals of Board meetings or other issues.



## **I Disclosures As Required by China Securities Regulatory Commission (Cont'd)**

### **(III) Particulars about the separation of businesses, personnel, assets, organisations, and finance from the controlling shareholder**

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

### **(IV) Internal Control of the Company**

#### **1. Internal control overview**

The Company established the procedural rules for general meetings, board meetings, and the Supervisory Committee meetings to ensure their decision-making, execution, and supervision duties to be carried out effectively. Meanwhile, the Company also established the Strategic Committee, Nomination Committee, Audit Committee and Remuneration and Assessment Committee of the Board. In accordance with their respective working criteria, they assumed the functions of discussing the material matters and decision making, raising the science and professionalism of Board decisions.

Internal administration departments were established to monitor the set-up, improvement and implementation of internal control systems. Audit Committee reviewed and monitored the material connected transactions.

The Company established a complete internal control system covering production management, financial management, connected transactions, external guarantee, use of proceeds, and material investment of the Company and its subsidiaries.

## I Disclosures As Required by China Securities Regulatory Commission (Cont'd)

### (IV) Internal Control of the Company (Cont'd)

#### 2. The establishment and optimisation of the internal control of the Company

##### (1) Administration of and control over controlling subsidiaries

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

##### (2) Administration of and control over connected transactions

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

##### (3) Administration of and control over external guarantee

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

## I Disclosures As Required by China Securities Regulatory Commission (Cont'd)

### (IV) Internal Control of the Company (Cont'd)

#### 2. The establishment and optimisation of the internal control of the Company

##### (4) Administration of and control over using of financing proceeds

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

##### (5) Administration of and control over capital

The Company had organised the systems such as Capital Administration Criteria (《資金管理規定》), Working Procedures of Financing and Guarantee (《融資、擔保工作程序》), Reporting Rules of Material Financial Issues (《財務重大事項提報管理規定》), and Administrative Rules of Accounts Receivable (《應收賬款管理規定》), which set up strict procedures for authorisation and approval of receipts and payments of monetary capital, separated the incompatible positions in the process of monetary capital operation and established a checking system in the related organisation and staff. The Company set up procedures such as those for approval of receipts and payments of monetary capital and strictly implemented verification and investigation of receipts and payments of monetary capital.

##### (6) Administration of and control over material investments

Material investments were conducted under the principles of lawfulness, cautiousness, safety and effectiveness to control investment risk and emphasize investment returns. The Articles of Association had clearly set out the authorities of the general meeting and the Board on approval of major investments. The Company had been focusing on its principal operations and made no material investments other than those related to its principal operations so far.

##### (7) Administration of and control over finance

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

## I Disclosures As Required by China Securities Regulatory Commission (*Cont'd*)

### (IV) Internal Control of the Company (*Cont'd*)

#### 2. The establishment and optimisation of the internal control of the Company

##### (8) Administration of and control over information disclosure

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

# I Disclosures As Required by China Securities Regulatory Commission (Cont'd)

## (IV) Internal Control of the Company (Cont'd)

### 2. The establishment and optimisation of the internal control of the Company

#### (9) Shareholding structure of the subsidiaries of the Company



## **I Disclosures As Required by China Securities Regulatory Commission (Cont'd)**

### **(IV) Internal Control of the Company (Cont'd)**

#### **3. Implementation of internal control system**

The Company performed inspection and monitoring operation on implementation of internal control system. The operation and planning department was in charge of inspecting and monitoring the internal control system and made amendments from time to time to ensure effective implementation of the internal control system and normal production and operating activities. The Company took a top-down approach in the annual inspection of its subsidiaries to assess the compliance of the financial system and financial audit of the subsidiaries. The audit department of the Company performed random audit on the financial position the Company and its subsidiaries.

#### **4. Overall assessment on the internal control system**

The Board was of opinion that the internal control system of the Company and its measures were comprehensive and reasonable and practically effective. The internal control system was consistent with the actual situation of the Company and was implemented seriously and effectively. It proved to be effective as illustrated by its practices from many years without significant fault.

After the special corporate governance activities in recent years, the internal control system became more comprehensive. Directors, Supervisors and the Senior Management of the Company became more aware of the importance of corporate governance and standard operation, thus laying a foundation for continuous improvement on corporate governance.

#### **5. Supervisors and independent non-executive Directors of the Company made the following self assessment comments on the internal controls of the Company:**

The internal control measures of the Company are in compliance with the requirements of the relevant regulations and the securities regulatory authorities, while are also appropriate taking into account of the prevailing practical needs of the Company. The internal control measures of the Company provided better results in controlling of all the processes and integral parts of company management. The "Self-assessment Report on Internal Controls" adopted by the Company objectively reflected the actual circumstances of internal control within the Company and formed a comprehensive overview on the internal controls of the Company.

#### **6. The Board's representation about the responsibilities for internal control**

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

The details of the Self-assessment Report on Internal Control for 2010 of the Board of the Company and the auditors' audit opinion on the internal control report of the Company are set out in the website of Shenzhen Stock Exchange.

## **I Disclosures As Required by China Securities Regulatory Commission (Cont'd)**

### **(v) Assessment and incentive mechanism for the Senior Management in the reporting period**

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

## **VI Particulars about the General Meeting**

### **I ANNUAL GENERAL MEETING**

The 2010 annual general meeting of the Company was held on 31 May 2010. Five resolutions below were considered and passed at the meeting: the Directors' report of the Company for 2009, the Supervisory Committee's report of the Company for 2009, the report of the independent Directors of the Company for 2009, the financial statements of the Company for 2009 and the profit distribution plan of the Company for 2009. For specific details, please refer to the relevant announcements published on China Securities Journal, Hong Kong Commercial Daily and the website of CHINF (<http://www.cninfo.com.cn>) on 1 June 2010, and the website of the Hong Kong Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) on 31 May 2010.

### **II EXTRAORDINARY GENERAL MEETING**

The 2010 first extraordinary general meeting of the Company was held on 12 April 2010. Five resolutions below were considered and passed at the meeting: the appointment and re-appointment of Directors of the Company, the appointment and re-appointment of Supervisors of the Company, the remuneration of the Directors and senior management of the Company, the application for the integrated banking credit line in 2010 and the guarantees provided by the Company for the banking facilities being applied by its controlling subsidiaries. For specific details, please refer to the relevant announcements published on China Securities Journal, Hong Kong Commercial Daily and the website of CHINF (<http://www.cninfo.com.cn>) on 13 April 2010, and the website of the Hong Kong Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) on 12 April 2010.

The 2010 second extraordinary general meeting of the Company was held on 16 December 2010. Five resolutions below were considered and passed at the meeting: the issuance of the Medium-Term Notes by the Company, the guarantee for the facilities of Shandong Chenming Paper Sales Company Limited, a wholly-owned subsidiary, by the Company, the guarantee for the banking facilities granted to Shouguang Meilun Paper Co., Ltd., a wholly-owned subsidiary, by the Company, the provision of guarantee for the issuance of RMB500 million notes issued by Chenming (HK) Limited, a wholly-owned subsidiary, by the Company and the appointment of PRC and international auditors for the year of 2010. For specific details, please refer to the relevant announcements published on China Securities Journal, Hong Kong Commercial Daily and the website of CHINF (<http://www.cninfo.com.cn>) on 17 December 2010, and the website of the Hong Kong Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) on 16 December 2010.



## VII、 Director's Report

### I. Management discussion and analysis under Accounting Standards for Business Enterprises

#### (I) Overall operations during the reporting period

In 2010, the Company thoroughly and consistently put its scientific outlook on development into practice through strict management, structure adjustment and effective implementation to achieve the coordination and progress of various tasks. Meanwhile, the Company seized the favourable opportunity concerning The Basic Standard for Enterprise Internal Control and Implementation Guidelines for Enterprise Internal Control (內部控制配套指引) to be first implemented in the companies which had been listed domestically and overseas to further optimise its corporate governance, compliant operation and scientific decision, thereby comprehensively enhancing its operation and management.

For management, firstly, the Company strengthened the system setup by establishing the management philosophy of "Managing the staff by regulations and performing the duties in accordance with the standards" to standardise the systems and make the procedures smooth. Secondly, the Company strengthened the control within the Group to make good use of functions of different departments and improve the guidance, supervision and service which were required by subsidiaries, thereby coordinating the pace from the top to bottom of the Company. For production management, the Company strengthened the supervision and guidance as to the production system by organising the professionals to provide technical support to subsidiaries, thereby improving production operation with new breakthroughs in the operation of most pieces of machinery in terms of speed. For purchase management, the Group implemented a model combining centralised purchasing and local and regional purchasing, thereby lowering the purchase cost by the centralised purchasing of raw materials in bulk and the supplies qualified to be purchased overseas and in bulk by the Group. For financial management, the Company expanded its finance channels through issue of medium-term notes and short-term debentures, thereby lowering the finance expenses.

For marketing, firstly, the Company firmly grasped efficiency management by implementing a proactive and flexible pricing policy which adjusted the product prices on a timely basis based on the market rates and its production cost to increase sales in the market. Secondly, the Company strengthened brand building by classifying existing product brands into different classes with repositioning, elaborately promoting the high end products under the brands such as 紫檀 and 雪鯊 and building up the image of high end brands with improvement in quality and service. Thirdly, the Company strengthened team building by adjusting the assessment methods of wages and salaries on a timely basis in the light of the sales focus, thereby stimulating incentives with policies. The significant improvement in the marketing efforts of the Company brought about significant achievements in marketing expansion.

For projects, the Company strengthened the progress of projects and undertook structural adjustment with technological innovation in accordance with the overall requirement of "change in mode and adjustment in structure". Firstly, the Company strengthened the project construction despite the global financial crisis, thus turning challenges into opportunities, and made more investments with a view to long term development. Secondly, the Company enhanced its self-innovation level by regarding self innovation capability upgrade as the important measures to increase its core competitiveness. The Company successfully developed the high end products such as high bulk copperplate paper and finesse copperplate paper and the environmentally-friendly products under the brands such as 天劍 and 雲獅, thereby facilitating the adjustment in product mix and making room for more benefits. Thirdly, the Company developed the raw materials bases to speed up the development of "forestry-pulp-paper integration", thereby optimising the raw materials structure, securing the leapfrogging development of the Company. The Company made scientific investments to speed up the pace of adjustment.

## **I. Management discussion and analysis under Accounting Standards for Business Enterprises (*Cont'd*)**

### **(I) Overall operations during the reporting period (*Cont'd*)**

During the reporting period, under the guidance of the Board, the Company commenced its tasks in an orderly manner in accordance with the operating plan scheduled at the beginning of the year. The Company made good use of its advantage of cost control to guarantee revenue maximisation. The management also adjusted the sales strategies in response to the market changes in a timely manner in view of the market volatility to take the lead in seizing the market opportunities, thus achieving continuous improvement in various operating indicators.

#### **1. Overview of production and operation**

During the reporting period, the Company completed machine-made paper production of 3.35 million tonnes, representing a growth of 310,000 tonnes or 10.2% as compared to 2009. Revenue realised from principal operations amounted to RMB17,203.123 million, up RMB2,318.4937 million or 15.58% from 2009. Costs of principal operations were RMB13,683.0015 million, up RMB1,625.5856 million or 13.48% from 2009. Realised operating profit and net profit attributable to owners of the Company were RMB1,433.7507 million and RMB1,163.3411 million respectively, up 45.92% and 39.16%.

## **I. Management discussion and analysis under Accounting Standards for Business Enterprises (Cont'd)**

### **(I) Overall operations during the reporting period (Cont'd)**

#### **2. Progress of the Zhanjiang Chenming Pulp Project**

- (1) As undertaken in the offering prospectus, 91% of the proceeds from H share offering were used in the Zhanjiang Chenming pulp project in Guangdong Province. As at 31 December 2010, approximately RMB2,483 million was injected into the project. All proceeds have been utilised according to the use of proceeds.
- (2) As at the end of 2010, the Group had acquired 2.40 million mu of woodlands for raw materials and obtained legal forestry rights certificates for 2.10 million mu of woodlands, among which, the construction area of the woodlands for paper making materials in Zhanjiang and its peripheral regions reached 810,000 mu already.
- (3) The land acquisition work of the site for the pulp project had completed, and the land-use fees paid for the site for the pulp project totalled RMB361 million.
- (4) The scope of civil engineering work of the pulp project covered civil works for timber storage plant, pulping plant, chemical plant, pulp sheet manufacturing plant, plant for recovery of black liquor, self-owned power plant and ancillary plants, and currently about 80% of total quantity of work was completed.
- (5) For procurement of main equipment, in July 2009, Zhanjiang Chenming Paper Pulp Co., Ltd., a wholly-owned subsidiary of the Company, entered into an equipment purchase contract with the suppliers of the an equipments to procure the Zhanjiang Chenming Pulp Project. Details of the transaction were covered in the relevant announcements published in China Securities Journal, Hong Kong Commercial Daily and on the website of CNINF (<http://www.cninfo.com.cn>) on 7 July 2009, and the website of the Hong Kong Stock Exchange ([www.hkex.com](http://www.hkex.com)) on 6 July 2009. At present, advance payment and progress payment for domestic and overseas equipment totalled RMB2,126 million.

# I. Management discussion and analysis under Accounting Standards for Business Enterprises (*Cont'd*)

## (II) Principal operations of the Company and analysis on their operations

### 1 Principal operations by industry and by product

Unit: RMB'0000

| By industry or by product       | Revenue from operations | Cost of sales       | Gross profit margin (%) | Principal operations by industry                                |   |   |
|---------------------------------|-------------------------|---------------------|-------------------------|---|---|---|
|                                 |                         |                     |                         | Year-on-year increase / decrease in revenue from operations (%) | Year-on-year increase / decrease in cost of sales (%) | Year-on-year increase / decrease in gross profit margin (%) |
| Sales of machine-made paper     | 1,616,390.91            | 1,288,689.66        | 20.27%                  | 14.77%  | 11.62%  | 2.25%   |
| Sales of electricity and steam  | 44,497.30               | 39,223.54           | 11.85%                  | 86.26%  | 172.11%   | -27.81%   |
| Sales of construction materials | 38,895.78               | 30,673.02           | 21.14%                  | 14.37%  | 14.67%  | -0.21%  |
| Sales of chemical products      | 7,426.92                | 5,085.91            | 31.52%                  | 136.60%   | 238.45%   | -20.61%   |
| Hotel business                  | 4,719.77                | 1,235.24            | 73.83%                  | 15.32%  | 5.82%   | 2.35%   |
| Others                          | 8,381.62                | 3,392.78            | 59.52%                  | -43.91%   | -53.86%   | 8.73%   |
| <b>Total</b>                    | <b>1,720,312.30</b>     | <b>1,368,300.15</b> | <b>20.46%</b>           | <b>15.58%</b>   | <b>13.48%</b>   | <b>1.47%</b>  |

| Principal operations by product |            |            |        |         |         |        |
|---------------------------------|------------|------------|--------|---------|---------|--------|
| Light weight coated paper       | 135,010.86 | 114,971.18 | 14.84% | -15.60% | -15.52% | -0.08% |
| Duplex press paper              | 196,041.68 | 162,666.50 | 17.02% | -6.70%  | -5.83%  | -0.77% |
| Writing paper                   | 54,453.01  | 46,327.82  | 14.92% | 34.59%  | 33.85%  | 0.47%  |
| Copperplate paper               | 421,893.50 | 323,838.52 | 23.24% | 36.67%  | 31.79%  | 2.84%  |
| News press paper                | 158,476.95 | 134,498.68 | 15.13% | -11.07% | -7.22%  | -3.52% |
| Paperboard                      | 74,314.06  | 65,305.26  | 12.12% | 25.00%  | 26.60%  | -1.11% |
| White paper board               | 234,039.58 | 171,259.01 | 26.82% | 24.52%  | 12.00%  | 8.18%  |

**I. Management discussion and analysis under Accounting Standards for Business Enterprises (Cont'd)**

**(II) Principal operations of the Company and analysis on their operations (Cont'd)**

**2 Breakdown of revenue from paper products of principal operations by geographical segment**

Unit: RMB'0000

| Geographical segment | decrease<br>Revenue from<br>in revenue<br>operations | As a<br>percentage of<br>revenue<br>from paper<br>products<br>(%) | Year-on-year<br>increase /<br>from operations<br>(%) |
|----------------------|--|---|--|
| PRC                  | 1,416,623.32   | 87.64   | 15.20  |
| United States        | 16,776.23  | 1.04  | 6.77   |
| Hong Kong            | 16,088.41  | 0.99  | -57.04   |
| Japan                | 18,753.77  | 1.16  | -39.17   |
| South Africa         | 6,750.16   | 0.42  | -47.31   |
| Other overseas areas | 141,399.02   | 8.75  | 72.71  |
| Total                | 1,616,390.91   | 100   | 14.77  |

**(III) Analysis and explanation on major year-on-year changes in composition of assets of the Company during the reporting period**

Unit: RMB

| Items                        | 2010              |  | 2009              |  | Difference in<br>the percentage<br>of total assets |
|------------------------------|-------------------|--|-------------------|--|--|
|                              | Closing balance   | As a<br>percentage<br>of total assets<br>in 2010 | Closing balance   | As a<br>percentage<br>of total assets<br>in 2009 |  |
| Bills receivable             | 2,762,389,909.89  | 7.88%  | 2,704,799,074.02  | 9.59%  | -1.71%   |
| Inventories                  | 3,047,078,215.01  | 8.69%  | 2,226,579,492.59  | 7.89%  | 0.80%  |
| Fixed assets                 | 12,882,358,381.56 | 36.73%   | 13,529,590,915.63 | 47.96%   | -11.23%  |
| Construction in progress     | 7,871,512,563.84  | 22.44%   | 1,997,961,262.18  | 7.08%  | 15.36%   |
| Consumable biological assets | 726,742,568.44    | 2.07%  | 496,724,974.94    | 1.76%  | 0.31%  |

## **I. Management discussion and analysis under Accounting Standards for Business Enterprises (Cont'd)**

### **(III) Analysis and explanation on major year-on-year changes in composition of assets of the Company during the reporting period (Cont'd)**

#### **1. Major changes for the following items are detailed as follows:**

- (1) Bills receivable: Bills receivable of the Company as a percentage of total assets decreased as compared to the prior year mainly due to an increase in bills receivable as a results of a significant rise in sales revenue during the reporting period as compared to the prior year and an rise in total assets as a result of increased investment in construction in progress.
- (2) Inventory: The closing balance of the raw materials and the inventories increased as compared with those as at the end of the prior year due to the increased production volume of the Company.
- (3) Fixed assets: The net fixed assets decreased mainly due to the depreciation of fixed assets.
- (4) Construction in progress: Construction in progress mainly due to the investments in the Zhanjiang pulp project, the 800,000-tonne copperplate paper project, the 60,000-tonne household paper project and other expansion and improvement projects.
- (5) Consumable biological assets: Productive biological assets increased mainly due to the purchase and growing of timber assets by the Company and the change in their fair value.

#### **2. Nature of measurement adopted for the major assets of the Company:**

Historical cost method is normally used for measurement in preparing the financial statements of the Company, except the following asset items measured at fair value:

- (1) Financial assets measured at fair value with any change in fair value recorded into profit or loss for the period
- (2) Consumable biological assets (please refer to Note 14 to the financial statements prepared in accordance with Accounting Standards for Business Enterprises)

**I. Management discussion and analysis under Accounting Standards for Business Enterprises (Cont'd)**

**(III) Analysis and explanation on major year-on-year changes in composition of assets of the Company during the reporting period (Cont'd)**

**2. Nature of measurement adopted for the major assets of the Company: (Cont'd)**

(3) Changes on and effects of changes in major assets measured at fair value:

Unit: RMB

| Statement items                        | Item                             | Method of obtaining fair value     | Balance as at 31 December 2010 | Balance as at 31 December 2009 | Effect on profit or loss for the year |
|--|----------------------------------|------------------------------------|--------------------------------|--------------------------------|---------------------------------------|
| Held-for-trading financial assets      | Derivative financial instruments | Quotes from financial institutions | 0                              | 14,900,000.00                  | 779,282.98                            |
| Held-for-trading financial liabilities | Derivative financial instruments | Quotes from financial institutions | 0                              | 6,450,000.00                   | 741,890.00                            |
| Consumable biological assets           | Consumable timber assets         | Note (2)                           | <b>726,742,568.44</b>          | 496,724,974.94                 | 54,752,250.58                         |

The Group adopted the following major methodologies and assumptions when estimating the fair value of held-for-trading financial assets and consumable biological assets measured at fair value at the balance sheet date:

- (1) Derivative financial instruments: the fair values of forward foreign exchange contracts were determined by the difference between the present value of the price of contractual forward foreign exchange and the spot foreign exchange price at the balance sheet date. The opening balance of the Group was based on the forward contract settlement exchange rate for same day settlement published by banks on 31 December 2009 and used the contractual settlement exchange rate for determination of the difference. All the forward foreign exchange contracts expired as at the end of December 2010.
- (2) Consumable biological assets: an independent valuer assessed the price of timber harvest according to the active market quotes in Zhanjiang City and Fujian Province where the Company's biological assets were located. In estimating future cash flow, the independent valuers considered the following factors: 1) the expected nominal market price of the timber harvest; 2) expected timber gains were dependent on the opinion and judgment of biological assets by considering the expected timber reserve level and timber production rate formulated by experts for a limited scope; 3) the expected costs for maintaining and nurturing existing biological assets; 4) the expected costs of sales (including our estimated harvest costs and transportation costs).

## I. Management discussion and analysis under Accounting Standards for Business Enterprises (*Cont'd*)

### (IV) Analysis and explanation on major year-on-year changes in profit and loss indicators during the reporting period

Unit: RMB

| Item                                | Accrued during the year | Accrued during the prior year | Increase (+)<br>Decrease (-) |
|-------------------------------------|-------------------------|-------------------------------|------------------------------|
| Operating revenue                   | 17,203,123,029.49       | 14,884,629,349.50             | 15.58%                       |
| Operating costs                     | 13,683,001,460.32       | 12,057,415,861.42             | 13.48%                       |
| Business taxes and surcharges       | 30,117,480.19           | 16,268,806.81                 | 85.12%                       |
| Selling and distribution expenses   | 873,779,193.05          | 774,685,975.04                | 12.79%                       |
| General and administrative expenses | 871,138,204.71          | 726,351,661.67                | 19.93%                       |
| Finance expenses                    | 233,455,658.10          | 312,687,004.02                | -25.34%                      |
| Loss on impairment of assets        | 110,419,785.04          | 17,276,975.88                 | 539.12%                      |
| Gain on change in fair value        | 46,302,250.58           | 18,311,845.48                 | 152.85%                      |
| Non-operating expenses              | 50,814,216.46           | 11,381,604.06                 | 346.46%                      |

Major changes for the following items are detailed as follows:

- (1) Operating revenue increased by 15.58% as compared to the prior year mainly due to a rise in the selling price resulting from the change in market conditions;
- (2) Operating costs increased by 13.48% as compared to the prior year mainly due to a rise in raw material price and labour cost during the year;
- (3) Business taxes and surcharges increased by 85.12% as compared to the prior year mainly due to the payment of the urban maintenance and construction tax and education surcharges by foreign-invested enterprises beginning from 1 December 2010;
- (4) Selling and distribution expenses increased by 12.79% as compared to the prior year mainly due to a rise in the transportation cost and cargo handling charges, as well as a rise in wages and salaries;
- (5) General and administrative expenses increased by 19.93% as compared to the prior year mainly due to a rise in the technology development cost as well as a rise in wages and salaries;
- (6) Finance expenses decreased by 25.34% as compared to the prior year mainly due to a rise in foreign exchange gain resulting from the appreciation of RMB and a fall in interest payable resulting from the issuance of lower interest bearing short-term debentures;
- (7) Loss on impairment of assets increased by 539.12% as compared to the prior year mainly due to an increase of accounts receivable resulting from the increase of sales revenue and the corresponding increase of bad debt provision in accordance with the accounting policy for bad debt provision of the Group, as well as the much more impairment provision for the machinery and equipment related to the suspended production of subsidiaries, Qihe Chenming Panels Co., Ltd. and Heze Chenming Panels Co., Ltd.
- (8) Gain on change in fair value increased by 152.85% as compared to the prior year mainly due to change in fair value of timber assets;
- (9) Non-operating expenses increased by 346.46% as compared to the prior year mainly due to the loss on disposal of fixed assets during the year.



## I. Management discussion and analysis under Accounting Standards for Business Enterprises (*Cont'd*)

### (V) Cash flow generated from operating activities of the Company during the reporting period

Unit: RMB

| Items  | Amounts<br>for the<br>year | Amounts for the<br>prior year | Increase (+)<br>Decrease (-) |
|--|----------------------------|-------------------------------|------------------------------|
| Net cash flow generated<br>from operating activities | 850,328,927.00             | 1,639,034,259.99              | -48.12%                      |
| Net cash generated from<br>investment activities     | -6,384,678,439.51          | -2,134,446,266.63             | -199.13%                     |
| Net cash flow generated<br>from financing activities | 5,031,845,309.63           | 177,630,846.52                | 2732.75%                     |

Note: In the cash flow statements prepared by the Company, receipt of outstanding bank acceptance bills was not reflected as cash inflow in "cash received from sales of goods, rendering of services"; similarly, payments made using outstanding bank acceptance bills were not reflected as cash outflow in "cash paid for goods and services" nor "cash paid to acquire fixed assets, intangible assets and other long-term assets" with respect to bills paid in the course of investment activities.

#### Explanation on the main reasons leading to the changes:

- (1) Net cash flow generated from operating activities decreased by 48.12% compared to the prior year mainly due to an increase in the tax payment for the year of RMB466 million as compared to the prior year and the significant increase in purchase payment resulting from the rise in raw material price for the period.
- (2) Net cash flow generated from investment activities decreased by 199.13% compared to the corresponding period of the previous year, mainly due to the increased investments in the copperplate paper project of production capacity of 800,000 tonnes, the household paper project of capacity of 60,000 tonnes and the high-end white coated linerboard project of production capacity of 600,000 tonnes of Shouguang Meilun Paper Co., Ltd., a wholly-owned subsidiary of the Company, the Zhanjiang pulp project and the high-end culture paper project during the reporting period.
- (3) Net cash flow generated from financing activities increased by 2,732.75% as compared to the prior year mainly due to project investments, and issue of short-term debentures of RMB3.3 billion and medium-term notes of RMB1.1 billion during the year.

## I. Management discussion and analysis under Accounting Standards for Business Enterprises (Cont'd)

### (VI) Operation and results of major controlling subsidiaries of the Company

Unit: RMB'0000

| Name of controlling subsidiary                          | Nature of activities  | Shareholding percentage | Principal products manufactured               | Registered capital | Asset size | Net profit |
|---|-----------------------|-------------------------|---|--------------------|------------|------------|
| Wuhan Chenming Hanyang Paper Holdings Co., Ltd.         | Papermaking           | 50.93%                  | Writing paper, news press paper               | 21,136.70          | 247,424.34 | 3,397.43   |
| Shandong Chenming Paper Group Qihe Paperboard Co., Ltd. | Papermaking           | 100.00%                 | Paperboard, corrugated paper                  | 37,620.00          | 147,666.19 | 3,149.78   |
| Shandong Chenming Power Supply Holdings Co., Ltd.       | Electricity and steam | 86.71%                  | Generation and sales of electricity and steam | 9,955.31           | 57,886.54  | 4,053.03   |
| Jilin Chenming Paper Co., Ltd.                          | Papermaking           | 100.00%                 | News press paper, light weight                | 150,000.00         | 282,679.48 | -6,645.68  |
| Chibi Chenming Paper Co., Ltd.                          | Papermaking           | 35.79%                  | Duplex press paper                            | 17,741.94          | 49,828.37  | 2,847.98   |
| Jiangxi Chenming Paper Co., Ltd.                        | Papermaking           | 51.00%                  | Coated paper                                  | USD172,000,000     | 335,090.62 | 14,147.47  |
| Yanbian Chenming Paper Co., Ltd.                        | Pulp                  | 76.73%                  | Pulp and chemical product                     | 8,163.30           | 29,072.63  | 8,211.93   |

### (VII) Explanation on single subsidiaries with net profit (or investment income) accounting for over 10% of the net profit of the Company

Unit: RMB'0000

| Name of company                  | Revenue from principal operations | Profit from principal operations | Net profit | Net profit attributable to the Company according to shareholding percentage | As a percentage of net profit of the Company % |
|----------------------------------|-----------------------------------|----------------------------------|------------|---|--|
| Jiangxi Chenming Paper Co., Ltd. | 160,241.30                        | 26,853.53                        | 14,147.47  | 7,215.21  | 6.2  |

## II. Prospect of the future developments of the Company

### 1. The development trend of the industry to which the Company belongs and the strategic plans for the Company's future development

The industry to which the Company belongs is the paper making industry, which is a light industry. The paper making industry is an important basic raw materials industry which is closely related to the national economy and social matter development. The paper making industry features capital and skills intensive characteristics with prominent economy of scale. Its growth rate is strongly and positively correlated to that of GDP. In terms of the international and domestic economic development conditions, a multipolar world and economic globalisation are developing in depth. The industrial structure is experiencing a new round of adjustment. Various countries pay attention to real economic growth in general and the scientific technology is going to reap major breakthroughs. The State will continue to implement the proactive fiscal policy and solid monetary policy so the national economy will keep steadily and rapidly developing. The development conditions for the paper making industry are gradually improving. It is expected that production and sales volume of paper products will continue to rise as the industry is at the upturn of cycle. Meanwhile, as a number of projects under construction are near completion, new production capacity released by different production lines will exert pressure on the industry. Also, the implementation of new environmental protection standards is likely to trigger certain small and medium-sized paper making enterprises to withdraw from the market, leading to a concentration of production capacity in large paper making enterprises. With the increased production volume and new production capacity, it is expected that the price of raw materials for paper making will maintain its upward trend.

Based the above viewpoints about the paper making industry, the Company will adhere to its established development strategies to operate in an orderly way, mainly including the following aspects:

- (1) Consolidating existing market share while dedicated to the development and production of advanced paper products

The Company will continue to increase its investment in projects and expand the production capacity of advanced paper products; focus on the 800,000-tonne high-end low weight coated paper project, high-end culture paper project of annual production capacity of 450,000 tonnes and 600,000-tonne high-end white coated linerboard project; further improve the Company's production scale and product specifications, thus striving to becoming a frontrunner in the international paper making industry in the future.

- (2) Solving the bottleneck of the raw materials which restricts the Company's development and improving its control over product cost

The Company has established the Zhanjiang pulp project and ancillary raw materials bases as its major development targets. The Company also accelerates the construction of the Hubei forestry project base, establishing the production chain of "forestry-pulp-paper integration" in order to eliminate restrictions imposed by upstream resources on the Company and strengthen the sustainable development capabilities of the Company.

- (3) Paying close attention to environmental protection construction, and committed to the goal of "energy saving, reduced emission and harmonious development"

As the national environmental protection standards have been raised and increased efforts have been put on the State's environmental protection administration, the Company will strive to develop the recycling economy and encourage waste exchange, reuse and recycle so as to maximise the resources utilisation ratio, and will speed up the construction of environmental protection projects at the same time to ensure compliance with the relevant standards regulating waste emission.

- (4) Reinforcing technological innovation and talent cultivation

Compared to the international paper making enterprises, there is room for enhancement in the Company's technology and talent pool. The Company will continue its emphasis on internal training and external recruitment to enhance overall staff quality, while pursuing to accelerate the Company's development by strengthening its own innovation capacity.

## II. Prospect of the future developments of the Company (*Cont'd*)

### 2. In line with its strategic plans, the work of the Company will focus on the following areas in 2011:

#### (1) Upgrade corporate management to enhance operation quality

Firstly, the Company will launch the “Year of Management Benefits” campaign, which takes 2011 as the year of management of the Company and formulates specific projects for implementation, thus strengthening the inner self, identifying the potentials and solidifying the management foundation of the Company. Secondly, the Company will implement the management philosophy of “Managing the staff by regulations and performing the duties in accordance with the standards”, which optimises various regulations and procedures and enhances the execution of regulations. Thirdly, the Company will upgrade the level of equipment automation and management informationisation to achieve setting up of posts and the number of people to fill the posts in accordance with the standard of the international leading enterprises. Fourthly, the Company will intensify the reform of the remuneration system and optimise the performance assessment mechanism by setting up various paths of promotion and ranks. Fifthly, the Company will strengthen the management’s management awareness to raise their capabilities to identify and solve problems.

#### (2) Speeding up the pace of project construction to sharpen competitive advantage

The year 2011 saw the largest amount of projects under construction in the Company’s history, including large scale projects such as the Zhanjiang pulp project (with annual production capacity of 700,000 tonnes pulp and ancillary raw materials), the high-end culture paper project (with annual production capacity of 450,000 tonnes) and the high-end low weight coated paper project (with annual production capacity of 800,000 tonnes). The Company will strictly enhance its project construction accountability and co-ordination capacity to accelerate the project construction to achieve enhanced production and efficiency as soon as possible.

#### (3) Accelerating domestic and overseas market exploration to facilitate future development

Firstly, the Company will implement proactive and reasonable marketing strategies, which will further expand its market share in the domestic and overseas markets through timely adjustment in the product mix based on the market changes, and innovative marketing efforts and services. Secondly, the Company will strengthen the management of marketing, which will implement a new management model in the sales system first, and adjust the management structure of the products manufacturing companies, strengthen the market segmentation management and increase the training efforts and build up a quality sales team which can weather the difficult challenges based on the advice of the management consulting institutions. Thirdly, the Company will optimise its international marketing network by strengthening the overseas sales efforts, consolidating and increasing the sales in the traditional markets such as the Middle East, Europe and Southeast Asia and concentrating on exploring the emerging markets such as North America and Latin America, to increase the proportion of exports. Fourthly, the Company will launch its electronic commerce initiative by accelerating the establishment of the virtual terminal market, operating the electronic commerce businesses towards the clients and expanding its sales channels by online marketing.

## **II. Prospect of the future developments of the Company (Cont'd)**

### **2. In line with its strategic plans, the work of the Company will focus on the following areas in 2011: (Cont'd)**

#### **(4) Strengthen its self-innovation capability**

Firstly, the Company will standardise the operation of its technological innovation system to further develop into a national technology centre and a post-doctoral technological research station to upgrade its innovation capability. Secondly, the Company will optimise its innovation incentive mechanism by formulating and implementing policy measures which encourage self-innovation by heavily rewarding the staff who have made contributions, thus building up a strong culture which respects technology and innovation. Thirdly, the Company will speed up the research and development of the key technologies and actively promote the application of new techniques and new technologies, strengthen optimisation of techniques and technologies and facilitate the product upgrade and optimisation. Fourthly, the Company will firmly establish its quality and brands for the high end market and higher product quality, thus achieving products with characteristics and of higher class.

#### **(5) Strengthen the building of a team of talents**

Firstly, the Company will optimise its talent recruitment by opening more channels and more modes for recruiting talents. Secondly, the Company will strengthen its talent trainings by organising topical training sessions and overseas training programmes, thus increasing its training efforts. Thirdly, the Company will openly select the talents based on both of integrity and ability of the candidates and openly engage the talents based on their abilities and competence. Fourthly, the Company will optimise the working environment to retain the talents and establish a series of incentive mechanisms to appoint, recruit, remunerate and reward the talents, thus retaining the talents with career, sense of belongings and remuneration and establishing a good working environment in favour of harmonious corporate establishment.

### **3. The risk factors in the course of realisation of the future development strategies and operating targets of the Company**

In view of the numerous new projects undertaken by the Company and their substantial scale, the task of ensuring effective human resources allocation and resource utilisation, as well as smooth implementation of these projects thus poses great challenges to the Company. As such, the Company has adopted the following measures: i.e. provide clarity on job responsibility and confirm project construction responsibility; upgrade resource allocation by adoption of a project-oriented approach in terms of human resources, funding and resources to create a favourable environment for project construction; and raise service standards by creating a sense of urgency in and enhancing accountability of all business units of the Company, so as to promote service awareness company-wide and create a feeling of working together towards a common goal. All these ultimately aim to ensure the projects progress on schedule.

## II. Prospect of the future developments of the Company (Cont'd)

### 4. Future capital requirement, sources of funds and their planned use

The demand for capital of the Company is ever increasing as the Company continuously grows with its even bigger operating scale. As the largest paper making company in China and a company listed with three classes of shares, namely A shares, B shares and H shares, the Company has a good reputation in the financial market and extensive financing sources. The Company will adopt the following effective sources of funds based on its growth and future development strategies:

- (1) Reinforcement for market sales - the Company will increase its sales revenue and put greater efforts in the recovery of receivables to speed up capital turnover, utilise capital potential and take full advantage of its own funds.
- (2) Taking advantage of the credibility and reputation of the Company - the Company will secure bank loans and syndicated loans and strengthen its internal financial control and enhance its capital utilisation.
- (3) Optimisation of financial structure to reduce finance expenses of the Company - the Company respectively issued RMB3.3 billion short-term debentures and RMB1.1 billion medium-term notes in 2010.

## III. Investments during the reporting period

### 1. Use of proceeds during the reporting period

The Company issued 355.7 million H shares in June 2008 with the issue price of HK\$9. The total proceeds from the issue were translated into RMB2,831 million. The net proceeds less the expenses of RMB 103 million were RMB2,728 million. As of 31 December 2010, RMB2,728 million of the proceeds from the issue was used, of which, approximately RMB245 million was used to fund the working capital and approximately RMB2,483 million was used in the Zhanjiang project primarily for land and plants areas construction. As at the end of the reporting period, the use of proceeds was as follows:

|   | Unit: RMB'0000 |
|---|----------------|
| Total proceeds  | 272,825        |
| Total amount of proceeds used during the reporting period                   | 129,381.63     |
| Total amount of proceeds involved in change of use during the year          | 0              |
| Cumulative total amount of proceeds involved in change of use               | 0              |
| Cumulative total amount of proceeds used                                    | 272,825        |
| Proportion of cumulative total amount of proceeds involved in change of use | 0              |

### III、 Investments during the reporting period (Cont'd)

#### 1. Use of proceeds during the reporting period (Cont'd)

| Investment projects undertaken and the use of the excess proceeds | Project change (including partially changed projects) ? | Total amount of proceeds undertaken for investment | Total investment amount after adjustment (1) | Invested amount during the year | Cumulative invested amount as of end of the period (2) | Progress of investment as of end of the period (%) <sup>3=(2)/(1)</sup> | Date of project reaching the working condition for its intended use | Results realised during the year | Achieving its estimated results? | Any material change in feasibility of project? |
|---|---|--|--|---------------------------------|--|---|---|----------------------------------|----------------------------------|--|
| Investment project undertaken                                     |   |  |  |                                 |  |   |   |                                  |                                  |  |
| Zhanjiang pulp project with annual production of 70,000 tonnes    | No  | 248,271  | 248,271                                      | 129,381.63                      | 248,271  | 100   | April 2011  | —                                | —                                | No   |
| Subtotal of the investment projects undertaken                    | No  | 248,271  | 248,271                                      | 129,381.63                      | 248,271  | 100   | April 2011  | —                                | —                                | No   |
| Use of the excess proceeds  | Nil   |  |  |                                 |  |   |   |                                  |                                  |  |
| Banking loan repayment (if any)                                   | —   | —  | —  | —                               | —  | —   | —   | —                                | —                                | —  |
| Supplementary working capital (if any)                            | No  | 24,554   | 24,554                                       | 0                               | 24,554   | 100   | —   | —                                | —                                | No   |
| Subtotal of the use of the excess proceeds                        | —   | —  | —  | —                               | —  | —   | —   | —                                | —                                | —  |
| Total   | —   | 272,825  | 272,825                                      | 129,381.63                      | 272,825  | 100   | —   | —                                | —                                | —  |

### III、 Investments during the reporting period (Cont'd)

#### 1. Use of proceeds during the reporting period (Cont'd)

|   | Project<br>change<br>(including<br>partially<br>changed<br>projects) ? | Total<br>amount of<br>proceeds<br>undertaken<br>for<br>investment | Total<br>investment<br>amount<br>after<br>adjustment (1) | Invested<br>amount<br>during<br>the year | Cumulative<br>invested<br>amount as of<br>end of the<br>period (2) | Progress of<br>investment<br>as of<br>end of the<br>period<br>(%) <sup>3</sup> =(2)/(1) | Date of<br>project<br>reaching<br>the working<br>condition<br>for its<br>intended use | Results<br>realised<br>during<br>the year | Achieving its<br>estimated<br>results? | Any<br>material<br>change in<br>feasibility<br>of project? |
|---|--|---|--|--|--|---|---|---|--|--|
| Investment projects<br>undertaken and the use of<br>the excess proceeds                                 |  |   |  |  |  |   |   |   |  |  |
| Particulars of and reasons for<br>not meeting schedule or<br>estimated income<br>(by specific projects) | Nil  |   |  |  |  |   |   |   |  |  |
| Particulars of material change in<br>feasibility of project   | Nil  |   |  |  |  |   |   |   |  |  |
| Amount and uses of the excess<br>proceeds and the progress of uses                                      | Nil  |   |  |  |  |   |   |   |  |  |
| Particulars of change in place of<br>application of proceeds  | Nil  |   |  |  |  |   |   |   |  |  |
| Particulars of adjustment to way<br>of application of proceeds  | Nil  |   |  |  |  |   |   |   |  |  |
| Particulars of application of<br>proceeds in early stage and<br>replacement of proceeds                 | Nil  |   |  |  |  |   |   |   |  |  |
| Particulars of application of idle<br>proceeds for temporary<br>replenishment of working<br>capital     | Nil  |   |  |  |  |   |   |   |  |  |
| Amount of positive balance of<br>proceeds upon<br>commencement of project<br>and its reason             | Nil  |   |  |  |  |   |   |   |  |  |
| Uses and whereabouts of<br>unused proceeds  | Nil  |   |  |  |  |   |   |   |  |  |
| Issues and other particulars of<br>use of proceeds and its<br>disclosure                                | Nil  |   |  |  |  |   |   |   |  |  |



### III. Investments during the reporting period (Cont'd)

#### 2. Establishment of controlling subsidiaries during the reporting period

山東晨鳴紙業銷售有限公司(Shandong Chenming Paper Sales Company Limited)

Shandong Chenming Paper Sales Company Limited was established by the Company on 17 March 2010 by way of capital contribution with a registered capital of RMB100.00 million. It is 100% owned by the Company.

#### 3. Other investments not financed by the proceeds during the reporting period

At the end of the reporting period, the Company and its controlling subsidiaries injected a total of RMB6,336 million mainly for the following six projects:

##### (1) The high-end low weight coated paper project of annual production capacity of 800,000 tonnes

The high-end low weight coated paper project of annual production capacity of 800,000 tonnes in Shouguang City was considered and approved by the 2009 First Extraordinary General Meeting of the Company. The planned total investment amount for this project was approximately RMB5.2 billion. The construction of the project was to last for 18 months. Upon completion, the project will realise annual production capacity of 800,000 tonnes high-end low weight coated paper and a profit of approximately RMB85 million. Upon operation, the project will, to some extent, increase the percentage of high-end paper products and enhance the comprehensive competitiveness of the Company.

Currently, the civil works of the project were completed and equipment installation of the project was 70% completed. Accumulated investment of RMB2,385 million was made at the end of the reporting period. It is expected that the project will commence operation by April 2011.

##### (2) The high-end culture paper project of annual production capacity of 450,000 tonnes

The high-end culture paper project of annual production capacity of 450,000 tonnes in Zhanjiang, Guangdong was considered and approved by the 2008 Annual General Meeting of the Company. The planned total investment amount for this project was approximately RMB1.668 billion. The construction of the project was to last for 18 months. Upon completion, the project will realise annual production capacity of 450,000 tonnes high-end culture paper and a profit of approximately RMB189 million. Upon operation, the project will, to some extent, increase the percentage of high-end paper products and enhance the comprehensive competitiveness of the Company.

Currently, the main structure of the paper making plant of the project was completed and its masonry structure was 90% completed. For the progress of project installation, the installation of the major equipment in the paper machine workshop was 25% completed. RMB1,101 million was invested at the end of the reporting period. It was expected that the project may commence operation by April 2011.

### **III. Investments during the reporting period (Cont'd)**

#### **3. Other investments during the reporting period (Cont'd)**

##### **(3) The high-end white coated linerboard project of annual production capacity of 600,000 tonnes**

The high-end white coated linerboard project of an annual production capacity of 600,000 tonnes in Shouguang City was considered and approved by the 2009 First Extraordinary General Meeting of the Company. The planned total investment amount for this project was approximately RMB2.6 billion. The construction of the project was to last for 18 months. Upon completion, the project will realise annual production capacity of 600,000 tonnes high-end white coated linerboard paper and a profit of approximately RMB430 million. Upon operation, the project will increase the percentage of high-end paper products and enhance the comprehensive competitiveness of the Company.

Currently, the major equipment of the project had been ordered and the pile testing works was 70% completed. RMB258 million was invested at the end of the reporting period. It was expected that the project will commence operation by May 2012.

##### **(4) The high-end household paper project of annual production capacity of 60,000 tonnes**

The high-end household paper project of annual production capacity of 60,000 tonnes was considered and approved by the twelfth meeting of the fifth session of the Board. The planned total investment amount for this project was approximately RMB539 million. The construction of the project was to last for one year. Upon completion, the project will realise a profit of approximately RMB78 million. Upon completion and operation, the project will diversify the paper product mix of the Company by expanding into a brand new category of paper product.

Currently, the civil works and equipment installation of the project was 100% completed. The project successfully commenced production on 16 December 2010 and came into operation. RMB491 million was invested at the end of the reporting period.

##### **(5) Research and development centre project**

The construction project of a research and development centre was approved by the Thirteenth Meeting of the Fifth Session of the Board of Directors. The project's planned investment amounted to approximately RMB120 million and it was to be completed in 17 months. Upon completion, the centre will be mainly used for development of new projects and includes technical research institutes, technical laboratories, product testing rooms, workstations for post-doctoral technicians, offices, etc.

The main structure of the centre was topped out and the secondary structure was under construction while interior decoration, external greenery decoration and electrical and instrument works had also commenced. RMB97 million was invested during the reporting period. It is expected that the project will be completed and commence operation by end of April 2011.

##### **(6) The bleached sulfate pulp project of annual production capacity of 700,000 tonnes**

The construction of the bleached sulfate pulp project of annual production capacity of 700,000 tonnes was considered and approved by the Board of the Company. The planned total investment amount for this project was approximately RMB9.4 billion. The construction of the project was to last for three year. During the reporting period, the civil works of the project were 80% completed and equipment installation of the project was 70% completed. Accumulated investment of RMB2.004 billion was made as at the end of the reporting period. It is expected that the project will commence operation by April 2011.

#### **IV. RSM China Certified Public Accountants and RSM Nelson Wheeler, auditors of the Company, issued standard auditors' reports for the year without qualified opinion on the Company**

#### **V. Day-to-day operation of the Board**

##### **1. Board meetings and their resolutions**

During the reporting period, the Board held six meetings.

- (1) On 24 February 2010, the fifth Session of the Board of the Company held its seventeenth meeting, at which, 6 resolutions were considered and approved, including the resolutions in relation to appointment and re-appointment of Directors of the Company, the remuneration of the Directors and senior management of the Company, the application of the Company for the integrated banking credit line in 2010, the guarantee provided by the Company for the banking facilities being applied by its controlling subsidiaries, the implementation of "Internal Management Policy for Forward Exchange Contracts" and the convening of the 2010 First Extraordinary General Meeting. The related resolution announcement was published on China Securities Journal, Hong Kong Commercial Daily and the website of CHINF (<http://www.cninfo.com.cn>) on 25 February 2010 and the website of the Hong Kong Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) on 24 February 2010.
- (2) On 12 April 2010, the fifth session of the Board of the Company held its eighteenth meeting, at which, 15 resolutions were considered and approved, including the resolutions in relation to the report of the Board for the year of 2009, the report of the General Manager for the year of 2009, the full text and summary of the 2009 Annual Report and the financial statements of the Company for the year of 2009. The related resolution announcement was published on China Securities Journal, Hong Kong Commercial Daily and the website of CHINF (<http://www.cninfo.com.cn>) on 13 April 2010 and the website of the Hong Kong Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) on 12 April 2010.
- (3) On 12 April 2010, the sixth session of the Board of the Company held its first meeting, at which, 4 resolutions were considered and approved, including the resolutions on the election of the chairman and vice chairman of the Company, the nomination of general manager and secretary to the Board by the Chairman, the nomination of senior management (including deputy general managers) by the General Manager and the change in membership of the specialised committees under the Board. The related resolution announcement was published on China Securities Journal, Hong Kong Commercial Daily and the website of CHINF (<http://www.cninfo.com.cn>) on 13 April 2010 and the website of the Hong Kong Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) on 12 April 2010.
- (4) On 22 April 2010, the sixth session of the Board of the Company held its second meeting, at which, the full text and main body of First Quarterly Report 2010 was considered and approved. The related resolution announcement was published on China Securities Journal, Hong Kong Commercial Daily and the website of CHINF (<http://www.cninfo.com.cn>) on 23 April 2010 and the website of the Hong Kong Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) on 22 April 2010.
- (5) On 24 August 2010, the sixth session of the Board of the Company held its third meeting, at which, the full text and summary of the 2010 Interim Report, the resolutions in relation to provision of guarantee for the loans of Shouguang Meilun Paper Co., Ltd., a wholly-owned subsidiary of the Company, by the Company, the establishment of Shandong Chenming Paper Sales Company Limited (山東晨鳴紙業銷售有限公司), a wholly-owned subsidiary, by the Company, as well as appointment and removal of the senior management of the Company were considered and approved. The related resolution announcement was published on China Securities Journal, Hong Kong Commercial Daily and the website of CHINF (<http://www.cninfo.com.cn>) on 25 August 2010 and the website of the Hong Kong Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) on 24 August 2010.

## **V. Day-to-day operation of the Board (Cont'd)**

### **1. Board meetings and their resolutions (Cont'd)**

- (6) On 28 October 2010, the sixth session of the Board of the Company held its fourth meeting, at which, 9 resolutions were considered and approved, including the full text of the 2010 third quarterly report and its original text, the resolutions in relation to the issuance of medium term notes, provision of guarantee for the facilities of Shandong Chenming Paper Sales Company Limited, a wholly-owned subsidiary, by the Company, the provision of guarantee for the banking facilities granted to Meilun Paper, a wholly-owned subsidiary, by the Company and the provision of an entrusted loan to Qihe Chenming, a wholly-owned subsidiary, by the Company. The related resolution announcement was published on China Securities Journal, Hong Kong Commercial Daily and the website of CHINF (<http://www.cninfo.com.cn>) on 29 October 2010 and the website of the Hong Kong Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) on 28 October 2010.

### **2. Implementation of resolutions of general meetings by the Board**

The Board discharged its duties diligently as authorised by general meetings and the Articles of Association. It completed the principal tasks under the authorisation of general meetings as follows:

#### **(1) Implementation of the profit appropriation plan for 2009**

The 2009 annual general meeting resolved the 2009 profit appropriation plan of the Company: based on the total share capital of 2,062,045,941 shares as at the end of 2009, a cash bonus of RMB3.00 (before tax) per 10 shares was to be paid to all shareholders and the total cash bonus in this distribution was RMB618,613,782.30 (before tax), which represented 84.39% of the net profit attributable to shareholders of the Company after deducting statutory reserves as set out in the 2009 consolidated financial statements prepared in accordance with Accounting Standards for Business Enterprises. The remaining amount after profit appropriation was retained for distribution in future years.

The 2009 dividend payment announcement was published by the Company on China Securities Journal, Hong Kong Commercial Daily and the website of CHINF (<http://www.cninfo.com.cn>) on 1 June 2010 while the 2009 H shares dividend payment announcement was published by the Company on the website of Hong Kong Stock Exchange (<http://www.hkex.com.hk>) on 8 June 2010. The 2009 profit appropriation plan was implemented with 18 June 2010 as the book closure date of A shares and B shares.

## V. Day-to-day operation of the Board (Cont'd)

### 3. Discharge of duties by the audit committee of the Board

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

#### (1) The following major tasks were completed during 2010:

- (1) it conducted pre-audit communication with external auditing institution engaged by the Company in respect of the 2009 financial report auditing on pre-auditing work, reviewed the 2009 auditing report and financial report and submitted such reports to the Board of the Company;
- (2) it reviewed the 2010 interim financial statements for the six months ended 30 June 2010, which were passed to the Board for approval.

#### (2) Auditing work conducted on the 2010 financial report of the Company was as follows:

- (1) it reviewed the 2010 auditing plan and the related information of the Company with the auditing certified public accountants and the finance department of the Company prior to the on site audit and negotiated and determined the schedule of an audit of the 2010 financial statements of the Company with RSM China Certified Public Accountants;
- (2) it reviewed the draft of financial statements of the Company prior to an annual on site audit performed by the auditing certified public accountants and issued its approval to audit;
- (3) it kept in close contact with the auditors upon the annual on site audit and issued a letter to the auditors to urge the submission of the auditors' report on schedule;
- (4) it reviewed the financial statements of the Company again upon the issue of draft opinion on the annual audit by the auditing certified public accountants, and considered the financial statements of the Company true, accurate and complete to reflect the overall position of the Company;
- (5) at the first meeting of the audit committee in 2011, the auditors' report on the annual audit issued by the certified public accountants was approved and then was submitted to the Board;
- (6) it reviewed the report on internal audit and internal control of the Company for the year ended 31 December 2010.

### 4. Discharge of duties by the nomination committee of the Board

During the reporting period, the nomination committee held two meetings in total.

The business of the first meeting in 2010 mainly included the discussion of nominating Chen Hongguo, Yin Tongyuan, Li Feng, Geng Guanglin, Tan Daocheng, Hou Huancai and Zhou Shaohua as candidates for executive Directors of the sixth session of the Board of the Company; the discussion of nominating Wang Aiguo, Zhang Zhiyuan, Wang Yumei, Zhang Hong and Wang Xiangfei as candidates for independent non-executive Directors of the sixth session of the Board of the Company; and the discussion of nominating Cui Youping, Wang Fengrong and Wang Xiaoqun as candidates for non-executive Directors of the sixth session of the Board of the Company. The nominations were submitted to the seventeenth meeting of the fifth session of the Board of the Company for consideration and approval.

The business of the second meeting in 2010 mainly included the discussion of the respective resignation of Mr. Chen Chunfu and Mr. Hong Zhuxiong as the general manager and a deputy general manager, the discussion of Mr. Chen Hongguo, Chairman of the Company acting as the general manager of the Company, the discussion of appointing Mr. Zhang Yanjun and Mr. Zhao Liqun as deputy general managers of the Company. The resolutions were submitted to the third meeting of the sixth session of the Board of the Company for consideration and approval.

## V. Day-to-day operation of the Board (Cont'd)

### 5. Discharge of duties by the remuneration committee of the Board

The remuneration and assessment committee of the Company were primarily responsible for formulating the remuneration and assessment for the Directors and the Senior Management of the Company and formulating and examining the remuneration package of the Directors and the Senior Management of the Company, and accountable to the Board. In the reporting period, the remuneration and assessment committee formulated the 2009 remuneration package of the Directors and the Senior Management of the Company, which then was passed to the Board for approval, based on the production and operation conditions of 2009 and assessment of the Directors and the Senior Management of the Company.

### 6. Implementation of the management policy on personnel with insider information

During the reporting period, the Company set up Insider Registration System (《内幕信息知情人登記制度》) and Management System on External Users of Insider Information (《外部信息使用人管理制度》) under the circumstances in accordance with the related requirements of Companies Law of the People's Republic of China (《中華人民共和國公司法》), Law of the People's Republic of China on Securities (《中華人民共和國證券法》), Administrative Measures on Information Disclosure by Listed Companies (《上市公司信息披露事務管理辦法》), Rules Governing Listing of Stocks on Shenzhen Stock Exchange (2008 revision) and the Articles of Association of the Company to standardise the management of insider information, strengthen the confidentiality of its insider information and maintain information disclosure in a fair manner. The systems defined the scope of insider information, the persons with knowledge of insider information and their scope, the management of registration and filing, confidentiality and the related liabilities. As the management body of insider information, the Board designated the secretary of the Board to be responsible for the management of the insider information. The Company strengthened the registration and management systems of and the supervision and examination works of insiders to standardise the internal circulation procedure of significant information, thus ensuring the information disclosure in a fair manner and specifically preventing leakages of insider information and insider trading. The Company strictly implemented Insider Registration System and the related systems to prohibit insiders from trading the shares of the Company prior to significant and sensitive information disclosure which had an effect on the share price of the Company.

The Company identified no trading of the shares of the Company by the insiders of the Company during the price sensitive period through self examination.

## VI. The proposed profit distribution plan of 2010

Based on the total share capital of 2,062,045,941 shares as at the end of 2010, a cash bonus of RMB3.00 (before tax) per 10 shares was to be paid to all shareholders and the total cash bonus in this distribution was RMB618,613,782.30 (before tax), which accounted for 60.43% of the net profit as set out in the financial statements of the Company prepared in accordance with Accounting Standards for Business Enterprises in 2010 after deducting appropriation to statutory reserves. The undistributed profit would be rolled over for distribution in subsequent years.

## VII. The cash bonus of the Company in the last three years

Unit: RMB

| Cash bonus year | Amount for profit for cash bonus | Bonus option  | Net profit attributable to equity holders of the Company for the cash bonus year | Ratio of cash bonus to net profit attributable to equity holders of the Company | Distributable profit for the year |
|-----------------|----------------------------------|---------------|--|---|-----------------------------------|
| 2007            | 273,015,350.56                   | 10 for RMB1.6 | 967,636,172.39   | 28.21%  | 886,584,820.49                    |
| 2008            | 103,102,297.05                   | 10 for RMB0.5 | 1,075,291,741.53   | 9.59%   | 973,557,811.58                    |
| 2009            | 618,613,782.30                   | 10 for RMB3.0 | 835,947,981.16   | 74.00%  | 754,495,784.2                     |

The accumulated amounts for cash bonus in the last three years as a percentage of distributable profit (%)

114.13%

## **VIII. Major suppliers and customers**

The purchase from the largest supplier of the Group for 2010 was RMB426 million, which accounted for 2.3% of the total purchase of the Group for the year and the total purchase from the five largest suppliers was RMB1,503 million, which accounted for 8.13% of the total purchases of the Group for the year. None of the Directors, Supervisors and their respective associates, or, so far as the Directors were aware, shareholders who owned more than 5% of the Company's issued share capital had any interest in any of the five largest suppliers of the Group.

The sales to the largest customer of the Group for 2010 was RMB328 million, which accounted for 1.9% of the total sales of the Group for the year and the total sales from the five largest customers was RMB995 million, which accounted for 5.78% of the total sales of the Group for the year. None of the Directors, Supervisors and their respective associates, or, so far as the Directors were aware, shareholders who owned more than 5% of the Company's issued share capital had any interest in any of the five largest customers of the Group.

## VIII、 Supervisory Committee's Report

### I. Performance of duties

During the reporting period, all the Supervisors, who were accountable to the shareholders, performed their duties in accordance with Companies Law, the Articles of Association, and Procedural Rules for Supervisory Committee's Meetings, and under the principle of diligence. They monitored whether the business activities were lawfully operated, and supervised the financial management and connected transactions of the Company. During the reporting period, they examined and supervised the subsidiaries and branch companies in terms of accounting, raw materials purchase, sales of goods, and connected transactions to provide strong protection for the lawful operation and healthy development of the Company.

### II. Meetings of the Supervisory Committee

1. The thirteenth meeting of the fifth session of the Supervisory Committee was held on 24 February 2010. The resolution in relation to appointment and re-appointment of the Supervisory Committee of the Company was considered approved. The related resolution announcement was published on China Securities Journal, Hong Kong Commercial Daily and the website of CHINF (<http://www.cninfo.com.cn>) on 25 February 2010 and the website of the Hong Kong Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) on 24 February 2010.
2. The fourteenth meeting of the fifth session of the Supervisory Committee was held on 12 April 2010. Resolutions, inter alia, 4 resolutions regarding the report of the Supervisory Committee of the Company for the year of 2009, the full text and summary of the 2009 Annual Report, the financial statements of the Company for the year of 2009 and the Self Assessment Report on Internal Control of the Company were considered and passed at the meeting. The related resolution announcement was published on China Securities Journal, Hong Kong Commercial Daily and the website of CHINF (<http://www.cninfo.com.cn>) on 13 April 2010 and the website of the Hong Kong Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) on 12 April 2010.
3. The first meeting of the sixth session of the Supervisory Committee was held on 12 April 2010. The resolution on the election of the chairman of the Supervisory Committee of the Company was considered and passed at the meeting. The related resolution announcement was published on China Securities Journal, Hong Kong Commercial Daily and the website of CHINF (<http://www.cninfo.com.cn>) on 13 April 2010 and the website of the Hong Kong Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) on 12 April 2010.
4. The second meeting of the sixth session of the Supervisory Committee was held on 22 April 2010. The full text and main body of First Quarterly Report 2010 was considered and passed at the meeting. The related resolution announcement was published on China Securities Journal, Hong Kong Commercial Daily and the website of CHINF (<http://www.cninfo.com.cn>) on 23 April 2010 and the website of the Hong Kong Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) on 22 April 2010.
5. The third meeting of the sixth session of the Supervisory Committee was held on 24 August 2010. The full text and summary of the 2010 interim report of the Company and the resolution in relation to provision of guarantee for the loans of Shouguang Meilun Paper Co., Ltd., a wholly-owned subsidiary of the Company, by the Company were considered and passed at the meeting. The related resolution announcement was published on China Securities Journal, Hong Kong Commercial Daily and the website of CHINF (<http://www.cninfo.com.cn>) on 25 August 2010 and the website of the Hong Kong Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) on 24 August 2010.
6. The fourth meeting of the sixth session of the Supervisory Committee was held on 28 October 2010. The full text of the 2010 third quarterly report and its original text was considered and passed at the meeting. The related resolution announcement was published on China Securities Journal, Hong Kong Commercial Daily and the website of CHINF (<http://www.cninfo.com.cn>) on 29 October 2010 and the website of the Hong Kong Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) on 28 October 2010.



### **III. Independent opinion of the Supervisory Committee**

#### **1. Operation According to the law**

- (1) During the reporting period, the Company conducted its businesses according to Companies Law, Securities Law, Articles of Association of the Company and the related national laws and regulations under the direction of “lawfulness, supervision, self-discipline and regulation” applied in a consistent manner. Information disclosures were conducted under the principles of truthfulness, completeness, accuracy, and timeliness. No false or misleading information was released.
- (2) The Board undertook all of the rights and responsibilities set out by Companies Law, Securities Law, and Articles of Association of the Company, and fully implemented the resolutions passed by the general meetings and Board meetings. The decision making processes were lawful with timely consideration and approval of the production targets, sustainable development measures, operation according to the law and standardisation operation. A more comprehensive internal control system was established to ensure healthy and continued development of the Company. The management of the Company were able to perform their duties as stipulated in the Articles of Association of the Company and executed the resolutions of the Board. No contravention of laws or regulations or the Articles of Association nor acts detrimental to the interests of the Company were identified.

#### **2. Financial position inspection**

The financial statements of the Company were audited by RSM China Certified Public Accountants and RSM Nelson Wheeler, who issued standard auditors’ reports with unqualified opinion on them upon auditing. In the opinion of the Supervisory Committee, the auditors’ report gave a true and fair view of the financial position and operating results of the Company.

#### **3. Use of proceeds**

The actual use of the proceeds from the latest fund raising activity was consistent with their intended use without any changes.

#### **4. Material purchase or sales of assets**

The consideration for the material purchase of assets by the Company was fair and reasonable and no insider trades and connected transactions, which were detrimental to the interests of any shareholders or resulted in loss of assets of the Company, were found.

#### **5. Connected transactions**

The connected transactions of the Company were entered into at arm’s length and were not detrimental to the interests of the Company and the shareholders.

## **IX Material Matters**

- I. There was no material litigation or arbitration of the Company during the reporting period**
- II. There was no significant purchase or sales of assets and merger and acquisition during the reporting period**

### **III. Major connected transactions**

1. In accordance with the relevant requirements in the listing rules of Shenzhen Stock Exchange, the Group had no major connected transactions during the reporting period.
2. Continuing connected transactions as defined under the listing rules of the Hong Kong Stock Exchange  
For the year ended 31 December 2010, the following non-exempt continuing connected transactions were subject to reporting requirements under the Hong Kong Listing Rules of the Stock Exchange. Such transactions were conducted in the ordinary course of business of the Group and on commercial terms fair and reasonable to shareholders.

#### **Sale of paper products by Jiangxi Chenming to Sappi and/or its associates**

On 3 December 2004, Jiangxi Chenming Paper Co., Ltd. (“Jiangxi Chenming”), the Company, Moorim Paper Co., Ltd. (“Moorim Paper”) and Sappi China Holdings BV (“Sappi China”) entered into a Sales and Distribution Agreement.

Jiangxi Chenming is owned as to 51% by us, 34% by Sappi whose beneficial owners are all Independent Third Parties to the Company, 7.5% by Moorim Paper and 7.5% by IFC. The principal businesses of Sappi and Moorim Paper are making and sales of various paper products. According to Rule 14A.11 of the Hong Kong Listing Rules, Sappi is a connected person of us. Based on information currently available, Sappi China Holdings BV (“Sappi China”) is an associate of Sappi and therefore the sales of products by Jiangxi Chenming to either Sappi or Sappi China (the “Sappi Sales”) in its ordinary and usual course of business will constitute continuing connected transactions under the Hong Kong Listing Rules. Pursuant to the Sales and Distribution Agreement entered into by the parties, Jiangxi Chenming engaged three sole distributors in China, South Korea and overseas markets respectively to reduce distribution costs. Such arrangements will shorten the distribution cycle and assist Jiangxi Chenming in more efficient and effective distribution work in its expansion into overseas markets, and therefore strengthen its market position within the paper making industry. During the reporting period, Sappi recorded total sales of RMB68 million, accounting for 0.39% of the total sales of the Group for the year.

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

- the transactions were conducted in the ordinary course of business of the Group;
- the transactions were carried out on normal commercial terms;
- the transactions were carried out on the terms of the related agreements and the terms were fair and reasonable and in the interests of the shareholders as a whole.

### III. Major connected transactions (Cont'd)

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Group in page 79 of the Annual Report in accordance with Main Board Listing Rule 14A.38. A copy of the auditor's letter has been provided by the Company to The Stock Exchange of Hong Kong Limited.

### IV. Significant contracts and their performance

#### 1. External guarantees

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

During the reporting period, the Company provided guarantee for its controlling subsidiaries with respect to application of bank loans, the guarantee amount incurred was RMB2,671.36 million; as at 31 December, 2010, the balance of guarantee the Company provided to its subsidiaries amounted to RMB3,903.72 million representing 28.84% of the net assets attributable equity holders of the Company.

Unit: RMB'0000

#### External guarantees provided by the Company (excluding guarantees provided for subsidiaries)

| Name of obligor  | Date and number of the related announcement disclosing the guarantee amount | Amount of guarantee | Guarantee date (agreement date) | Guarantee provided  | Type of guarantee | Term | Fulfilled or not? | Guarantee to related parties or not |
|--|---|---------------------|---------------------------------|---|-------------------|------|-------------------|-------------------------------------|
| Total amount of external guarantee approved during the reporting period (A1)           |   |                     | 0.00                            | Total amount of external guarantee provided during the reporting period (A2)            |                   |      |                   | 0.00                                |
| Total amount of external guarantee approved as at the end of the reporting period (A3) |   |                     | 0.00                            | Total balance of external guarantee provided as at the end of the reporting period (A4) |                   |      |                   | 0.00                                |

#### IV. Significant contracts and their performance (Cont'd)

##### 1. External guarantees (Cont'd)

(1) (Cont'd)

##### Guarantees provided by the Company for subsidiaries

| Name of obligor   | Date and number of the related announcement disclosing the guarantee amount | Amount of guarantee | Guarantee date (agreement date) | Guarantee provided | Type of guarantee | Term (year) | Fulfilled or not? | Guarantee to related parties or not |
|---|---|---------------------|---------------------------------|--------------------|-------------------|-------------|-------------------|-------------------------------------|
| Zhanjiang Chenming Paper Pulp Co., Ltd.                 | 2006-07-27(2006-042)  | 564,020.00          | 25 March 2008                   | 258,641.00         | Credit            | 15          | No                | No                                  |
| Jiangxi Chenming Paper Co., Ltd.                        | 2009-12-16(2009-034)  | 45,000.00           | 10 December 2009                | 45,000.00          | Credit            | 3           | No                | No                                  |
| Jiangxi Chenming Paper Co., Ltd.                        | 2003-03-17(2003-002)  | 103,600.00          | 11 December 2003                | 5,000.00           | Credit            | 3           | No                | No                                  |
| Huanggang Chenming Arboriculture Co., Ltd.              | 2010-02-25(2010-003)  | 16,000.00           | 20 April 2010                   | 2,000.00           | Credit            | 3           | No                | No                                  |
| Huanggang Chenming Arboriculture Co., Ltd.              | 2010-02-25(2010-003)  | 16,000.00           | 8 July 2010                     | 3,000.00           | Credit            | 3           | No                | No                                  |
| Huanggang Chenming Arboriculture Co., Ltd.              | 2009-05-27(2009-012)  | 10,000.00           | 2 June 2009                     | 5,000.00           | Credit            | 3           | No                | No                                  |
| Shouguang Meilun Paper Co., Ltd.                        | 2009-06-09(2009-015)  | 8,000.00            | 1 January 2010                  | 0.00               | Credit            | 6           | Yes               | No                                  |
| Shandong Chenming Paper Group Qihe Paperboard Co., Ltd. | 2009-05-27(2009-012)  | 28,000.00           | 21 September 2009               | 0.00               | Credit            | 1           | Yes               | No                                  |

#### IV. Significant contracts and their performance (Cont'd)

##### 1. External guarantees (Cont'd)

(1) (Cont'd)

##### Guarantees provided by the Company for subsidiaries

| Name of obligor   | Date and number of the related announcement disclosing the guarantee amount | Amount of guarantee | Guarantee date (agreement date) | Guarantee provided | Type of guarantee | Term (year) | Fulfilled or not? | Guarantee to related parties or not |
|---|---|---------------------|---------------------------------|--------------------|-------------------|-------------|-------------------|-------------------------------------|
| Shouguang Chenming Art Paper Co., Ltd.                  | 2009-05-27(2009-012)  | 10,000.00           | 6 May 2009                      | 0.00               | Credit            | 1           | Yes               | No                                  |
| Jilin Chenming Paper Co., Ltd.                          | 2009-05-27(2009-012)  | 70,000.00           | 19 May 2009                     | 0.00               | Credit            | 1           | Yes               | No                                  |
| Wuhan Chenming Hanyang Paper Holdings Co., Ltd.         | 2010-02-25(2010-003)  | 30,000.00           | 8 March 2010                    | 4,000.00           | Credit            | 1           | No                | No                                  |
| Shouguang Meilun Paper Co., Ltd.                        | 2010-08-24(2010-027)  | 79,473.00           | 10 September 2010               | 52,982.00          | Credit            | 5           | No                | No                                  |
| Shouguang Meilun Paper Co., Ltd.                        | 2010-10-29(2010-034)  | 600,000.00          | 1 November 2010                 | 14,749.00          | Credit            | 0.5         | No                | No                                  |
| Shouguang Chenming Art Paper Co., Ltd.                  | 2010-02-25(2010-003)  | 10,000.00           | 5 May 2010                      | 0.00               | Credit            | 1           | No                | No                                  |
| Jilin Chenming Paper Co., Ltd.                          | 2010-02-25(2010-003)  | 30,000.00           | 18 May 2010                     | 0.00               | Credit            | 1           | No                | No                                  |
| Shandong Chenming Paper Group Qihe Paperboard Co., Ltd. | 2010-02-25(2010-003)  | 20,000.00           | 16 September 2010               | 0                  | Credit            | 1           | No                | No                                  |

#### IV. Significant contracts and their performance (Cont'd)

##### 1. External guarantees (Cont'd)

(1) (Cont'd)

##### Guarantees provided by the Company for subsidiaries

| Name of obligor   | Date and number of the related announcement disclosing the guarantee amount | Amount of guarantee | Guarantee date (agreement date) | Guarantee provided  | Type of guarantee | Term (year) | Fulfilled or not?            | Guarantee to related parties or not |
|---|---|---------------------|---------------------------------|---|-------------------|-------------|------------------------------|-------------------------------------|
| Chenming (HK) Limited   | 2010-02-25(2010-003)  | 102,423.00          | —                               | 0   | Credit            | 1           | No                           | No                                  |
| Xianning Chenming Arboriculture Co., Ltd.   | 2010-02-25(2010-003)  | 10,000.00           | —                               | —   | Credit            | 1           | Contract has not been signed | No                                  |
| Shandong Chenming Paper Sales Company Limited   | 2010-10-29(2010-034)  | 200,000.00          | —                               | 0   | Credit            | —           | Contract has not been signed | No                                  |
| Chenming (HK) Limited   | 2010-10-29(2010-034)  | 50,000.00           | —                               | 0   | Credit            | 5           | Contract has not been signed | No                                  |
| Total amount of guarantee provided for subsidiaries approved during the reporting period (B1)           |   |                     | 1,147,896.00                    | Total amount of guarantee provided for subsidiaries during the reporting period (B2)            |                   |             |                              | 267,136.00                          |
| Total amount of guarantee provided for subsidiaries approved as at the end of the reporting period (B3) |   |                     | 1,959,516.00                    | Total balance of guarantee provided for subsidiaries as at the end of the reporting period (B4) |                   |             |                              | 390,372.00                          |
| <b>Total amount of guarantee provided by the Company (the sum of the above two main categories)</b>     |   |                     |                                 |   |                   |             |                              |                                     |
| Total amount of guarantee approved during the reporting period (A1+B1)                                  |   |                     | 1,147,896.00                    | Total amount of guarantee provided during the reporting period (A2+B2)                          |                   |             |                              | 267,136.00                          |
| Total amount of guarantee approved as at the end of the reporting period (A3+B3)                        |   |                     | 1,959,516.00                    | Total balance of guarantee provided as at the end of the reporting period (A4+B4)               |                   |             |                              | 390,372.00                          |
| Total amount of guarantee provided (A4+B4) as a percentage of the net assets of the Company             |   |                     |                                 |   |                   |             |                              | 28.84%                              |
| Of which:   |   |                     |                                 |   |                   |             |                              |                                     |
| Amount of guarantee provided for shareholders, beneficial controllers and its related parties (C)       |   |                     |                                 | 0.00  |                   |             |                              |                                     |
| Amount of guarantee directly or indirectly provided for obligors with gearing ratio over 70% (D)        |   |                     |                                 | 268,641.00  |                   |             |                              |                                     |
| Total amount of guarantee provided in excess of 50% of net assets (E)                                   |   |                     |                                 |   |                   |             |                              | 0.00                                |
| Sum of the above three amount of guarantee (C+D+E)  |   |                     |                                 |   |                   |             |                              | 268,641.00                          |
| Explanation on possible joint obligation on outstanding guarantees provided                             |   |                     |                                 |   |                   |             |                              | Nil                                 |

#### **IV. Significant contracts and their performance (Cont'd)**

- (2) The 2010 first extraordinary general meeting approved a resolution regarding to provision of guarantee for banking facilities granted to its subsidiaries. The Company provides guarantee for banking facilities granted to its subsidiaries in 2009, which will expire successively. In order to ensure the normal production and management of each of its subsidiaries, the Company continues to provide guarantee for RMB comprehensive banking facilities granted to the related subsidiaries in 2010, with the total value of RMB 2.184 billion under guarantee and with effect of one year therefrom. The related announcement was published on China Securities Journal, Hong Kong Commercial Daily and the website of CHINF (<http://www.cninfo.com.cn>) on 13 April 2010 and the website of the Hong Kong Stock Exchange ([www.hkex.com](http://www.hkex.com)) on 12 April 2010.

##### **2. Entrusted loans**

During the reporting period, in order to save financial expenses, increase incomes, and regulate funds exchanged between the Company and its subsidiaries, the Company granted entrusted loans from banks of RMB2.0 billion to controlling subsidiaries of the Company, including Jiangxi Chenming, Wuhan Chenming, Heze Chenming, Qihe Chenming etc., for their use; as at 31 December 2010, the balance of entrusted loans the Company provided to its controlling subsidiaries amounted to RMB2.3billion. For details of the entrusted loans, please refer to "Note IX to the Financial Statements" in the financial report prepared in accordance with Accounting Standards for Business Enterprises.

During the reporting period, except for the above entrusted loans to the controlling subsidiaries, the Company had no other entrusted financial management matters or those incurred in prior periods extending into the reporting period.

##### **3. Other significant contracts**

- (1) On 17 May 2010, Shouguang Meilun Paper Co. Ltd, a wholly owned subsidiary of the Company, entered into the Equipment Purchase Contract with Voith Paper GmbH, Voith Paper (China) Co. Ltd, Metso Paper Inc and Metso Paper Technology (Shanghai) Co. Ltd at a total contractual amount of approximately RMB970,000,000 for the purpose of the White Coated Linerboard Project with annual production capacity of 600,000 tones. Please refer to the relevant announcements published on China Securities Journal, Hong Kong Commercial Daily and the website of CHINF (<http://www.cninfo.com.cn>) on 18 May 2010 and the website of the Hong Kong Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) on 17 May 2010 for details in relation to this matter.

## IV. Significant contracts and their performance (Cont'd)

### 4. Forward exchange product transactions during the reporting period

Risk analysis of positions in derivatives during the reporting period and explanation on risk control measures (including but not limited to market risk, liquidity risk, credit risk, operation risk, legal risk etc.)

The Company held three forward exchange product transactions amounting to USD200 million during the reporting period. Shandong Chenming made forward exchange settlement contracts in China and Chenming (HK) made forward exchange settlement contracts in Hong Kong. The product transactions were handled by the Shouguang branch of China Construction Bank Corporation and the Hong Kong branch of China Construction Bank Corporation at the same time. The currency risk was jointly locked up by Shandong Chenming and Chenming (HK). The risk in the products had been assessed by the related departments of the Company and the risk was under control.

Change in market price or fair value of derivatives invested during the reporting period, where specific methods and relevant assumptions and parameters used shall be disclosed in the analysis of the fair value of derivatives

During the reporting period, all of the derivatives of the Company expired. The gain on expiry was charged to foreign exchange loss/gain under finance expenses. Fair value gain/loss in the prior periods was reflected in the fair value changes in the income statement. The aggregate effect on profit or loss amounted to RMB1.52 million.

Explanation on any significant changes in the Company's accounting policies and specific accounting principles on derivatives between the reporting period and the last reporting period

The investment in derivatives was subsequently measured at fair value by the Company. The gain or loss on change in fair value was recognised in profit or loss during the period.

Specific opinions of independent directors, the sponsor or financial advisor on the investment in derivatives and risk control of the Company

In the opinion of the Audit Committee of the Board and the independent

Directors of the Company, the forward exchange product transactions of Chenming Paper were operated in accordance with the "Rules on the Administration of Financial Derivatives" (《關於金融衍生品管理辦法》) of Shenzhen Stock Exchange and in strict compliance with the "internal management policy for forward exchange contracts" (《遠期結售匯內控管理制度》) established by the Company during the reporting period. The currency risk of the transactions was jointly locked up by Shandong Chenming and Chenming (HK) and the transaction risk was under control. The pricing of the transactions were objective and fair at arm's length, thus safeguarding the interest of the shareholders of the Company.



#### IV. Significant contracts and their performance (Cont'd)

##### 4. Forward exchange product transactions during the reporting period (Cont'd)

Positions in forward exchange product transactions as at the end of the reporting period

Unit: RMB

| Type of contract        | Opening contract amount | Closing contract amount | Gain or loss during the reporting period | Closing contract amount as a percentage of the net assets of the Company as at the end of the reporting period(%) |
|-------------------------|-------------------------|-------------------------|--|---|
| Buy USD 50.00 million   | (328,900,000.00)        | —                       | -3,018,765.00                            | —   |
| Buy USD 100.00 million  | (669,900,000.00)        | —                       | 5,900,000.02                             | —   |
| Buy USD 50.00 million   | —                       | —                       | -2,101,952.04                            | —   |
| Sell USD 50.00 million  | 332,200,000.00          | —                       | 2,730,000.00                             | —   |
| Sell USD 100.00 million | 676,400,000.00          | —                       | -6,738,110.00                            | —   |
| Sell USD 50.00 million  | —                       | —                       | 4,750,000.00                             | —   |
| Total                   | 9,800,000.00            | —                       | 1,521,172.98                             | —   |

#### V. Commitments by holders of non-tradable shares during the reform of conversion

##### 1. Commitments during the reform of conversion and its performance

Shouguang Chenming Holdings Co., Ltd., the controlling shareholder of the Company, committed that the shares held by Shouguang Chenming Holdings Co., Ltd. shall not be listed and traded within 48 months from the date of reform of Conversion.

During the reporting period, Shouguang Chenming Holdings Co., Ltd. strictly performed its commitments and the commitments expired on 29 March 2010.

##### 2. During the reporting period, no shareholders who held 5% (including 5%) or more of the shares in the Company made additional commitments on share lock-up.

#### VI. The accounting firm engaged by the Company during the reporting period

The 2010 second extraordinary general meeting of the Company considered and approved the resolution of appointment of RSM China Certified Public Accountants and RSM Nelson Wheeler as the PRC and international auditors for 2010. The total audit fee for the PRC and international audit works was RMB2 million (travel expenses, beverage and accommodation and related fees reimbursed by the Company as expensed). RSM China Certified Public Accountants provided the Company with the auditing service for the first year.

#### VII. The Company was not included in the serious pollution enterprises list published by the environmental protection department.

#### VIII. During the reporting period, the Board and the Directors of the Company were not fined by China Securities Regulatory Commission nor condemned by any stock exchange

## IX. Launch of various channels to communicate and strengthen investor's relation management

During the reporting period, the Board of the Company not only promptly disclosed sufficient information in strict compliance with the relevant regulations, but also launched various channels to actively manage investor's relations, and strengthen the direct communications with investors, news media and the public, thereby fully introducing and displaying the outstanding image of the Company, as well as our advantages over other players, our continuous improving results and unlimited development prospects which led investors to further understand the investment value of the Company in depth. Our disclosure of information was comprehensively assessed by Shenzhen Stock Exchange as "good" for nine years in succession (2001-2009).

In 2010, the receiving organisation under the Company' headquarters handled 33 visits for individual investor surveys and studies. The Company fully utilised investor's special telephone lines, strengthened the telephone communication with shareholders, and answered queries from each shareholder patiently. By way of exchanges through the network, an investor's relation forum was set up on the Company's websites where several personnel were arranged to be responsible for answering questions of various aspects from investors.

## X. Reception Of Research Investigations, Communications And Interviews During The Reporting Period

| Date of reception | Place of reception  | Manner of reception            | Parties accommodated   | Main topics of discussion and information provided |
|-------------------|---------------------|--------------------------------|--|--|
| 18 January 2010   | Shouguang, Shandong | On-site research investigation | Liu Hui of Shanghai Representative Office, CSC Int'l Holding Ltd. and others     | Recent production and operation of the Company     |
| 27 January 2010   | Shouguang, Shandong | On-site research investigation | 張迪 of China Galaxy Securities  |  |
| 29 January 2010   | Shouguang, Shandong | On-site research investigation | Cheng Shijie of Penghua Fund and others  |  |
| 2 February 2010   | Shouguang, Shandong | On-site research investigation | Wan Youlin and 孫亮, analysts of Sinolink Securities Co., Ltd.                     |  |
| 8 March 2010      | Shouguang, Shandong | On-site research investigation | Jl Pelen Peirun of Macquarie Capital Securities and others                       |  |
| 17 March 2010     | Shouguang, Shandong | On-site research investigation | Ilkka Kuusisto and Ho See Young of Pöyry Forest Industry                         |  |
| 12 May 2010       | Shouguang, Shandong | On-site research investigation | BOCI, Christina of RCM, and others   |  |
| 1 June 2010       | Shouguang, Shandong | On-site research investigation | Mr. Daniel Poon, Fund Manager of Zeal Asset Management Limited, a client of CICC |  |
| 8 July 2010       | Shouguang, Shandong | On-site research investigation | 研李明 of Guoyuen Hong Kong   |  |

## X. Reception Of Research Investigations, Communications And Interviews During The Reporting Period (Cont'd)

| Date of reception | Place of reception  | Manner of reception            | Parties accommodated   | Main topics of discussion and information provided |
|-------------------|---------------------|--------------------------------|--|--|
| 9 September 2010  | Shouguang, Shandong | On-site research investigation | He Jun and David Raper of Comgest Far East Limited   | Recent production and operation of the Company     |
| 14 September 2010 | Shouguang, Shandong | On-site research investigation | 穆方舟 of Huatai United Securities  |  |
| 14 September 2010 | Shouguang, Shandong | On-site research investigation | 王旭東 of China Merchants Securities  |  |
| 17 September 2010 | Shouguang, Shandong | On-site research investigation | GU Lingwei of Yuanta Securities, Taifook Securities, Korea Investment & Securities, and 東部資產管理公司 |  |
| 11 October 2010   | Shouguang, Shandong | On-site research investigation | Mr. 楊, Mark Wilde and Josh Milberg of Deutsche Bank AG, and others                               |  |
| 3 November 2010   | Shouguang, Shandong | Conference Call                | Guotai Junan and Mr. 陳 of China Life   |  |
| 18 November 2010  | Shouguang, Shandong | On-site research investigation | 王捷民 of 富邦證券, 顏毓靜 of 複華證券, 張正鼎 of 保德信證券   |  |
| 6 December 2010   | Shouguang, Shandong | Conference Call                | JI Pelen Peirun, Institutional Analyst of Macquarie  |  |

**X. Reception Of Research Investigations, Communications And Interviews During The Reporting Period (Cont'd)**

**RECEPTION OF RESEARCH INVESTIGATIONS, COMMUNICATIONS AND INTERVIEWS FROM THE END OF THE REPORTING PERIOD TO THE TIME OF DISCLOSURE IN THE REPORT (Cont'd)**

| <b>Date of reception</b> | <b>Place of reception</b> | <b>Manner of reception</b>     | <b>Parties accommodated</b>   | <b>Main topics of discussion and information provided</b> |
|--------------------------|---------------------------|--------------------------------|---|---|
| 7 January 2011           | Zhangjinag, Guangdong     | On-site research investigation | Institutional analysts such as 朱嘉 of Qilu Securities and others                   |   |
| 12 January 2011          | Shouguang, Shandong       | On-site research investigation | Guan Xue of China International Capital Corporation Securities Limited and others | Recent production and operation of the Company            |
| 17 February 2011         | Shouguang, Shandong       | On-site research investigation | Wan Youlin of Sinolink Securities, 梁裕寧 of E Fund Management Co., Ltd.             |   |
| 24 February 2011         | Shouguang, Shandong       | On-site research investigation | 曾晶晶 of China Post Fund and others   |   |

## **XI. Other material matters**

Independent Directors of the Company expressed the following opinions on the use of funds by related parties and external guarantee provided during the reporting period:

Under the requirements of the listing rules of Shenzhen Stock Exchange in relation to connected transactions, the Company had no material connected transactions, during the reporting period. According to the requirements of the Accounting Standards for Business Enterprises, except for the ordinary connected transactions between the Company and its controlling subsidiaries and investees of the Company (for details, please refer to PRC Auditors' Report and Financial Statements and Note VI thereto Prepared in Accordance with Accounting Standards for Business Enterprises), there were no use of funds by controlling shareholders and other related parties .

Upon verification, except for the above guarantees provided to controlling subsidiaries, the Company had provided RMB0 of external guarantee for the period of and accrued up to 2010. The Company strictly followed the relevant requirements of Notice on Regulation of External Guarantee Provided by Listed Companies (Zheng Jian Fa [2005] No.120)《關於規範上市公司對外擔保行爲的通知》(證監發)[2005]120號, and the Articles of Association to earnestly perform its information disclosure obligations in respect of external guarantees and honestly provided information concerning all external guarantee matters to the public accountant. During the reporting period, the Company provided guarantee for controlling subsidiaries for their ordinary production and operation and to meet reasonable funding needs. The decision procedures were legal and without prejudice to the interests of the Company and the shareholders of the Company (especially minority shareholders).

After inspection, the forward foreign exchange contracts made by the Company during the reporting period clearly, truly and accurately reflected the position of the financial derivatives of the Company. They were in compliance with the related requirements of Companies Law and Securities Law and the related procedure was in compliance with Internal Management Policy for Forward Exchange Contracts. The transactions were objectively and fairly priced at arm's length and were not detrimental to the interests of the Company and other shareholders, and more specifically, the interest of minority shareholders and non-related shareholders.

## XII. Index of information disclosure in 2010

| <b>Date of announcement</b> | <b>Subject matter</b>  | <b>Media for publication</b>  |
|-----------------------------|--|---|
| 2010-2-25                   | Announcement in respect of 2010 First Extraordinary General Meeting  | C08 of China Securities Journal, A14 of Hong Kong Commercial Daily<br><a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a><br><a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>  |
| 2010-3-25                   | Indicative Announcement in respect of 2010 First Extraordinary General Meeting   | D004 of China Securities Journal, A15 of Hong Kong Commercial Daily<br><a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a><br><a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> |
| 2010-3-27                   | Announcement in respect of Resolutions of the Eighteenth Meeting of the Fifth Session of the Board of Directors  | C005 of China Securities Journal, A5 of Hong Kong Commercial Daily<br><a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a><br><a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>  |
| 2010-4-13                   | Notice of 2009 Annual General Meeting<br>Reviewed and adopted the report of the independent directors' of the Company for the year 2009<br>Considered and approved the financial statements of the Company for the year 2009<br>Profit distribution plan for 2009<br>2009 Annual Report<br>Directors' report of the Company for the year 2009<br>Supervisory Committee's report of the Company for the year 2009 | D024 of China Securities Journal, A20 of Hong Kong Commercial Daily<br><a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a><br><a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> |

## XII. Index of information disclosure in 2010 (Cont'd)

| <b>Date of announcement</b> | <b>Subject matter</b>   | <b>Media for publication</b>  |
|-----------------------------|---|---|
| 2010-4-13                   | Announcement on Resolution of 2010 First Extraordinary General Meeting  | A20 of Hong Kong Commercial Daily, D024 of China Securities Journal<br><a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a><br><a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> |
| 2010-4-23                   | First Quarterly Report 2010   | D008 of China Securities Journal, A23 of Hong Kong Commercial Daily<br><a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a><br><a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> |
| 2010-5-14                   | Indicative Announcement in respect of 2009 Annual General Meeting   | B008 of China Securities Journal, A20 of Hong Kong Commercial Daily<br><a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a><br><a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> |
| 2010-5-18                   | Indicative Announcement in respect of the signing of Equipment Purchase Contract  | A44 of China Securities Journal, A3 of Hong Kong Commercial Daily<br><a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a><br><a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>   |
| 2010-5-28                   | Indicative Announcement in respect of the Inspection Report on Environmental Protection Review of a Subsidiary  | B004 of China Securities Journal, A5 of Hong Kong Commercial Daily<br><a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a><br><a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>  |
| 2010-6-1                    | Announcement on Resolution of 2009 Annual General Meeting<br>Directors' report of the Company for 2009<br>Supervisory Committee's report of the Company for 2009<br>Independent directors' report of the Company for 2009 | B005 of China Securities Journal, A8 of Hong Kong Commercial Daily<br><a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a><br><a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>  |

## XII. Index of information disclosure in 2010 (Cont'd)

| Date of announcement | Subject matter  | Media for publication   |
|----------------------|---|---|
|                      | Financial statements of the Company for the year of 2009<br>Profit distribution plan for 2009                       |   |
| 2010-6-9             | Announcement of Dividend Payment for 2009   | B005 of China Securities Journal, A18 of Hong Kong Commercial Daily<br><a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a><br><a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> |
| 2010-7-15            | Announcement in Relation to the Increase in the Estimated 2010 Half-yearly Results                                  | B012 of China Securities Journal, A17 of Hong Kong Commercial Daily<br><a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a><br><a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> |
| 2010-8-25            | Announcement in Relation to the Increase in the Estimated 2010 First Three Quarters Results                         | B012 of China Securities Journal, A10 of Hong Kong Commercial Daily<br><a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a><br><a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> |
| 2010-8-25            | 2010 interim report   | <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a><br><a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>  |
| 2010-9-30            | Announcement in respect of the Progress on Environmental Protection Inspection and Modification by Hailaer Chenming | B009 of China Securities Journal, A6 of Hong Kong Commercial Daily<br><a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a><br><a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>  |
| 2010-10-19           | Notice of Board Meeting for 2010  | B004 of China Securities Journal, A6 of Hong Kong Commercial Daily<br><a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a><br><a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>  |
| 2010-10-29           | Announcement in respect of 2010 Second Extraordinary General Meeting  | <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a><br><a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>  |
| 2010-10-29           | Third Quarterly Report 2010   | B048 of China Securities Journal, A5 of Hong Kong Commercial Daily<br><a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a><br><a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>  |
| 2010-11-26           | Indicative Announcement in respect of 2010 Second Extraordinary General Meeting                                     | A1 of China Securities Journal, A11 of Hong Kong Commercial Daily<br><a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a><br><a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>   |



## **XII. Index of information disclosure in 2010 (Cont'd)**

| <b>Date of announcement</b> | <b>Subject matter</b>   | <b>Media for publication</b>  |
|-----------------------------|---|---|
| 2010-12-17                  | <p>Announcement on Resolution of 2010 Second Extraordinary General Meeting</p> <p>Announcement in respect of the issuance of medium term notes</p> <p>Announcement in respect of the provision of guarantee for the facilities of Shandong Chenming Paper Sales Company Limited, a wholly-owned subsidiary, by the Company</p> <p>Announcement in respect of the provision of guarantee for the banking facilities granted to Meilun Paper, a wholly-owned subsidiary, by the Company</p> <p>Announcement in respect of the provision of guarantee for the issuance of RMB500 million notes issued by Chenming (HK) Limited, a wholly-owned subsidiary, by the Company</p> <p>Announcement in respect of the appointment of PRC and international auditors for the year of 2010</p> | <p>B012 of China Securities Journal, A9 of Hong Kong Commercial Daily</p> <p><a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a></p> <p><a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a></p> |

# **XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises**

Zhong Rui Yue Hua Shen Zi [2011] No. 03598

## **To shareholders of Shandong Chenming Paper Holdings Limited:**

We have audited the accompanying financial statements of Shandong Chenming Paper Holdings Limited (the "Company" together with its subsidiaries, the "Group"), which comprise the consolidated and company balance sheets as at 31 December 2010, the consolidated and company income statements, the consolidated and company cash flow statements and the consolidated and company statements of changes in owners' equity for 2010 and notes to the financial statements.

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

The Group's management is responsible for preparing the financial statements in accordance with Accounting Standards for Business Enterprises. This responsibility includes (1) designing, implementing and maintaining internal controls relevant to the preparation of the 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. Auditors' responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **III. Opinion**

In our opinion, the above financial statements have been prepared in accordance with Accounting Standards for Business Enterprises and fairly present, in all material aspects, the financial position of the Group and the Company as at 31 December 2010 and the operating results and the cash flows for 2010.

RSM China Certified Public Accountants Co. Ltd.

PRC Certified Public Accountant: 劉健  
Beijing, China

PRC Certified Public Accountant: 王傳順

30 March 2011

# XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

## Consolidated Balance Sheet

As at 31 December 2010

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

| Items                               | Notes  | Closing Balance          | Opening balance   |
|-------------------------------------|--------|--------------------------|-------------------|
| <b>CURRENT ASSETS:</b>              |        |                          |                   |
| Monetary funds                      | VII.1  | 1,951,854,940.72         | 2,892,923,245.93  |
| Held-for-trading financial assets   | VII.2  | —                        | 14,900,000.00     |
| Bills receivable                    | VII.3  | 2,762,389,909.89         | 2,704,799,074.02  |
| Accounts receivable                 | VII.4  | 2,122,578,824.27         | 1,528,991,497.69  |
| Prepayments                         | VII.6  | 924,354,545.55           | 1,000,772,875.85  |
| Interest receivable                 |        | —                        | —                 |
| Dividend receivable                 |        | —                        | —                 |
| Other receivables                   | VII.5  | 117,634,380.52           | 81,210,643.94     |
| Inventory                           | VII.7  | 3,047,078,215.01         | 2,226,579,492.59  |
| Current assets due within one year  | VII.8  | —                        | —                 |
| Other current assets                | VII.8  | 658,572,125.34           | 90,756,205.60     |
| <b>Total current assets</b>         |        | <b>11,584,462,941.30</b> | 10,540,933,035.62 |
| <b>NON-CURRENT ASSETS:</b>          |        |                          |                   |
| Available-for-sale financial assets |        | —                        | —                 |
| Held-to-maturity investments        |        | —                        | —                 |
| Long-term receivables               |        | —                        | —                 |
| Long-term equity investments        | VII.9  | 67,201,931.89            | 80,984,687.49     |
| Investment properties               | VII.10 | 24,688,212.07            | 26,426,468.11     |
| Fixed assets                        | VII.11 | 12,882,358,381.56        | 13,529,590,915.63 |
| Construction in progress            | VII.12 | 7,871,512,563.84         | 1,997,961,262.18  |
| Construction materials              | VII.13 | 116,481,086.12           | 42,912,962.27     |
| Disposal of fixed assets            |        | —                        | —                 |
| Consumable biological assets        | VII.14 | 726,742,568.44           | 496,724,974.94    |
| Oil and gas assets                  |        | —                        | —                 |
| Intangible assets                   | VII.15 | 1,459,453,227.94         | 1,313,428,867.12  |
| Development expenditure             |        | —                        | —                 |
| Goodwill                            | VII.16 | 20,283,787.17            | 20,283,787.17     |
| Long-term prepaid expenses          | VII.17 | 176,436,950.42           | 32,411,932.85     |
| Deferred income tax assets          | VII.18 | 147,510,479.23           | 131,425,981.64    |
| Other non-current assets            |        | —                        | —                 |
| <b>Total non-current assets</b>     |        | <b>23,492,669,188.68</b> | 17,672,151,839.40 |
| <b>TOTAL ASSETS</b>                 |        | <b>35,077,132,129.98</b> | 28,213,084,875.02 |

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

| Items  | Notes  | Closing Balance          | Opening balance   |
|--|--------|--------------------------|-------------------|
| <b>CURRENT LIABILITIES:</b>                                |        |                          |                   |
| Short-term borrowings                                      | VII.21 | <b>3,594,157,220.47</b>  | 3,103,153,828.18  |
| Placements from banks and other financial institutions     |        |                          |                   |
| Held-for-trading financial liabilities                     | VII.2  | —                        | 6,450,000.00      |
| Bills payable  | VII.22 | <b>218,757,186.75</b>    | 544,532,508.19    |
| Accounts payable   | VII.23 | <b>2,708,064,676.44</b>  | 2,122,860,892.58  |
| Advance receipts   | VII.24 | <b>410,243,554.75</b>    | 233,123,691.11    |
| Staff remuneration payables                                | VII.25 | <b>169,426,660.41</b>    | 245,501,281.04    |
| Taxes payable  | VII.26 | <b>134,029,387.82</b>    | 137,491,104.68    |
| Interest payable   |        | —                        | 5,050,000.00      |
| Dividend payable   | VII.27 | —                        | 78,807.70         |
| Other payables   | VII.28 | <b>582,052,511.43</b>    | 321,220,579.61    |
| Non-current liabilities due within one year                | VII.29 | <b>1,432,841,463.15</b>  | 345,353,527.87    |
| Other current liabilities                                  | VII.30 | <b>3,412,493,915.88</b>  | —                 |
| <b>Total current liabilities</b>                           |        | <b>12,662,066,577.10</b> | 7,064,816,220.96  |
| <b>NON-CURRENT LIABILITIES:</b>                            |        |                          |                   |
| Long-term borrowings                                       | VII.31 | <b>4,725,628,719.05</b>  | 5,087,424,182.26  |
| Bonds payable  |        | —                        | —                 |
| Long-term payables   |        | —                        | —                 |
| Special accounts payable                                   |        | —                        | —                 |
| Estimated liabilities                                      |        | —                        | —                 |
| Deferred income tax liabilities                            | VII.18 | <b>1,340,281.66</b>      | 12,408,618.13     |
| Other non-current liabilities                              | VII.30 | <b>2,427,897,545.67</b>  | 1,311,375,031.52  |
| <b>Total non-current liabilities</b>                       |        | <b>7,154,866,546.38</b>  | 6,411,207,831.91  |
| <b>TOTAL LIABILITIES</b>                                   |        | <b>19,816,933,123.48</b> | 13,476,024,052.87 |
| <b>OWNERS' EQUITY (OR SHAREHOLDERS' EQUITY):</b>           |        |                          |                   |
| Paid-up capital(or share capital)                          | VII.32 | <b>2,062,045,941.00</b>  | 2,062,045,941.00  |
| Capital reserves   | VII.33 | <b>6,093,493,004.71</b>  | 6,093,483,801.92  |
| Less: Treasury shares                                      |        | —                        | —                 |
| Special reserves   |        | —                        | —                 |
| Surplus reserves   | VII.34 | <b>1,046,510,680.99</b>  | 906,929,047.49    |
| General risk provisions                                    |        | —                        | —                 |
| Retained profit  | VII.35 | <b>4,333,731,947.96</b>  | 3,928,586,297.55  |
| Foreign currency translation differences                   |        | <b>4,219.88</b>          | 859,233.72        |
| Total equity attributable to equity holders of the company |        | <b>13,535,785,794.54</b> | 12,991,904,321.68 |
| Minority interests   |        | <b>1,724,413,211.96</b>  | 1,745,156,500.47  |
| <b>Total owners' equity</b>                                |        | <b>15,260,199,006.50</b> | 14,737,060,822.15 |
| <b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>                |        | <b>35,077,132,129.98</b> | 28,213,084,875.02 |

Legal representative:  
Chen Hongguo

Chief financial officer:  
Wang Chunfang

Head of the finance section:  
Li Dong

# XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

## Balance Sheet of the Parent Company

As at 31 December 2010

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

| Items                               | Notes | Closing Balance          | Opening balance          |
|-------------------------------------|-------|--------------------------|--------------------------|
| <b>CURRENT ASSETS:</b>              |       |                          |                          |
| Monetary funds                      |       | 704,109,173.25           | 2,037,930,262.40         |
| Held-for-trading financial assets   |       | —                        | —                        |
| Bills receivable                    |       | 1,527,349,378.06         | 1,915,645,987.88         |
| Accounts receivable                 | XV.1  | 1,621,939,553.18         | 1,387,208,451.92         |
| Prepayments                         |       | 919,638,465.71           | 826,816,984.44           |
| Interest receivable                 |       | —                        | —                        |
| Dividend receivable                 |       | 25,500,000.00            | 188,362,997.10           |
| Other receivables                   | XV.2  | 4,773,074,610.91         | 2,045,123,389.13         |
| Inventory                           |       | 798,447,611.57           | 901,471,663.46           |
| Entrusted loans due within one year |       | 1,799,625,759.18         | 1,688,000,000.00         |
| Other current assets                |       | —                        | 35,927,902.98            |
| <b>Total current assets</b>         |       | <b>12,169,684,551.86</b> | <b>11,026,487,639.31</b> |
| <b>NON-CURRENT ASSETS:</b>          |       |                          |                          |
| Available-for-sale financial assets |       | —                        | —                        |
| Entrusted loans                     |       | 500,000,000.00           | 395,000,000.00           |
| Long-term receivables               |       | —                        | —                        |
| Long-term equity investments        | XV.3  | 5,957,887,739.77         | 4,091,670,495.37         |
| Investment properties               |       | 24,688,212.07            | 26,426,468.11            |
| Fixed assets                        |       | 5,162,505,904.23         | 5,741,048,494.95         |
| Construction in progress            |       | 377,881,973.00           | 139,440,285.68           |
| Construction materials              |       | 18,789,838.50            | 6,592,106.05             |
| Disposal of fixed assets            |       | —                        | —                        |
| Productive biological assets        |       | —                        | —                        |
| Oil and gas assets                  |       | —                        | —                        |
| Intangible assets                   |       | 329,934,823.01           | 349,130,281.02           |
| Development expenditure             |       | —                        | —                        |
| Goodwill                            |       | —                        | —                        |
| Long-term prepaid expenses          |       | —                        | —                        |
| Deferred income tax assets          |       | 60,305,230.74            | 73,479,449.99            |
| Other non-current assets            |       | —                        | —                        |
| <b>Total non-current assets</b>     |       | <b>12,431,993,721.32</b> | <b>10,822,787,581.17</b> |
| <b>TOTAL ASSETS</b>                 |       | <b>24,601,678,273.18</b> | <b>21,849,275,220.48</b> |

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

| Items  | Notes | Closing Balance          | Opening balance          |
|--|-------|--------------------------|--------------------------|
| <b>CURRENT LIABILITIES:</b>  |       |                          |                          |
| Short-term loans   |       | 2,177,183,475.78         | 2,637,914,967.54         |
| Held-for-trading financial liabilities                             |       | —                        | 6,450,000.00             |
| Bills payable  |       | 124,145,654.66           | 456,914,277.59           |
| Accounts payable   |       | 995,425,830.59           | 1,349,629,055.79         |
| Advance receipt  |       | 284,808,123.90           | 168,878,896.38           |
| Staff remuneration payables  |       | 106,040,498.15           | 133,530,934.62           |
| Taxes payable  |       | 36,899,207.08            | 70,066,082.73            |
| Interest payable   |       | —                        | 5,050,000.00             |
| Dividend payable   |       | —                        | 78,807.71                |
| Other payables   |       | 248,170,250.32           | 225,959,345.59           |
| Non-current liabilities due within one year                        |       | 1,360,951,000.00         | 252,423,000.00           |
| Other current liabilities  |       | 3,405,958,538.39         | —                        |
| <b>Total current liabilities</b>                                   |       | <b>8,739,582,578.87</b>  | <b>5,306,895,367.95</b>  |
| <b>NON-CURRENT LIABILITIES:</b>                                    |       |                          |                          |
| Long-term borrowings   |       | 852,222,735.94           | 3,418,358,035.94         |
| Bonds payable  |       | —                        | —                        |
| Long-term payables   |       | —                        | —                        |
| Special accounts payable   |       | —                        | —                        |
| Estimated liabilities  |       | —                        | —                        |
| Deferred income tax liabilities                                    |       | —                        | —                        |
| Other non-current liabilities                                      |       | 2,309,355,287.42         | 1,200,706,698.34         |
| <b>Total non-current liabilities</b>                               |       | <b>3,161,578,023.36</b>  | <b>4,619,064,734.28</b>  |
| <b>TOTAL LIABILITIES</b>   |       | <b>11,901,160,602.23</b> | <b>9,925,960,102.23</b>  |
| <b>OWNERS' EQUITY (OR SHAREHOLDERS' EQUITY):</b>                   |       |                          |                          |
| Paid-up capital(or share capital)                                  |       | 2,062,045,941.00         | 2,062,045,941.00         |
| Capital reserves   |       | 6,184,215,988.77         | 6,184,215,988.77         |
| Less: Treasury shares  |       | —                        | —                        |
| Special reserves   |       | —                        | —                        |
| Surplus reserves   |       | 1,034,321,099.08         | 894,739,465.58           |
| General risk provisions  |       | —                        | —                        |
| Retained profit  |       | 3,419,934,642.10         | 2,782,313,722.90         |
| <b>Total owners' equity (shareholders' equity)</b>                 |       | <b>12,700,517,670.95</b> | <b>11,923,315,118.25</b> |
| <b>TOTAL LIABILITIES AND OWNERS' EQUITY (SHAREHOLDERS' EQUITY)</b> |       | <b>24,601,678,273.18</b> | <b>21,849,275,220.48</b> |

Legal representative:  
Chen Hongguo

Chief financial officer:  
Wang Chunfang

Head of the finance section:  
Li Dong

# XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

## Consolidated Income Statement

2010

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

| Items   | Notes  | Amounts for the<br>current period | Amounts for the<br>prior period |
|---|--------|-----------------------------------|---------------------------------|
| <b>I. Total operating revenue</b>   |        | <b>17,203,123,029.49</b>          | 14,884,629,349.50               |
| Including: Operating revenue  | VII.36 | <b>17,203,123,029.49</b>          | 14,884,629,349.50               |
| <b>II. Total operating costs</b>  |        | <b>15,801,911,781.41</b>          | 13,904,686,284.84               |
| Including: Operating costs  | VII.36 | <b>13,683,001,460.32</b>          | 12,057,415,861.42               |
| Business taxes and surcharges   | VII.37 | <b>30,117,480.19</b>              | 16,268,806.81                   |
| Selling and distribution expenses   | VII.38 | <b>873,779,193.05</b>             | 774,685,975.04                  |
| General and administrative expenses   | VII.39 | <b>871,138,204.71</b>             | 726,351,661.67                  |
| Finance expenses  | VII.40 | <b>233,455,658.10</b>             | 312,687,004.02                  |
| Loss on impairment of assets  | VII.43 | <b>110,419,785.04</b>             | 17,276,975.88                   |
| Add: Gain on change in fair value ("-" denotes loss)                        | VII.41 | <b>46,302,250.58</b>              | 18,311,845.48                   |
| Add: Investment income ("-" denotes loss)                                   | VII.42 | <b>-13,762,755.60</b>             | -15,689,081.65                  |
| Including: Investment income from associates<br>and joint ventures          |        | <b>-13,863,141.44</b>             | -15,689,081.65                  |
| <b>III. Operating profit ("-" denotes loss)</b>                             |        | <b>1,433,750,743.06</b>           | 982,565,828.49                  |
| Add: Non-operating income   | VII.44 | <b>179,418,037.60</b>             | 201,738,406.80                  |
| Less: Non-operating expenses  | VII.45 | <b>50,814,216.46</b>              | 11,381,604.06                   |
| Including: Loss on disposal of non-current assets                           |        | <b>42,128,862.46</b>              | 10,496,542.97                   |
| <b>IV. Total profit ("-" denotes total loss)</b>                            |        | <b>1,562,354,564.20</b>           | 1,172,922,631.23                |
| Less: Income tax expenses   | VII.46 | <b>260,696,445.13</b>             | 219,011,201.01                  |
| <b>V. Net profit ("-" denotes net loss)</b>                                 |        | <b>1,301,658,119.07</b>           | 953,911,430.22                  |
| Net profit attributable to equity holders of the Company                    |        | <b>1,163,341,066.21</b>           | 835,947,981.16                  |
| Minority interests  |        | <b>138,317,052.86</b>             | 117,963,449.06                  |
| <b>VI. Earnings per share:</b>  |        |                                   |                                 |
| (I) Basic earnings per share  | VII.47 | <b>0.56</b>                       | 0.41                            |
| (II) Diluted earnings per share   | VII.47 | <b>0.56</b>                       | 0.41                            |
| <b>VII. Other comprehensive income</b>                                      | VII.48 | <b>-855,013.84</b>                | -20,264.42                      |
| <b>VIII. Total comprehensive income</b>                                     |        | <b>1,300,803,105.23</b>           | 953,891,165.80                  |
| Total comprehensive income attributable to<br>equity holders of the Company |        | <b>1,162,486,052.37</b>           | 835,927,716.74                  |
| Total comprehensive income attributable to minority interests               |        | <b>138,317,052.86</b>             | 117,963,449.06                  |

Legal representative:  
Chen Hongguo

Chief financial officer:  
Wang Chunfang

Head of the finance section:  
Li Dong

# XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

## Income Statement of the Parent Company

2010

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

| Items  | Notes | Amounts for the<br>current period | Amounts for the<br>prior period |
|--|-------|-----------------------------------|---------------------------------|
| <b>I. Operating revenue</b>  | XV.4  | <b>13,959,645,213.34</b>          | 13,357,978,212.60               |
| Less: Cost of operations   | XV.4  | <b>11,757,986,411.67</b>          | 11,619,734,565.81               |
| Business tax and surcharges  |       | <b>8,499,517.79</b>               | 452,585.56                      |
| Selling and distribution expenses                                  |       | <b>437,724,161.64</b>             | 458,289,660.08                  |
| General and administrative expenses                                |       | <b>435,746,707.79</b>             | 285,897,374.67                  |
| Finance expenses   |       | <b>208,958,371.56</b>             | 266,064,829.79                  |
| Loss on impairment of assets                                       |       | <b>14,020,913.64</b>              | 21,603,609.33                   |
| Add: Gain on change in fair value ("-" denotes loss)               |       | <b>6,450,000.00</b>               | -6,450,000.00                   |
| Investment income ("-" denotes loss)                               | XV.5  | <b>483,889,430.92</b>             | 192,819,672.62                  |
| Including: Investment income from<br>associates and joint ventures |       | <b>-13,863,141.44</b>             | -15,689,081.65                  |
| <b>II. Operating profit ("-" denotes loss)</b>                     |       | <b>1,587,048,560.17</b>           | 892,305,259.98                  |
| Add: Non-operating income  |       | <b>51,522,683.19</b>              | 98,945,831.63                   |
| Less: Non-operating expenses                                       |       | <b>37,188,877.94</b>              | 5,194,358.17                    |
| Including: Loss on disposal of non-current assets                  |       | <b>36,786,877.94</b>              | 4,933,009.36                    |
| <b>III. Total profit ("-" denotes total loss)</b>                  |       | <b>1,601,382,365.42</b>           | 986,056,733.44                  |
| Less: Income tax expenses  |       | <b>205,566,030.42</b>             | 171,534,763.87                  |
| <b>IV. Net profit ("-" denotes net loss)</b>                       |       | <b>1,395,816,335.00</b>           | 814,521,969.57                  |
| <b>V. Other comprehensive income</b>                               |       | <b>—</b>                          | —                               |
| <b>VI. Total comprehensive income</b>                              |       | <b>1,395,816,335.00</b>           | 814,521,969.57                  |

Legal representative:  
Chen Hongguo

Chief financial officer:  
Wang Chunfang

Head of the finance section:  
Li Dong



# XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

## Consolidated Cash Flow Statements

2010

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

| Items  | Notes     | Amounts for the<br>current period | Amounts for the<br>prior period |
|--|-----------|-----------------------------------|---------------------------------|
| <b>I. Cash flows from operating activities:</b>                |           |                                   |                                 |
| Cash received from sales of goods<br>and rendering of services |           | <b>16,628,774,985.06</b>          | 14,686,482,966.63               |
| Tax rebates received   |           | <b>35,934,217.79</b>              | 19,523,996.24                   |
| Cash received relating to other operating activities           | VII.49(1) | <b>389,651,056.52</b>             | 272,854,550.68                  |
| <b>Subtotal of cash inflows from operating activities</b>      |           | <b>17,054,360,259.37</b>          | 14,978,861,513.55               |
| Cash paid for goods and services                               |           | <b>13,330,679,721.31</b>          | 10,961,732,381.79               |
| Cash paid to and for employees                                 |           | <b>858,757,675.05</b>             | 583,867,848.84                  |
| Payments of taxes and surcharges                               |           | <b>1,375,083,198.75</b>           | 909,030,328.05                  |
| Cash paid relating to other operating activities               | VII.49(2) | <b>639,510,737.26</b>             | 885,196,694.88                  |
| <b>Subtotal of cash outflows from operating activities</b>     |           | <b>16,204,031,332.37</b>          | 13,339,827,253.56               |
| <b>Net cash flows from operating activities</b>                |           | <b>850,328,927.00</b>             | 1,639,034,259.99                |

| Items   | Notes     | Amounts for the current period | Amounts for the prior period |
|---|-----------|--------------------------------|------------------------------|
| <b>II. Cash flows from investing activities:</b>  |           |                                |                              |
| Cash received from investments  |           | 1,000,000.00                   | 2,000,000.00                 |
| Cash received from investment income  |           | 20,000.00                      |                              |
| Net cash received from disposal of fixed assets, intangible assets and other long-term assets |           | 87,624,212.19                  | 40,417,685.21                |
| Net cash received from disposal of subsidiaries and other business units                      |           | —                              | —                            |
| Cash received relating to other investing activities  | VII.49(3) | 35,337,000.00                  | 68,939,100.00                |
| <b>Subtotal of cash inflows from investing activities</b>                                     |           | <b>123,981,212.19</b>          | <b>111,356,785.21</b>        |
| Cash paid for purchase of fixed assets, intangible assets and other long-term assets          |           | 6,507,649,651.70               | 2,232,671,227.37             |
| Cash paid on investments  |           | 1,010,000.00                   | 6,000,000.00                 |
| Net cash paid for acquisition of subsidiaries and other business units                        |           | —                              | 7,131,824.47                 |
| Cash paid relating to other investing activities  |           | —                              | —                            |
| <b>Subtotal of cash outflows from investing activities</b>                                    |           | <b>6,508,659,651.70</b>        | <b>2,245,803,051.84</b>      |
| <b>Net cash flows from investing activities</b>   |           | <b>-6,384,678,439.51</b>       | <b>-2,134,446,266.63</b>     |
| <b>III. Cash flows from financing activities:</b>   |           |                                |                              |
| Cash received from capital contribution   |           | —                              | —                            |
| Including: Cash received from minority interest contribution to subsidiaries                  |           | —                              | —                            |
| Cash received from borrowings   |           | 6,322,265,778.15               | 11,232,280,052.31            |
| Cash received from bond issue   |           | 4,376,900,000.00               | 1,200,000,000.00             |
| Cash received relating to other financing activities  | VII.49(4) | 428,970,082.51                 | —                            |
| <b>Subtotal of cash inflows from financing activities</b>                                     |           | <b>11,128,135,860.66</b>       | <b>12,432,280,052.31</b>     |
| Cash repayments of amounts borrowed   |           | 5,104,910,592.34               | 9,275,173,488.99             |
| Cash paid for dividend and profit distribution or interest payment                            |           | 991,379,958.69                 | 648,925,641.59               |
| Including: Dividend and profit paid to minority interests to subsidiaries                     |           | 147,258,509.55                 | 105,780,046.58               |
| Cash paid relating to other financing activities  | VII.49(5) | —                              | 2,330,550,075.21             |
| <b>Subtotal of cash outflows from financing activities</b>                                    |           | <b>6,096,290,551.03</b>        | <b>12,254,649,205.79</b>     |
| <b>Net cash flows from financing activities</b>   |           | <b>5,031,845,309.63</b>        | <b>177,630,846.52</b>        |
| <b>IV. Effect of foreign exchange rate changes on cash and cash equivalents</b>               |           | <b>-9,594,019.82</b>           | <b>-2,463,797.23</b>         |
| <b>V. Net increase in cash and cash equivalents</b>   |           | <b>-512,098,222.70</b>         | <b>-320,244,957.35</b>       |
| Add: Balance of cash and cash equivalents as at the beginning of the period                   |           | 2,367,334,202.50               | 2,687,579,159.85             |
| <b>VI. Balance of cash and cash equivalents as at the end of the period</b>                   |           | <b>1,855,235,979.80</b>        | <b>2,367,334,202.50</b>      |

Legal representative:  
Chen Hongguo

Chief financial officer:  
Wang Chunfang

Head of the finance section:  
Li Dong

# XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

## Cash Flow Statements of the Parent Company

2010

Prepared by: Shandong Chenming Paper Holdings Limited

Unit: RMB

| Items   | Notes | Amounts for the<br>current period | Amounts for the<br>prior period |
|---|-------|-----------------------------------|---------------------------------|
| <b>I. Cash flows from operating activities:</b>   |       |                                   |                                 |
| Cash received from sales of goods and rendering of services                             |       | <b>13,164,182,753.49</b>          | 11,809,013,520.46               |
| Tax rebates received  |       | —                                 | —                               |
| Cash received relating to other operating activities                                    |       | <b>56,990,439.95</b>              | 232,946,975.55                  |
| Subtotal of cash inflows from operating activities                                      |       | <b>13,221,173,193.44</b>          | 12,041,960,496.01               |
| Cash paid for goods and services  |       | <b>10,928,633,742.88</b>          | 9,449,618,442.91                |
| Cash paid to and for employees  |       | <b>344,541,075.37</b>             | 231,873,630.40                  |
| Payments of taxes and surcharges  |       | <b>659,896,421.73</b>             | 524,174,298.79                  |
| Cash paid relating to other operating activities  |       | <b>2,458,298,291.23</b>           | 1,667,936,417.73                |
| <b>Subtotal of cash outflows from operating activities</b>                              |       | <b>14,391,369,531.21</b>          | 11,873,602,789.83               |
| Net cash flows from operating activities  |       | <b>-1,170,196,337.77</b>          | 168,357,706.18                  |
| <b>II. Cash flows from investing activities:</b>  |       |                                   |                                 |
| Cash received from investments  |       | <b>419,394,240.82</b>             | 1,692,000,000.00                |
| Cash received from investment income  |       | <b>545,267,857.49</b>             | 145,020,754.27                  |
| Disposal of fixed assets,<br>intangible assets and other long-term assets               |       | <b>19,004,765.80</b>              | 27,464,258.74                   |
| Cash received relating to other investing activities                                    |       | <b>14,390,000.00</b>              | 6,123,100.00                    |
| Subtotal of cash inflows from investing activities                                      |       | <b>998,056,864.11</b>             | 1,870,608,113.01                |
| Cash paid for purchase of fixed assets,<br>intangible assets and other long-term assets |       | <b>190,735,508.66</b>             | 258,719,440.41                  |
| Cash paid on investments  |       | <b>2,591,000,000.00</b>           | 1,853,500,000.00                |
| Cash paid relating to other investing activities  |       | —                                 | —                               |
| Subtotal of cash outflows from investing activities                                     |       | <b>2,781,735,508.66</b>           | 2,112,219,440.41                |
| <b>Net cash flows from investing activities</b>   |       | <b>-1,783,678,644.55</b>          | -241,611,327.40                 |

| Items   | Notes | Amounts for the<br>current period | Amounts for the<br>prior period |
|---|-------|-----------------------------------|---------------------------------|
| <b>III. Cash flows from financing activities:</b>                                   |       | —                                 | —                               |
| Cash received from capital contribution   |       | —                                 | —                               |
| Cash received from borrowings   |       | <b>3,239,397,401.53</b>           | 9,215,114,498.23                |
| Cash received from bond issue   |       | <b>4,376,900,000.00</b>           | 1,200,000,000.00                |
| Cash received relating to other financing activities                                |       | <b>409,984,697.61</b>             | —                               |
| Subtotal of cash inflows from financing activities                                  |       | <b>8,026,282,099.14</b>           | 10,415,114,498.23               |
| Cash repayments of amounts borrowed   |       | <b>5,157,736,193.29</b>           | 9,897,261,208.41                |
| Cash paid for dividend and profit distribution<br>or interest payment               |       | <b>829,615,829.90</b>             | 476,168,469.39                  |
| Cash paid relating to other financing activities                                    |       | —                                 | 460,250,158.46                  |
| <b>Subtotal of cash outflows from financing activities</b>                          |       | <b>5,987,352,023.19</b>           | 10,833,679,836.26               |
| <b>Net cash flows from financing activities</b>                                     |       | <b>2,038,930,075.95</b>           | -418,565,338.03                 |
| <b>IV. Effect of foreign exchange rate changes<br/>on cash and cash equivalents</b> |       | <b>-8,891,485.17</b>              | -2,140,676.32                   |
| <b>V. Net increase in cash and cash equivalents</b>                                 |       | <b>-923,836,391.54</b>            | -493,959,635.57                 |
| Add: Balance of cash and cash equivalents<br>as at the beginning of the period      |       | <b>1,586,045,998.83</b>           | 2,080,005,634.40                |
| <b>VI. Cash and cash equivalents as at the end of the period</b>                    |       | <b>662,209,607.29</b>             | 1,586,045,998.83                |

Legal representative:  
Chen Hongguo

Chief financial officer:  
Wang Chunfang

Head of the finance section:  
Li Dong

# Consolidated Statement of Changes in Owners' Equity

2010

Prepared by:  
Shandong Chenming  
Paper Holdings Limited

| Items   | Amounts for the current period     |  |                 |                  |                      |                                    |  |                  |                  |                         | Amounts for the prior year |        |                    |                      | Total owners' equity |
|---|------------------------------------|--|-----------------|------------------|----------------------|------------------------------------|--|------------------|------------------|-------------------------|----------------------------|--------|--------------------|----------------------|----------------------|
|   | Paid-up capital (or share capital) | Equity attributable to equity holders of the Company |                 |                  | Total owners' equity | Paid-up capital (or share capital) | Equity attributable to equity holders of the Company |                  |                  | General risk provisions | Retained profit            | Others | Minority interests | Total owners' equity |                      |
|   |                                    | Capital reserves                                     | Treasury Shares | Special reserves |                      |                                    | Surplus reserves                                     | Special reserves | Surplus reserves |                         |                            |        |                    |                      |                      |
| <b>I. Balance as at the end of the prior year</b>               | 2,050,045,941.00                   | 6,030,483,801.92                                     | -               | -                | 900,320,047.40       | -                                  | -  | -                | -                | 3,020,350,297.55        | -                          | -      | 879,468.14         | 14,021,774,664.96    |                      |
| Add: Accounting policy change                                   | -                                  | -  | -               | -                | -                    | -                                  | -  | -                | -                | -                       | -                          | -      | -                  | -                    |                      |
| Continuation in prior periods                                   | -                                  | -  | -               | -                | -                    | -                                  | -  | -                | -                | -                       | -                          | -      | -                  | -                    |                      |
| Others  | -                                  | -  | -               | -                | -                    | -                                  | -  | -                | -                | -                       | -                          | -      | -                  | -                    |                      |
| <b>II. Balance as at the beginning of the year</b>              | 2,050,045,941.00                   | 6,030,483,801.92                                     | -               | -                | 900,320,047.40       | -                                  | -  | -                | -                | 3,020,350,297.55        | -                          | -      | 879,468.14         | 14,021,774,664.96    |                      |
| <b>III. Changes in the year</b>                                 |                                    |  |                 |                  |                      |                                    |  |                  |                  |                         |                            |        |                    |                      |                      |
| (*) Other comprehensive income                                  | -                                  | 9,202.70   | -               | -                | 130,301,633.00       | -                                  | -  | -                | -                | 405,143,650.14          | -                          | -      | -20,264.42         | 715,206,157.19       |                      |
| (/)/Net profit  | -                                  | -  | -               | -                | -                    | -                                  | -  | -                | -                | 1,163,341,068.21        | -                          | -      | -                  | 853,914,932.22       |                      |
| (/)/Other comprehensive income                                  | -                                  | -  | -               | -                | -                    | -                                  | -  | -                | -                | -                       | -                          | -      | -                  | -                    |                      |
| Sub-total of (I) and (II) above                                 | -                                  | 9,202.70   | -               | -                | 130,301,633.00       | -                                  | -  | -                | -                | 1,163,341,068.21        | -                          | -      | -20,264.42         | 853,914,932.22       |                      |
| (/)/ Capital paid in and reduced by owners                      | -                                  | -  | -               | -                | -                    | -                                  | -  | -                | -                | -                       | -                          | -      | -                  | -                    |                      |
| 1. Capital paid in by owners                                    | -                                  | -  | -               | -                | -                    | -                                  | -  | -                | -                | -                       | -                          | -      | -                  | -                    |                      |
| 2. Amount of share-based payments recognized in owners' equity  | -                                  | -  | -               | -                | -                    | -                                  | -  | -                | -                | -                       | -                          | -      | -                  | -                    |                      |
| 3. Others   | -                                  | 9,202.70   | -               | -                | -                    | -                                  | -  | -                | -                | -                       | -                          | -      | -                  | -                    |                      |
| (/)/ Profit distribution  | -                                  | -  | -               | -                | -                    | -                                  | -  | -                | -                | -                       | -                          | -      | -                  | -                    |                      |
| 1. Transfer to surplus reserves                                 | -                                  | -  | -               | -                | -                    | -                                  | -  | -                | -                | -                       | -                          | -      | -                  | -                    |                      |
| 2. Transfer to general risk provision                           | -                                  | -  | -               | -                | -                    | -                                  | -  | -                | -                | -                       | -                          | -      | -                  | -                    |                      |
| 3. Distribution to owners (shareholders)                        | -                                  | -  | -               | -                | -                    | -                                  | -  | -                | -                | -                       | -                          | -      | -                  | -                    |                      |
| 4. Others   | -                                  | -  | -               | -                | -                    | -                                  | -  | -                | -                | -                       | -                          | -      | -                  | -                    |                      |
| (/)/ Transfer within owners' equity                             | -                                  | -  | -               | -                | -                    | -                                  | -  | -                | -                | -                       | -                          | -      | -                  | -                    |                      |
| 1. Transfer from capital reserves to capital (or share capital) | -                                  | -  | -               | -                | -                    | -                                  | -  | -                | -                | -                       | -                          | -      | -                  | -                    |                      |
| 2. Transfer from surplus reserves to capital (or share capital) | -                                  | -  | -               | -                | -                    | -                                  | -  | -                | -                | -                       | -                          | -      | -                  | -                    |                      |
| 3. Transfer from surplus reserves to make up for losses         | -                                  | -  | -               | -                | -                    | -                                  | -  | -                | -                | -                       | -                          | -      | -                  | -                    |                      |
| 4. Others   | -                                  | -  | -               | -                | -                    | -                                  | -  | -                | -                | -                       | -                          | -      | -                  | -                    |                      |
| (/)/ Special reserves   | -                                  | -  | -               | -                | -                    | -                                  | -  | -                | -                | -                       | -                          | -      | -                  | -                    |                      |
| 1. Appropriated in the period                                   | -                                  | -  | -               | -                | -                    | -                                  | -  | -                | -                | -                       | -                          | -      | -                  | -                    |                      |
| 2. Used in the period   | -                                  | -  | -               | -                | -                    | -                                  | -  | -                | -                | -                       | -                          | -      | -                  | -                    |                      |
| (/)/ Others   | -                                  | -  | -               | -                | -                    | -                                  | -  | -                | -                | -                       | -                          | -      | -                  | -                    |                      |
| 1. Others   | -                                  | -  | -               | -                | -                    | -                                  | -  | -                | -                | -                       | -                          | -      | -                  | -                    |                      |
| <b>IV. Balance as at the end of the period</b>                  | 2,050,045,941.00                   | 6,030,493,004.71                                     | -               | -                | 1,045,510,680.99     | -                                  | -  | -                | -                | 4,333,731,947.96        | -                          | -      | 859,203.72         | 14,371,001,822.15    |                      |

Legal representative:  
Chen Hongqiao

Chief financial officer:  
Wang Chunfang

Head of the finance section:  
Li Dong

# Statement of Changes in Owners' Equity of the Parent Company

2010

## Prepared by: Shandong Chenming Paper Holdings Limited Unit: RMB

|   | Amounts for the current period           |                  |                      |                                    |                  |                       |                  |                  |                         |                   | Amounts for the prior year |                                    |                  |                       |                  |                  |                        |          |       |                   |                   |
|---|--|------------------|----------------------|------------------------------------|------------------|-----------------------|------------------|------------------|-------------------------|-------------------|----------------------------|------------------------------------|------------------|-----------------------|------------------|------------------|------------------------|----------|-------|-------------------|-------------------|
|   | Items/Paid-up capital (or share capital) | Retained profit  | Total owners' equity | Paid-up capital (or share capital) | Capital reserves | Less: Treasury shares | Special reserves | Surplus reserves | General risk provisions | Retained profit   | Total owners' equity       | Paid-up capital (or share capital) | Capital reserves | Less: Treasury shares | Special reserves | Surplus reserves | General risk provision | Retained | Total |                   |                   |
| <b>I. Balance as at the beginning of the prior year</b>         |  |                  |                      |                                    |                  |                       |                  |                  |                         |                   |                            |                                    |                  |                       |                  |                  |                        |          |       |                   |                   |
| Items/Paid-up capital (or share capital)                        | 2,062,045,941.00                         |                  | 11,923,315,119.25    | 2,062,045,941.00                   | 6,184,215,988.77 |                       |                  |                  |                         | 11,923,315,119.25 | 2,062,045,941.00           | 6,184,215,988.77                   |                  |                       |                  |                  |                        |          |       |                   |                   |
| Retained profit   |  | 2,782,317,722.90 | 11,923,315,119.25    |                                    |                  |                       |                  |                  | 884,739,465.53          | 2,782,317,722.90  |                            |                                    |                  |                       |                  |                  |                        |          |       | 2,162,346,247.34  |                   |
| Total owners' equity  |  |                  | 11,923,315,119.25    |                                    |                  |                       |                  |                  | 884,739,465.53          | 11,923,315,119.25 |                            |                                    |                  |                       |                  |                  |                        |          |       | 11,211,885,445.73 |                   |
| <b>II. Balance as at the beginning of the year</b>              |  |                  |                      |                                    |                  |                       |                  |                  |                         |                   |                            |                                    |                  |                       |                  |                  |                        |          |       |                   |                   |
| Items/Paid-up capital (or share capital)                        | 2,062,045,941.00                         |                  | 7,772,023,592.70     | 2,062,045,941.00                   | 6,184,215,988.77 |                       |                  |                  |                         | 7,772,023,592.70  | 2,062,045,941.00           | 6,184,215,988.77                   |                  |                       |                  |                  |                        |          |       |                   |                   |
| Retained profit   |  | 637,620,949.20   | 7,772,023,592.70     |                                    |                  |                       |                  |                  | 193,381,633.50          | 637,620,949.20    |                            |                                    |                  |                       |                  |                  |                        |          |       | 829,367,475.56    |                   |
| Total owners' equity  |  |                  | 7,772,023,592.70     |                                    |                  |                       |                  |                  | 193,381,633.50          | 7,772,023,592.70  |                            |                                    |                  |                       |                  |                  |                        |          |       | 829,367,475.56    |                   |
| <b>III. Changes in the year</b>                                 |  |                  |                      |                                    |                  |                       |                  |                  |                         |                   |                            |                                    |                  |                       |                  |                  |                        |          |       |                   |                   |
| (*) Net profit  |  |                  |                      |                                    |                  |                       |                  |                  |                         |                   |                            |                                    |                  |                       |                  |                  |                        |          |       |                   |                   |
| (II) Other comprehensive income                                 |  |                  |                      |                                    |                  |                       |                  |                  |                         |                   |                            |                                    |                  |                       |                  |                  |                        |          |       |                   |                   |
| (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  |  |                  |                      |                                    |                  |                       |                  |                  |                         |                   |                            |                                    |                  |                       |                  |                  |                        |          |       |                   |                   |
| 1. Transfer to surplus reserves                                 |  |                  |                      |                                    |                  |                       |                  |                  |                         |                   |                            |                                    |                  |                       |                  |                  |                        |          |       |                   |                   |
| 2. Transfer to general risk provision                           |  |                  |                      |                                    |                  |                       |                  |                  |                         |                   |                            |                                    |                  |                       |                  |                  |                        |          |       |                   |                   |
| 3. Distribution to owners (shareholders)                        |  |                  |                      |                                    |                  |                       |                  |                  |                         |                   |                            |                                    |                  |                       |                  |                  |                        |          |       |                   |                   |
| 4. Others   |  |                  |                      |                                    |                  |                       |                  |                  |                         |                   |                            |                                    |                  |                       |                  |                  |                        |          |       |                   |                   |
| (V) Transfer with owners' equity                                |  |                  |                      |                                    |                  |                       |                  |                  |                         |                   |                            |                                    |                  |                       |                  |                  |                        |          |       |                   |                   |
| 1. Transfer from capital reserves to capital (or share capital) |  |                  |                      |                                    |                  |                       |                  |                  |                         |                   |                            |                                    |                  |                       |                  |                  |                        |          |       |                   |                   |
| 2. Transfer from surplus reserves to capital (or share capital) |  |                  |                      |                                    |                  |                       |                  |                  |                         |                   |                            |                                    |                  |                       |                  |                  |                        |          |       |                   |                   |
| 3. Transfer from surplus reserves to make up for losses         |  |                  |                      |                                    |                  |                       |                  |                  |                         |                   |                            |                                    |                  |                       |                  |                  |                        |          |       |                   |                   |
| 4. Others   |  |                  |                      |                                    |                  |                       |                  |                  |                         |                   |                            |                                    |                  |                       |                  |                  |                        |          |       |                   |                   |
| (VI) Special reserves   |  |                  |                      |                                    |                  |                       |                  |                  |                         |                   |                            |                                    |                  |                       |                  |                  |                        |          |       |                   |                   |
| 1. Appropriated in the period                                   |  |                  |                      |                                    |                  |                       |                  |                  |                         |                   |                            |                                    |                  |                       |                  |                  |                        |          |       |                   |                   |
| 2. Used in the period   |  |                  |                      |                                    |                  |                       |                  |                  |                         |                   |                            |                                    |                  |                       |                  |                  |                        |          |       |                   |                   |
| (VII) Other—  |  |                  |                      |                                    |                  |                       |                  |                  |                         |                   |                            |                                    |                  |                       |                  |                  |                        |          |       |                   |                   |
| IV. Balance as at the end of the period                         | 2,062,045,941.00                         | 3,419,934,640.10 | 12,700,517,670.95    | 2,062,045,941.00                   | 6,184,215,988.77 |                       |                  |                  | 1,034,321,099.88        | 3,419,934,640.10  | 12,700,517,670.95          | 2,062,045,941.00                   | 6,184,215,988.77 |                       |                  |                  |                        |          |       | 2,782,317,722.90  |                   |
|   |  |                  |                      |                                    |                  |                       |                  |                  |                         |                   |                            |                                    |                  |                       |                  |                  |                        |          |       |                   | 884,739,465.53    |
|   |  |                  |                      |                                    |                  |                       |                  |                  |                         |                   |                            |                                    |                  |                       |                  |                  |                        |          |       |                   | 11,923,315,119.25 |

Legal representative:  
Chen Tingqiao

Chief financial officer:  
Wang Chunfang

Head of the finance section:  
Li Dong

# XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

## Notes to the financial statements

Year ended 31 December 2010

### I. General Information of the Company

Shandong Chenming Paper Holdings Limited (hereinafter referred to as the "Company"), whose predecessor was Shandong Shouguang Paper Mill Corporation, was reorganised to become a joint stock limited company by way of private placement in May 1993. In December 1996, with the approval issued by the Shandong Provincial Government (Lu Gai Zi [1996] Document No. 270) and by the Securities Committee of the State Council (Zheng Wei [1996] Document No.59), the Company was reorganised to become a joint stock limited company by way of public subscription.

In May 1997, with the approval issued by the Securities Committee of the State Council ( [1997] Document No. 26), the Company issued 115 million B Shares in connection with its international offering. B-shares from this issuance were listed on Shenzhen Stock Exchange since 26 May 1997.

In September 2000, with the approval issued by China Securities Regulatory Committee (hereinafter referred to as the "CSRC") (Zheng Jian Gong Si Zi [2000] Document No. 151), the Company issued 70 million A Shares. A-shares from this issuance were listed on Shenzhen Stock Exchange on 20 November 2000.

In June 2008, with the approval issued by the Stock Exchange of Hong Kong Limited (hereinafter referred to as the "Stock Exchange"), the Company issued 355,700,000 H shares. Meanwhile, the relevant state shareholders of the Company performed the reduction of state-owned shares, by way of transferring to the Social Security Fund Council (the "NSSF Council") such number of shares held by it, representing 35,570,000 shares, which were to be converted into overseas listed foreign shares (H shares). H-shares under the new issue were listed on the Hong Kong Stock Exchange on 18 June 2008.

As at 31 December 2010, the Company has a total of 2,062,045,941 shares.

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

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

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

The Company's financial statements were approved by the Board on 30 March 2011 (these financial statements will be proposed in the general meeting for approval in accordance with the Articles of Association of the Company).

# **XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises**

## **II. Basis of Preparation of the Financial Statements**

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

The Group's financial statements have been prepared on an accrual basis in accordance with the ASBEs. Except for certain financial instruments which are measured at fair value, the financial statements are prepared under the historical cost convention. In the event that depreciation of assets occurs, a provision for impairment is made accordingly in accordance with the relevant regulations.

## **III. Statement of Compliance with the Accounting Standards for Business Enterprises**

The financial statements have been prepared in conformity with the ASBEs, which truly and fully reflect the financial positions of the Company and the Group as at 31 December 2010 and relevant information such as the operating results and cash flows of the Company and the Group of 2010. In addition, the financial statements of the Company also comply with, in all material respects, the disclosure requirements of the "Regulation on the Preparation of Information Disclosures of Companies Issuing Public Shares, No. 15: General Requirements for Financial Reports" revised by the China Securities Regulatory Commission in 2010 and the notes thereto.

## **IV. Significant Accounting Policies and Estimates**

### **1. Accounting period**

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

### **2. Reporting currency**

The Company and its domestic subsidiaries recognise RMB as their reporting currency according to the primary economic environment in which they operate. The reporting currency of the Company and its domestic subsidiaries is Renminbi ("RMB"). Overseas subsidiaries of the Company recognise U.S. dollar as their reporting currency according to the primary economic environment in which these subsidiaries operate. The Group prepares its financial statements in RMB.

### **3. Accounting treatment of business combination**

A business combination refers to the transaction or event to combine two or more separate entities into a single reporting entity. Business combination is classified into business combination under common control and business combination not under common control.



## **IV. Significant Accounting Policies and Estimates (Cont'd)**

### **3. Accounting treatment of business combination (Cont'd)**

#### **(1) Business combination under common control**

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

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

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

#### **(2) Business combination not under common control**

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

For business combination involving entities not under common control, the cost of a business combination is the aggregate of the fair values, on the date of acquisition, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer to be paid by the acquirer, in exchange for control of the acquire plus agency fee such as audit, legal service and evaluation consultation and other management fees charged to the profit or loss for the period when incurred. As equity or bond securities are issued by the acquirer as consideration, any attributable transaction cost is included their initial costs. Adjustments for cost of combination which are likely to occur and can be measured reliably will be recognised as contingent consideration. Subsequent adjustments will impact on the goodwill. Involved or contingent consideration charged to the combination cost according to its fair value in the acquisition date, the combined goodwill be will be adjusted if new or addition evidence existed about the condition in the acquisition date within twelve months after the acquisition date, which is required to adjust the contingent consideration. When the business combination is achieved in stages through a number of exchange transactions, the Group re-measures its previously held equity interest in the acquiree on the acquisition date, and the difference between the fair value and the net book value is recognised as investment income for the period in the consolidated financial statements of the Group, in the meanwhile, the other comprehensive income related to the equity interest of acquiree held before the acquisition date is transferred to investment income for the period. The cost of combination is the sum of the fair value of the equity interest of the acquiree as at the acquisition date which held before the acquisition date and the fair value of the equity interest of the acquiree as at the acquisition date which additional acquired in the acquisition date.

## **IV. Significant Accounting Policies and Estimates (Cont'd)**

### **3. Accounting treatment of business combination (Cont'd)**

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

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

The acquiree's deductible temporary difference acquired by the acquirer, which is still not yet recognised as it does not satisfy the recognition conditions of the deferred income tax assets on the acquisition date. If new or addition information proves that the relevant circumstances have already existed on the acquisition date within twelve months after the acquisition date, which estimates that the economic benefits incurred from the deductible temporary difference at the acquisition date of acquirer can be realised, then the relevant deferred income tax assets will be recognised, and the goodwill will be reduced at the same time, if the goodwill is not sufficient be absorbed, any excess shall be recognised as the profit or loss for the period. Except as disclosed above, the deferred income tax assets related to the business combination are charged in the profit or loss for the period.

### **4. Basis for preparation of consolidated financial statements**

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

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

#### **(2) Basis for preparation of the consolidated financial statements**

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

## **IV. Significant Accounting Policies and Estimates (Cont'd)**

### **4. Basis for preparation of consolidated financial statements (Cont'd)**

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

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

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

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

### **5. Standards for recognising cash and cash equivalents**

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

### **6. Foreign currency operations and translation of statements denominated in foreign currency**

#### **(1) Basis for translation of foreign currency transactions**

The foreign currency transactions of the Company, when initially recognised, are translated into functional currency at the prevailing spot exchange rate on the date of exchange (usually refers to the middle rate of the exchange rate for the day as quoted by the People's Bank of China, the same below) while the Company's foreign currency exchange operations and transactions in connection with foreign currency exchange shall be translated into functional currency at the exchange rate actually adopted.

## **IV. Significant Accounting Policies and Estimates (Cont'd)**

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

#### **(2) Basis for translation of foreign currency monetary items and foreign currency non-monetary items**

On the balance sheet date, foreign currency monetary items shall be translated at the spot exchange rate on the balance sheet date. All differences are included in the consolidated income statement, except for: (1) the differences arising from foreign currency borrowings related to the acquisition or construction of fixed assets which are qualified for capitalisation; and (2) except for other carrying amounts of the amortisation costs, the differences arising from changes of the foreign currency items available for sale.

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

#### **(3) Basis for translation of foreign currency financial statements**

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

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

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

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

## IV. Significant Accounting Policies and Estimates (*Cont'd*)

### 7. Financial instruments

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

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

#### (2) Classification, recognition and measurement of the financial assets

By way of buying and selling the financial assets in a regular way, recognition and derecognition are carried out according to the accounts on the transaction day. Financial assets are divided into financial assets at fair value through profit or loss, held-to-maturity investments, accounts receivable and available for-sale financial assets when they are initially recognised. Financial assets and financial liabilities are initially recognised at fair value. For financial assets and financial liabilities classified as fair value through profit or loss, relevant transaction costs are directly recognised in profit or loss for the period. For financial assets classified as other categories, relevant transaction costs are included in the amount initially recognised.

##### (1) *Financial assets carried at fair value through profit or loss for the current period*

They include financial assets held for trading and financial assets designated as at fair value through profit or loss for the current period. The Group's financial assets at fair value through profit or loss for the current period are all financial assets held for trading.

Financial assets may be classified as financial assets held for trading if one of the following conditions is met: (1) the financial assets is acquired or incurred principally for the purpose of selling or repurchasing it in the near term; (2) the financial assets is part of a portfolio of identified financial instruments that are managed together and for which there is objective evidence of a recent pattern of short-term profit-taking; or (3) the financial assets is a derivative, excluding the derivatives designated as effective hedging instruments, the derivatives classified as financial guarantee contract, and the derivatives linked to an equity instrument investment which has no quoted price in an active market nor a reliably measured fair value and are required to be settled through that equity instrument.

Financial assets held for trading are subsequently measured at fair value. The gain or loss arising from changes in fair value and dividends and interest income related to such financial assets are charged to profit or loss for the current period.

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

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

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

## IV. Significant Accounting Policies and Estimates (Cont'd)

### 7. Financial instruments (Cont'd)

#### (1) Method of determination of the fair value for financial assets and financial liabilities (Cont'd)

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

##### (2) *Held-to-maturity investments (Cont'd)*

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

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

##### (3) *Accounts receivable*

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

The receivables that are formed in sale of goods or rendering of services to external parties, and the receivables, except for the debt instruments quoted in an active market, due to the Company from other entities, including accounts receivable, bills receivable, other receivables, long-term receivables, etc., are initially recognised at the consideration of the contract or agreement to be received from the buyers. Accounts receivable that are of a financing nature are initially recognised at their present value. Upon recovery or disposal of accounts receivable, the difference between the consideration obtained and the carrying amount is charged to profit or loss for the period.

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

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

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

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

## IV. Significant Accounting Policies and Estimates (Cont'd)

### 7. Financial instruments (Cont'd)

#### (3) Impairment of financial assets

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

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

#### (1) *Held-to-maturity investments of loans and accounts receivable*

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

#### (2) *Impairment of available-for-sale financial assets*

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

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

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

## IV. Significant Accounting Policies and Estimates (*Cont'd*)

### 7. Financial instruments (*Cont'd*)

#### (4) Recognition and measurement of transfers of financial asset

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

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

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

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

#### (5) Classification and measurement of financial liabilities

At initial recognition, financial liabilities are classified either as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities are initially recognised at fair value. For financial liabilities classified as fair value through profit or loss, relevant transaction costs are directly recognised in profit or loss for the period. For financial liabilities classified as other categories, relevant transaction costs are included in the amount initially recognised.

##### (1) *Financial liabilities at fair value through profit or loss for the period*

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

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



## **IV. Significant Accounting Policies and Estimates (Cont'd)**

### **7. Financial instruments (Cont'd)**

#### **(5) Classification and measurement of financial liabilities (Cont'd)**

##### *(2) Other financial liabilities*

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

##### *(3) Financial Guarantee Contracts*

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

#### **(6) Derecognition of financial liabilities**

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

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

#### **(7) Derivative Instruments**

Derivative instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value. Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss for the period, except for derivative instruments that are designated as hedging instruments and which are highly effective in hedging, gains or losses arising from changes in their fair value are taken to the profit or loss for the period in accordance with the hedge accounting requirement based on the nature of hedging relationships.

#### **(8) Offset of Financial Assets and Financial Liabilities**

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

## IV. Significant Accounting Policies and Estimates (Cont'd)

### 7. Financial instruments (Cont'd)

#### (9) Equity instruments

Equity instruments are any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The transaction fees arising from the issue of equity instruments by one party in the business combination shall be reduced in the premium income. If the transaction fees overweight the premium income, it shall be reduced in the retained revenue. For remaining equity instruments, the price received during the issue shall be added to shareholder's equity after reducing the transaction fees.

The distribution (excluding the dividends) to the equity instrument holders by the Group shall reduce the shareholder's equity. The Group shall not recognise the changes of the equity instruments' fair value.

### 8. Accounts receivable

Accounts receivable includes accounts receivable and other accounts receivable, etc.

#### (1) Recognition of bad debt provision

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

#### (2) Measurement of bad debt provision

(1) *Basis for recognition and measurement of bad debt provision for single item with significant accounts receivable, which is impaired individually for bad debt*

Accounts receivable of more than RMB1 million is recognised as individually significant accounts receivable by the Group.

For accounts receivable that is individually significant, the Group assesses such accounts receivable individually for impairment. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the financial asset is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. Accounts receivable for which an impairment loss is individually recognised are not included in a group of accounts receivable with similar credit risk characteristics and collectively assessed for impairment.

#### IV. Significant Accounting Policies and Estimates (Cont'd)

##### 8. Accounts receivable (Cont'd)

###### (1) Recognition of bad debt provision (Cont'd)

###### (2) Basis for recognition and measurement of bad debt provision for receivable by credit risk features

###### A. Basis for determining portfolio of credit risk features

In respect of accounts receivable that are individually insignificant and those that are significant but are not impaired upon individual testing, the Group classifies financial assets based on the similarity and relevancy of credit risk features. These credit risks usually reflect debtors' ability to settle all amounts that fall due based on the contracted terms of the assets, and are relevant to the estimated future cash flows of the inspected assets.

Basis for determining different portfolios:

| Items   | Basis for determining portfolio |
|---|---------------------------------|
| Account receivable for fewer than 2 years age (including 2 years) | Shorter age, fewer risk         |
| Account receivable for over 2 years age                           | Longer age, greater risk        |

###### B. Measurement of determine bad debt provision based on credit risk feature portfolio

When an impairment test is performed by means of a group, bad debt provision will be assessed and ascertained according to the structure of the group of accounts receivable and similar credit risk features (debtors' ability to settle outstanding amounts based on contracted terms), taking into account historical experience and the prevailing economic situations as well as losses that are expected to have been incurred in the group of accounts receivable.

Basis for bad debt provision of different portfolio:

| Items   | Basis of provision |
|---|--------------------|
| Account receivable for fewer than 2 years age | Analysis by age    |
| Account receivable for over 2 years age       | Analysis by age    |

In respect of portfolio, the measurement of bad debt provision for portfolio is based on analysis by age

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

## IV. Significant Accounting Policies and Estimates (Cont'd)

### 8. Accounts receivable (Cont'd)

#### (1) Recognition of bad debt provision (Cont'd)

##### (3) *Insignificant accounts receivable but impaired individually for bad debt*

The Group conducts impairment tests for the single item with insignificant account receivables but with following features. If there is objective evidence indicating that the accounts receivable is impaired, then impairment loss will be recognised and provision for bad debts according to the difference when the present value of future cash flow is fewer than its carrying amounts: amounts due from associates; accounts receivable with dispute against counterparties or involved in litigation or arbitration; there is obvious objective of the accounts receivable indicated that the debtor is likely to fail to comply with the repayment obligation, etc.

#### (3) Reversal of provision

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

### 9. Inventory

#### (1) Classification of inventories

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

#### (2) Pricing of inventory received and dispatched

Inventories are measured at their actual cost when obtained. Cost of an inventory consists of purchase costs, processing costs and other costs. When used and dispatched, inventories will be calculated based on the planned cost first, and deviations in cost will be apportioned by month end, so that the planned cost will be adjusted to become the actual cost.

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

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

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

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

## **IV. Significant Accounting Policies and Estimates (Cont'd)**

### **9. Inventory (Cont'd)**

(4) **The inventory taking system shall use permanent inventory system/periodic inventory system.**

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

Low-value consumables are amortised by lump-sum when taken for use. Also, packaging materials are amortised by lump-sum when taken for use.

### **10. Long-term equity investments**

(1) **Determination of initial investment cost**

For a long-term equity investment acquired through a business combination involving enterprises under common control, the initial investment cost of the long-term equity investment shall be the absorbing party's share of the carrying amount of the owner's equity of the party being absorbed at the date of combination. For a long-term equity investment acquired through business combination not involving enterprises under common control, the initial investment cost of the long-term equity investment acquired shall be the each direct related expenses of acquirer arising from business combination.

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

(2) **Method for subsequent measurement and profit or loss recognition**

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

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

## IV. Significant Accounting Policies and Estimates (*Cont'd*)

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

#### (2) Method for subsequent measurement and profit or loss recognition (*Cont'd*)

##### (1) *Long-term equity investments accounted for using the cost method*

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

##### (2) *Long-term equity investments accounted for using the equity method*

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

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

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

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

## **IV. Significant Accounting Policies and Estimates (Cont'd)**

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

#### **(2) Method for subsequent measurement and profit or loss recognition (Cont'd)**

##### *(3) Acquisition of minority interests*

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

##### *(4) Disposal of long-term equity investments*

In these consolidated financial statements, where the parent company disposes of a portion of the long-term equity investments in a subsidiary without a change in control, the difference between disposal cost and disposal of long-term equity investments relative to the net assets of the subsidiary is charged to the owners' equity. If disposal of a portion of the long-term equity investments in a subsidiary by the parent company results in a change in control, it shall be treated in accordance with the relevant accounting policies as described in Note IV. 4. (2) "Preparation Method of the Consolidated Financial Statements".

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

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

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

## **IV. Significant Accounting Policies and Estimates (Cont'd)**

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

#### **(4) Impairment test method and impairment provision**

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

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

### **11. Investment Property**

Investment property refer to real estate held to earn rentals or for capital appreciation, or both including the land use right that have been leased out; the land use right that held and will be transferred after appreciation; and the building that have been leased out. Investment property is initially measured at cost. Subsequent expenditures related to an investment property shall be included in cost of investment property only when the economic benefits associated with the asset will likely flow to the Group and its cost can be measured reliably. All other expenditures on investment property shall be included in profit or loss for the current period when incurred.

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

The method for impaired test of investment property and measurement of impairment provision are detailed in Note IV. 17 "Impairment of non-current non-monetary financial asset".

In the event that an owner-occupied property or inventories is converted to an investment property (or vice versa), upon the conversion, the property shall be stated at the carrying amount prior to the conversion.

If an investment property is disposed of or if it withdraws permanently from use and no economic benefit will be obtained from the disposal, the recognition of it as an investment property shall be terminated. When an investment property is sold, transferred, retired or damaged, the amount of proceeds on disposal of the property net of the carrying amount and related tax and surcharges is recognised in profit or loss for the current period.



## IV. Significant Accounting Policies and Estimates (Cont'd)

### 12. Fixed assets

#### (1) Conditions for recognition of fixed assets

Fixed assets are tangible assets that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and have a useful life of more than one accounting year.

#### (2) Method for depreciation of different fixed assets

Fixed assets shall be initially measured at cost and the effect of any expected costs of abandoning the asset at the end of its use. Depreciation is provided over their estimated useful lives from the month after they have reached the working condition for their intended use using the straight-line method/units-of-production method. The useful life, estimated residual value and annual depreciation rate of each category of fixed assets are as follows:

| Category                        | Useful lives of depreciation | Estimated residual value | Annual depreciation rate |
|---------------------------------|------------------------------|--------------------------|--------------------------|
| Buildings and structures        | 20-40                        | 5-10                     | 2.25-4.75                |
| Machinery and equipment         | 8-20                         | 5-10                     | 4.5-11.88                |
| Transportation equipment        | 5-8                          | 5-10                     | 11.25-19.00              |
| Electronic equipment and others | 5                            | 5-10                     | 18.00-19.00              |

Estimated net residual value of a fixed asset is the estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the stage and in the condition expected at the end of its useful life.

#### (3) Impairment testing methods and provision for impairment methods on fixed assets

The method for impaired test of fixed asset and measurement of impairment provision are detailed in Note IV. 18 "Impairment of non-current non-monetary financial asset".

#### (4) Recognition basis and measurement method of fixed assets under finance lease

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. Title may or may not eventually be transferred. The fixed asset leased by the finance lease is used the policy consistent with that of proprietary fixed assets for provision of depreciated leased asset. If it can be reasonably determined that the ownership of the leased asset can be obtained upon expiration of the lease term, the leased asset shall be depreciated over its useful life. If it cannot be reasonably determined that the ownership of the leased asset can be obtained at the expiration of the lease term, the leased asset shall be depreciated over the shorter of the lease term or its useful life.

## **IV. Significant Accounting Policies and Estimates (Cont'd)**

### **12. Fixed assets (Cont'd)**

#### **(5) Explanation on other matters**

Subsequent expenditures incurred for a fixed asset shall be included in the cost of the fixed asset, only if it is probable that economic benefits associated with the asset will flow to the Company and the relevant cost can be measured reliably; meanwhile the carrying amount of the replaced part shall be derecognised. Other subsequent expenditures shall be charged to profit or loss when incurred.

When a fixed asset is sold, transferred, retired or damaged, the Group shall recognise the amount of any proceeds on disposal of the asset net of the carrying amount and related taxes in profit or loss for the current period.

The Group reviews the useful life and estimated net residual value of a fixed asset and the depreciation method applied at least at each financial year-end. A change in the useful life or estimated net residual value of a fixed asset or the depreciation method used shall be accounted for as a change in accounting estimate.

### **13. Construction in progress**

Construction in progress is recognised based on the actual construction cost, including all expenditures incurred for construction projects, capitalised borrowing costs for the construction in progress before it has reached the working condition for its intended use, and other related expenses during the construction period. A construction in progress is transferred to fixed assets when it has reached the working condition for its intended use.

The method for impaired test of construction in progress and measurement of impairment provision are detailed in Note IV. 18 "Impairment of non-current non-monetary financial asset".

### **14. Borrowing costs**

Borrowing costs include interest, amortisation of discounts or premiums related to borrowings, ancillary costs incurred in connection with the arrangement of borrowings, and exchange differences arising from foreign currency borrowings. For borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, when expenditures for the asset and borrowing costs are being incurred, activities relating to the acquisition, construction or production of the asset that are necessary to prepare the asset for its intended use or sale have commenced, such borrowing costs shall be capitalised as part of the cost of that asset; and capitalisation shall discontinue when the qualifying asset is ready for its intended use or sale. Other borrowing costs shall be recognised as expense in the period in which they are incurred.

Where funds are borrowed for a specific purpose, the amount of interest to be capitalised shall be the actual interest expense incurred on that borrowing for the period less any bank interest earned from depositing the borrowed funds before being used into banks or any investment income on the temporary investment of those funds. Where funds are borrowed for general purpose, the Group shall determine the amount of interest to be capitalised on such borrowings by applying a capitalisation rate to the weighted average of the excess amounts of cumulative expenditures on the asset over and above the amounts of specific-purpose borrowings. The capitalisation rate shall be the weighted average of the interest rates applicable to the general-purpose borrowings.

## **IV. Significant Accounting Policies and Estimates (Cont'd)**

### **14. Borrowing costs (Cont'd)**

During the capitalisation period, exchange differences related to the principal and interest on a specific purpose borrowing denominated in foreign currency shall be capitalised as part of the cost of the qualifying asset. Exchange differences related to general-purpose borrowings denominated in foreign currency shall be included in profit or loss for the current period.

Qualifying assets are assets (fixed assets, investment property, inventories, etc) that necessarily take a substantial period of time for acquisition, construction or production to get ready for their intended use or sale.

Capitalisation of borrowing costs shall be suspended during periods in which the acquisition, construction or production of a qualifying asset is interrupted abnormally, when the interruption is for a continuous period of more than 3 months, until the acquisition, construction or production of the qualifying asset is resumed.

### **15. Biological assets**

Consumable biological assets refer to biological assets held for sale or to be harvested as agricultural produce in the future, which include growing commercial forests. Consumable biological assets are stated at cost at initial recognition. The cost of self-planting, self-cultivating consumable biological assets is the necessary expenses directly attributable to such assets prior to canopy closure, including borrowing costs eligible for capitalisation. Subsequent expenses incurred after canopy closure shall be included in profit or loss for the current period.

The cost of consumable biological assets shall, at the time of harvest or disposal, be carried forward at carrying value using the rotation age method.

All the consumable biological assets of the Company are subsequently measured at fair value as they are quoted in an active market where the Company can obtain a quoted market price and other information of the same or similar consumable biological assets and thus their fair values can be reliably estimated. Changes in fair values shall be recognised as profit or loss in the current period.

## IV. Significant Accounting Policies and Estimates (Cont'd)

### 16. Intangible assets

#### (1) Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance owned or controlled by the Group.

An intangible asset shall be initially measured at cost. The expenditures incurred on an intangible asset shall be recognised as cost of the intangible asset only if it is probable that economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. Other expenditures on an item asset shall be charged to profit or loss when incurred.

Land use right acquired shall normally be recognised as an intangible asset. Self-constructed buildings (e.g. plants), related land use right and the buildings shall be separately accounted for as an intangible asset and fixed asset. For buildings and structures purchased, the purchase consideration shall be allocated among the land use right and the buildings on a reasonable basis. In case there is difficulty in making a reasonable allocation, the consideration shall be recognised in full as fixed assets.

An intangible asset with an infinite useful life shall be stated at cost less estimated net residual value and any accumulated impairment loss provision and amortised using the straight-line method//units of production method over its useful life when the asset is available for use. Intangible assets with indefinite life are not amortised.

The Group shall review the useful life of intangible asset with an infinite useful life and the amortisation method applied at least at each financial year-end. A change in the useful life or amortisation method used shall be accounted for as a change in accounting estimate. For an intangible asset with an indefinite useful life, the Group shall review the useful life of the asset in each accounting period. If there is evidence indicating that the useful life of that intangible asset is finite, the Company shall estimate the useful life of that asset and apply the accounting policies accordingly.

#### (2) Research and development expenditure

Expenditure on internal research and development activities of the Group is categorised into expenditure arising from the research phase and expenditure arising from the development phase.

Expenditure arising from the research phase is recognised as profit or loss in the current period.

Expenses incurred during the development stage that satisfy the following conditions are recognised as intangible assets, while those that do not satisfy the following conditions are accounted for in the profit or loss for the current period:

- (1) it is technically feasible that the intangible asset can be used or sold upon completion;
- (2) there is intention to complete the intangible asset for use or sale;
- (3) the intangible asset can produce economic benefits, including there is evidence that the products produced using the intangible asset has a market or the intangible asset itself has a market; if the intangible asset is for internal use, there is evidence that there exists usage for the intangible asset;

## **IV. Significant Accounting Policies and Estimates (Cont'd)**

### **16. Intangible assets (Cont'd)**

#### **(2) Research and development expenditure (Cont'd)**

- (4) there is sufficient support in terms of technology, financial resources and other resources in order to complete the development of the intangible asset, and there is capability to use or sell the intangible asset;
- (5) the expenses attributable to the development stage of the intangible asset can be measured reliably.

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

#### **(3) Intangible assets impairment test method and their impairment provision**

The method for impaired test of intangible assets and measurement of impairment provision are detailed in Note IV. 18 "Impairment of non-current non-monetary financial asset".

### **17. Long-term deferred expenses**

Long-term deferred expenses are expenditures and other expenses which have incurred but that shall be amortised over the current period and subsequent periods of more than one year. Long-term deferred expenses are reasonably amortised over the estimated benefit period, using the straight-line method or other systems.

### **18. Non-current non-financial assets impairment**

The Group will judge if there is any indication of impairment as at the balance sheet date in respect of non-current non-financial assets such as fixed assets, construction in progress, intangible assets with an infinite useful life, investment properties measured at cost, and long-term equity investments in subsidiaries, joint controlled entities and associates. If there is any evidence indicating that an asset may be impaired, recoverable amount shall be estimated for impairment test. Goodwill, intangible assets with an indefinite useful life and intangible assets beyond working conditions will be tested for impairment annually, regardless of whether there is any indication of impairment.

If the impairment test result shows that the recoverable amount of an asset is less than its carrying amount, the impairment provision will be made according to the difference and recognised as an impairment loss. The recoverable amount of an asset is the higher of its fair value less costs of disposal and the present value of the future cash flows expected to be derived from the asset. An asset's fair value is the price in a sale agreement in an arm's length transaction. If there is no sale agreement but the asset is traded in an active market, fair value shall be determined based on the bid price. If there is neither sale agreement nor active market for an asset, fair value shall be based on the best available information. Costs of disposal are expenses attributable to disposal of the asset, including legal fee, relevant tax and surcharges, transportation fee and direct expenses incurred to prepare the asset for its intended sale. The present value of the future cash flows expected to be derived from the asset over the course of continued use and final disposal is determined as the amount discounted using an appropriately selected discount rate. Provisions for assets impairment shall be made and recognised for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the Group shall determine the recoverable amount of the asset group to which the asset belongs. The asset group is the smallest group of assets capable of generating cash flows independently.

## **IV. Significant Accounting Policies and Estimates (Cont'd)**

### **18. Non-current non-financial assets impairment (Cont'd)**

For the purpose of impairment testing, the carrying amount of goodwill presented separately in the financial statements shall be allocated to the asset groups or group of assets benefiting from synergy of business combination. If the recoverable amount is less than the carrying amount, the Group shall recognise an impairment loss. The amount of impairment loss shall first reduce the carrying amount of any goodwill allocated to the asset group or set of asset groups, and then reduce the carrying amount of other assets (other than goodwill) within the asset group or set of asset groups, pro rata on the basis of the carrying amount of each asset.

An impairment loss recognised on the aforesaid assets shall not be reversed in a subsequent period in respect of the restorable value.

### **19. Accrued liabilities**

Obligations pertinent to the contingencies which satisfy the following conditions are recognised as accrued liabilities: (1) The obligation is a current obligation borne by the Group; (2) it is likely that an outflow of economic benefits will be resulted from the performance of the obligation; and (3) the amount of the obligation can be reliably measured.

At the balance sheet date, accrued liabilities shall be measured at the best estimate of the necessary expenses required for the performance of existing obligations, after taking into account relevant risks, uncertainties, time value of money and other factors pertinent to the contingencies.

If all or some expenses incurred for settlement of accrued liabilities are expected to be borne by the third party, the compensation amount shall, on a recoverable basis, be recognised as asset separately, and compensation amount recognised shall not be more than the carrying amount of accrued liabilities.

### **20. Revenue**

#### **(1) Revenue from sales of goods**

Revenue is recognised when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods, retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, will receive the economic benefits associated with the transaction, and can reliably measure the relevant amount of revenue and costs.

#### **(2) Revenue from the rendering of services**

When the outcome of a transaction involving the rendering of services can be reliably estimated, it shall, on the balance sheet date, recognise the revenue from the rendering of services employing the percentage-of-completion method. The completion schedule of transaction concerning the rendering of services shall be ascertained according to the proportion of service costs incurred to the estimated total costs.

The outcome of a transaction concerning the rendering of services can be reliably estimated, which shall concurrently satisfy: (1) The relevant amount of revenue can be reliably measured; (2) it is probable that the economic benefits will flow into the enterprise; (3) the completion schedule of the transaction can be reliably ascertained; and (4) transaction costs incurred and to be incurred can be reliably measured.

## **IV. Significant Accounting Policies and Estimates (Cont'd)**

### **20. Revenue (Cont'd)**

#### **(2) Revenue from the rendering of services**

When the outcome of a transaction involving the rendering of services cannot be reliably estimated, it shall recognise the revenue from the rendering of services based on the cost of rendering services already incurred and expected to be compensated, and the cost of rendering services incurred shall be recognised as an expense for the current period. If the cost of rendering services is expected not to be compensated, it shall be recognised as an expense.

When a contract or agreement signed by the Group includes sales of goods and rendering of services, if sales of goods and rendering of services can be differentiated and separately measured, they will be recognised respectively. If sales of goods and rendering of services cannot be differentiated or cannot be separately measured, they will be recognised as sales of goods in full.

#### **(3) Royalty revenue**

Revenue is recognised on an accrual basis under the relevant contracts or agreements.

#### **(4) Interest income**

Interest income is measured based on the length of time for which the Group's cash is used by others and the effective interest rate.

### **21. Government grant**

Government grants are transfer of monetary assets or non-monetary assets from the government to the Group at no consideration, excluding capital considerations from the government as an owner of the Group. Government grants are classified into government grants related to assets and government grants related to income.

If a government grant is in the form of a transfer of monetary asset, the item shall be measured at the amount received or receivable. If a government grant is in the form of a transfer of non-monetary asset, the item shall be measured at fair value. If fair value is not reliably determinable, the item shall be measured at a nominal amount and recognised immediately in profit or loss for the current period.

A government grant related to an asset shall be recognised as deferred income, and evenly amortised to profit or loss over the useful life of the asset. For a government grant related to income, if the grant is a compensation for related expenses or losses to be incurred in subsequent periods, the grant shall be recognised as deferred income, and recognised in profit or loss over the periods in which the related costs are recognised; if the grant is a compensation for related expenses or losses already incurred, the grant shall be recognised immediately in profit or loss for the current period.

For the repayment of a government grant already recognised, if there is any related deferred income, the repayment shall be off set against the carrying amount of the deferred income, and any excess shall be recognised in profit or loss for the current period; if there is no related deferred income, the repayment shall be recognised immediately in profit or loss for the current period.

## **IV. Significant Accounting Policies and Estimates (Cont'd)**

### **22. Deferred income tax assets / deferred income tax liabilities**

#### **(1) Current income tax**

At the balance sheet date, current income tax liabilities (or assets) for the current and prior periods shall be measured at the amount expected to be paid (or recovered) according to the requirements of tax laws. Taxable profits, which are the basis for calculating the current income tax expense, are determined after adjusting the accounting profits before tax for the year in accordance with relevant requirements of tax laws.

#### **(2) Deferred income tax assets and deferred income tax liabilities**

Temporary differences arising from the difference between the carrying amount of an asset or liability and its tax base, and the difference between the tax base and the carrying amount of those items that are not recognised as assets or liabilities but have a tax base that can be determined according to tax laws, shall be recognised as deferred income tax assets and deferred income tax liabilities using the balance sheet liability method.

Deferred income tax liabilities are not recognised for taxable temporary differences related to: the initial recognition of goodwill; and the initial recognition of an asset or liability in a transaction which is neither a business combination nor affects accounting profit or taxable profit (or deductible loss) at the time of the transaction. In addition, the Group recognises the corresponding deferred income tax liability for taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, except when both of the following conditions are satisfied: the Group able to control the timing of the reversal of the temporary difference; and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are not recognised for deductible temporary differences related to the initial recognition of an asset or liability in a transaction which is neither a business combination nor affects accounting profit or taxable profit (or deductible loss) at the time of the transaction. In addition, the Group recognises the corresponding deferred income tax asset for deductible temporary differences associated with investments in subsidiaries, associates and joint ventures to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilised, except when both of the following conditions are satisfied: it is not probable that the temporary difference will reverse in the foreseeable future; and it is not probable that taxable profits will be available in the future, against which the temporary difference can be utilised.

The Company recognises a deferred income tax asset for the carry forward of deductible losses and tax credits to subsequent periods, to the extent that it is probable that future taxable profits will be available against which the deductible losses and tax credits can be utilised.

At the balance sheet date, deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, according to the requirements of tax laws.

At the balance sheet date, the Company shall review the carrying amount of a deferred income tax asset. If it is probable that sufficient taxable profits will not be available in future periods to allow the benefit of the deferred income tax asset to be utilised, the carrying amount of the deferred income tax asset shall be reduced. Any such reduction in amount shall be reversed when it becomes probable that sufficient taxable profits will be available.



## **IV. Significant Accounting Policies and Estimates (Cont'd)**

### **22. Deferred income tax assets / deferred income tax liabilities (Cont'd)**

#### **(3) Income tax expense**

Income tax expense comprises current income tax expense and deferred income tax expense.

Current income tax expense (current income tax income) and deferred income tax expense (deferred income tax income) are included in profit or loss for the current period, except for: recognised as other comprehensive income or current income tax and deferred income tax related to transactions or events that are directly recognised in other comprehensive income or owners' equity, which are recognised directly in owners' equity, and deferred income tax arising from a business combination, which is adjusted against the carrying amount of goodwill.

#### **(4) Offset of income tax**

After granted the legal rights of net settlement and with the intention to use net settlement or obtain assets, repay debt, the Group, at the same time, records the net amount after offsetting its current income tax assets and current income tax liabilities.

The Group was granted the legal rights of net settlement of current income tax assets and current income tax liabilities. Deferred income tax assets and deferred income tax liabilities are related to income tax to be paid by the same entity liable to pay tax to the same tax collection and management authority or related to different entities liable to pay tax, but the relevant entity liable to pay tax is intended to apply net settlement of current income tax assets and liabilities or, at the same time, obtain assets, repay debt whenever every deferred income tax assets and liabilities with importance would be reversed in the future, the Group records the net amount after offsetting its current income tax assets and current income tax liabilities.

### **23. Lease**

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

#### **(1) Operating lease business with the Group recorded as lessee**

Lease payment for operating lease is recognised as related asset cost or profits and losses for the current period using the straight-line method over the lease term. The initial direct cost is directly accounted in profit or loss for the current period. Contingent rent is recognised as profit or loss for the current period upon occurrence.

#### **(2) Operating lease business with the Group recorded as lessor**

Rental income is recognised in profit or loss for the current period using the straight-line method over the lease term. The initial direct cost where the amount is larger is capitalised when incurred, and accounted for as profit or loss for the current period on the same basis as recognition of rental income over the entire lease period; the initial direct cost where the amount is fewer is included in the profit or loss for the period when incurred. Contingent rental is accounted for as profit or loss for the period in which it is incurred.

## **IV. Significant Accounting Policies and Estimates (Cont'd)**

### **23. Lease (Cont'd)**

#### **(3) The Group as a lessee under a finance lease**

On the lease beginning date, a lessee shall recognise the lower of the fair value of the leased asset on the lease beginning date and the present value of the minimum lease payments as the recorded value, and recognise the minimum lease payments as the recorded value of long-term accounts payable, and the difference between such amounts shall be determined as unrecognised finance charge. The initial direct costs directly attributable to the leased item incurred during the process of lease negotiation and execution of the leasing agreement shall be accounted for as the value of the leased asset. The balance of the minimum lease payments after deducting the unrecognised financing charge shall be separately presented as long-term liabilities and long-term liabilities due within one year.

The unrecognised financing charge shall be accounted for during the lease period using the effective interest method and recognised as financing charge for the period. Contingent rent payments are recognised in the profit and loss for the period when actually incurred.

### **24. Assets held for sale**

If the Group has made a resolution in respect of disposal of a non-current asset and signed an irrevocable transfer agreement with the transferee, and such transfer is likely to be completed within one year, this non-current asset shall be accounted for as non-current assets held for sale without any depreciation or amortisation provided and calculated at the lower of carrying amount and net amount of the fair value less disposal cost. Non-current assets held for sale include individual asset and disposal group. If the group of disposal is a set of asset groups and goodwill received from business combination is allocated to such asset groups in accordance with the "Accounting Standards for Business Enterprises No.8 "Assets Impairment" or such disposal group is an operation in the asset groups, it shall include the goodwill in business combination.

If an asset or disposal group is classified as held for sale, but fails to meet recognition requirements for non-current assets held for sale, it shall no longer be classified as assets held for sale and calculated at the lower of the following two amounts: (i) the carrying amount of such asset or disposal group before being classified as assets held for sale subsequent to the adjustment to the originally recognised depreciation, amortisation or impairment under the condition that they are not classified as assets held for sale; and (2) the recoverable amount at the date on which no future sale is decided.

## **IV. Significant Accounting Policies and Estimates (Cont'd)**

### **25. Employee Benefits**

In the accounting period in which an employee has rendered services, the Group shall recognise the employee benefits payable as a liability.

The Group participates in social security systems operated by the government. Payments of social security contributions for employees, such as premiums or contributions on pensions, medical insurance, payments of housing funds and other social welfare contributions shall be included in the cost of related assets or profit or loss for the period in which they are incurred.

When the Group terminates the employment relationship with employees before the expiry of the employment contracts or provides compensation as an offer to encourage employees to accept voluntary redundancy, if the Group has a formal plan for termination of employment relationship or has made an offer for voluntary redundancy, which will be implemented immediately, and the Group cannot unilaterally withdraw from the termination plan or the redundancy offer, a compensation liability arising from the termination of employment relationship with employees should be charged to the profit or loss for the current period.

An internal retirement plan is accounted for using the same principles as described above. Salaries and social insurance contributions to be paid to the internally retired employees by the Group during the period from the date when the employee ceases to provide services to the normal retirement date are recognised in profit or loss for the period when the recognition criteria for provisions are met (termination benefits).

### **26. Changes in Significant Accounting Policies and Estimates**

#### **(1) Changes in accounting policies**

Nil.

#### **(2) Changes in accounting estimates**

Nil.

### **27. Corrections on accounting errors in prior periods**

Nil.

### **28. Critical accounting judgments and estimate**

The Group needs to make judgments, estimates and assumptions as to the carrying amount of statement items which cannot be accurately calculated during the application of the Group's accounting policies. Such judgments, estimates and assumptions are made based on the historical experiences of the Group's management and taking into account other relevant factors, which may affect the reported amount of revenue, expenses, assets and liabilities and disclosure of contingent liabilities at the balance sheet date. However, the outcome from such estimate uncertainties may cause critical adjustment to the carrying amount of assets or liabilities which may be affected in the future.

The Group regularly reviews the aforesaid judgments, estimates and assumptions on the basis of continued operation. A revision to accounting estimates is recognised in the period in which the estimate is revised if it only affects that period. A revision is recognised in the period of the revision and future periods if it affects both current and future periods.

## **IV. Significant Accounting Policies and Estimates (Cont'd)**

### **28. Critical accounting judgments and estimate (Cont'd)**

At the balance sheet date, the critical areas where Group needs to make judgments, estimates and assumptions as to the items amount of financial statements are set out below:

#### **(1) Provision for bad debts**

The Group adopts the allowance method to account for bad debt loss under the accounting policies of accounts receivable. Impairment of accounts receivable is based on the recoverability of assessed accounts receivable. Given the management's judgment and estimate required for impairment of accounts receivable, the difference between the actual outcome and original estimate will affect the carrying amount of accounts receivable and provision and reversal of bad debts of accounts receivable during the estimate revision period.

#### **(2) Allowance for inventories**

Under the accounting policies of inventories and by measuring at the lower of cost and net realisable value, the Group makes allowance for inventories which have costs higher than net realisable value or become obsolete and slow-moving. Write-down of inventories to their net realisable values is based on the saleability of the evaluated inventory and their net realisable values. Given the management's judgments and estimates required for inventory impairment on the basis of definite evidence, purpose of holding the inventories and other factors, the difference between the actual outcome and original estimate will affect the carrying amount of inventories and provision and reversal of bad debts of inventories allowance during the estimate revision period.

#### **(3) Subsequent measurement of biological assets**

The Group has appointed an independent professional valuer to value the fair value of the biological assets. When the valuer determines the fair value, the valuation method used by the valuer includes some assumptions. Directors have judged that the valuation method reflects the prevailing market conditions.

#### **(4) Provision for impairment of non-financial non-current assets**

At the balance sheet date, the Group makes its judgment as to whether there is any evidence indicating potential impairment of non-current assets other than financial assets. Intangible assets with indefinite useful life shall be tested for impairment when there is any indication of impairment in addition to the annual impairment testing.

Other non-current assets other than financial assets shall be tested for impairment if there is any evidence indicating that their carrying amount cannot be recovered. When the carrying amount of an asset or asset groups is higher than the recoverable amount, being the higher of its fair value less costs of disposal and the present value of the future cash flows expected to be derived from the asset, it indicates impairment.

The net amount of the fair value less costs of disposal is determined by making reference to the price in a sale agreement in an arm's length transaction or the observable market price less the incremental costs directly attributable to such assets disposal.

## **IV. Significant Accounting Policies and Estimates (Cont'd)**

### **28. Critical accounting judgments and estimate (Cont'd)**

#### **(4) Provision for impairment of non-financial non-current assets (Cont'd)**

In projecting the present value of the future cash flows, critical judgments shall be made to the output, selling price and relevant operating costs of such assets (or asset groups) and the discount rate applied in calculating the discount. In estimating the recoverable amount, the Group may adopt all relevant materials including the projections as to the output, selling price and relevant operating costs based on reasonable and supportive assumptions.

The test shall be performed at least once a year as to whether there is any impairment. This requires an estimate for the present value of the future cash flows of the asset groups or sets of asset groups to which goodwill is allocated. In estimating the present value of the future cash flows, the Group needs to estimate the cash flows generated from the future asset groups or sets of asset groups. Meanwhile, the present value of future cash flows is determined using an appropriately selected discount rate.

#### **(5) Depreciation and amortisation**

The Group shall provide depreciation and amortisation for investment properties, fixed assets and intangible assets over their useful lives and after taking into account of their residual value, using straight-line method. The Group shall regularly review the useful lives to determine the amount depreciated and amortised to be accounted for in each reporting period. The useful life is determined by the Group according to its previous experience on the similar assets and estimated technical innovation. If there is any material change in the previously made estimate, the depreciation and amortisation will be adjusted over the future period.

#### **(6) Deferred income tax assets**

It is probable that all unused tax loss will be recognised as the deferred income tax assets to the extent there will be sufficient taxable profits against which the deductible loss is available. This requires the Group's management to apply numerous judgments to estimate the time and amount generated from the future taxable profits so as to determine the amount of deferred income tax assets with reference to the tax planning strategy.

#### **(7) Income tax**

There are some uncertainties in tax treatment and calculation for some transactions of the Group during its ordinary course of business. The approval from the tax authority is required for pre-tax expensing of some items. Any difference between the final recognition outcome of such tax matters and the initially estimated amount will exert an effect on the current income tax and deferred income tax during their final recognition period.

## v. Taxation

### 1. Main Tax Types and Tax Rates

| Tax type   | Basis of taxing                                 | Taxrat            |
|--|---|-------------------|
| Value: added tax   |   |                   |
| Of which: Product sold in the domestic market              | Sales volume                                    | 17%               |
| Paper core sales, printing                                 | Sales volume                                    | 17%               |
| Purchase of barley grass, pampas grass                     | Procurement volume                              | 13%               |
| Purchase of steam power for production use                 | Procurement volume                              | 13%               |
| Purchase of electric power for production use              | Procurement volume                              | 17%               |
| Purchase of sodium silicate, paperboard for production use | Procurement volume                              | 17%               |
| Purchase of waste paper in the PRC                         | Procurement volume                              | 10%               |
| Coal   | Procurement volume                              | 17%               |
| Business tax   |   |                   |
| Of which: Repair services                                  | Revenue from repair                             | 5%                |
| Entrusted loans  | Interests income                                | 5%                |
| Transportation services                                    | Revenue from transportation                     | 3%                |
| Urban maintenance and construction tax                     | Amount of value added tax and business tax paid | 5-7%              |
| Education surtax   | Amount of value added tax and business tax paid | 3%                |
| Enterprise income tax                                      | Taxable income                                  | 15%, 25% tax rate |

### 2. Tax Incentives and Approvals

#### Enterprise Income Tax

Pursuant to the requirements of Law of the People's Republic of China on Enterprise Income Tax (《中華人民共和國企業所得稅法》) dated 16 March 2007, the Company is recognised as a high or new technology enterprise which needs the major support of the state as approved by State Taxation Administration of Shouguang, Shandong. An enterprise income tax rate of 15% is applicable to the Company since 1 January 2009 for three years. The sales branches of the Company were still subject to an enterprise income tax rate of 25%.

Hailaer Chenming Paper Co., Ltd. (海拉爾晨鳴紙業有限責任公司), a subsidiary of the Company established in the Inner Mongolia Autonomous Region and covered by the preferential tax policy for industries encouraged by the State Government, enjoyed the preferential income tax rate of 15% from 2001 to 2010 pursuant to Guo Shui Fa (2002) Document No. 47 issued by the State Administration of Taxation.

Pursuant to the Guo Xi Ban Zong [2001] Document No. 10 "Written Reply concerning the Application of the Preferential Tax Policies on Development of the Western Region in Yanbian Korean Autonomous Prefecture" issued by the Office of the Leading Group for Western Region Development of the State Council (《國家稅西部開發辦關於延邊朝鮮族自治州參照報行國家西部大開發優惠政策的覆函》) and Yanzhou local tax notice [2001] Document No. 99 "Letter confirming the entitlement of 吉林晨鳴亞松漿紙有限公司 to preferential tax policy" issued by the local tax bureau of Yanbian Korean Autonomous Prefecture (《延邊州地方稅務局關於吉林晨鳴亞松紙有限公司享受稅收優惠政策承諾的函》), Yanbian Chenming Paper Co., Ltd. (延邊晨鳴紙業有限公司), a subsidiary of the Company, is covered by the preferential tax policies on development of the Western Region and thus enjoys preferential tax rate of 15% from 2001 to 2010.

## v. Taxation (Cont'd)

### 2. Tax Incentives and Approvals (Cont'd)

#### Enterprise Income Tax (Cont'd)

Shandong Chenming Xinli Power Co., Ltd. (山東晨鳴新力熱電有限公司), a subsidiary of the Company, was established in 2001 as a Sino-foreign joint venture and engaged in the business of electric power and thermal power generation. Pursuant to Rule No. 73 of "Detailed Rules on the Implementation of the Income Tax Law of The People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises" (《中華人民共和國外商投資企業和外國企業所得稅法實施細則》) and rules under the State Council's Circular on Expanding Application Scope of Income Tax Preferential Treatment on Enterprises with Foreign Investment Engaged in Energy or Traffic Infrastructure Projects (《國務院關於擴大外商投資企業從事能源交通基礎設施項目稅收優惠規定使用範圍的通知》) (Guo Fa [1999] No. 13), and Guo Shui Han [2002] Document No. 1032 "Written Reply on issues regarding the application of preferential enterprise income tax rate to Shandong Chenming Xinli Power Co., Ltd." from the State Council (《國家稅務總局關於山東晨鳴新力熱電有限公司適用企業所得稅率問題的批覆》), Shandong Chenming Xinli Power Co., Ltd. is subject to income tax rate of 15%. Pursuant to Guo Fa [2007] Document No. 39 "Circular on Transitional Preferential Enterprise Income Tax Policy" issued by the State Council (《國務院關於實施企業所得稅過渡優惠政策的通知》), the subsidiary was subject to the income tax rate of 22% in 2010.

Wuhan Chenming Hanyang Paper Holdings Co., Ltd. (武漢晨鳴漢陽紙業股份有限公司), a subsidiary of the Company, was transformed into an EFI in April 2005. Pursuant to the Income Tax Law of The People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises and its implementation rules, and as approved by State Taxation Administration of Economic and Technological Development Zone of Wuhan City, the income tax for 2007 was reduced in half. Pursuant to Guo Fa [2007] Document No. 39 "Circular on Transitional Preferential Enterprise Income Tax Policy" issued by the State Council (《國務院關於實施企業所得稅過渡優惠政策的通知》), the subsidiary was subject to the income tax rate of 22% in 2010.

Jiangxi Chenming Paper Co., Ltd. (江西晨鳴紙業有限責任公司), a subsidiary of the Company, was transformed into an EFI in 2004. It engaged in production with a period of operation of more than 10 years as a foreign-investment enterprise. 2009 was the third year since it started to make profits. Pursuant to Guo Fa [2007] Document No. 39 "Circular on Transitional Preferential Enterprise Income Tax Policy" issued by the State Council (《國務院關於實施企業所得稅過渡優惠政策的通知》), the subsidiary was subject to the income tax of 12.5% in 2010.

Pursuant to the "Revenue Bill 2008" passed by The Legislative Council of the Hong Kong Special Administrative Region on 26 June 2008, Chenming (HK) Limited, a subsidiary of the Company, has been subject to a corporate income tax rate of 16.5% commencing 2008, and the applicable tax rate for 2010 was 16.5%.

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

## v. Taxation (Cont'd)

### 2. Tax Incentives and Approvals (Cont'd)

#### Value-added Tax ("VAT") incentives

Pursuant to the requirements of the "Provisional Regulations on Value-added Tax of the People's Republic of China" (《中華人民共和國增值稅暫行條例》) and "Detailed Rules for the Implementation of the Provisional Regulations on Value-added Tax of the People's Republic of China" (《中華人民共和國增值稅暫行條例實施細則》), with effect from 1 January 2009, general payers of VAT may have the input amount incurred from acquiring (including acceptance of donation and investment in kind) or manufacturing (including rebuilding, expansion of building and installation) fixed assets deducted from the output amount upon the proof of the VAT-specific invoice, special bill of payment of import VAT obtained from the customs and freight settlement voucher.

Pursuant to Cai Shui [1995] No. 44 "Circular on VAT Exemption for Certain Products Applying Integrated Use of Resources" issued by the State Administration of Taxation(《國家稅務總局對部分資源綜合利用產品免徵增值稅的通知》), enterprises engaged in utilisation of raw materials containing not less than 30% of coal gangue, stone coal, coal ash, bottom ash of coal boiler (excluding blast furnace water quenching residue) in the production of building material products shall be exempted from VAT. Wuhan Chenjian New-style Wall Materials Co., Ltd. (武漢晨建新型牆體材料有限公司), a subsidiary of the Company, utilises raw materials containing above 30% of coal ash in its production. It is thus qualified as an enterprise engaged in the utilisation of waste in production and is exempted from VAT in 2010.

Pursuant to Cai Shui [2001] No. 78 "Circular on the VAT Policy concerning Waste Collection Business" issued by the State Administration of Taxation(《國家稅務總局關於廢舊物資回收經營業務有關增值稅政策的通知》), since 2001, general taxpayers engaging in the sale of waste materials business will be exempted from VAT. Accordingly, Qihe Chenming Waste Collection Co., Ltd. (齊河晨鳴廢舊物資收購有限公司), Jilin Chenming Waste Collection Co., Ltd. (吉林晨鳴廢舊物資回收有限公司) and Shouguang City Run Sheng Wasted Paper Recycle Co., Ltd. (壽光市潤生廢紙回收有限責任有限公司), subsidiaries of the Company, are covered by the preferential policy of VAT exemption.

Pursuant to Cai Shui Zi [1995] No. 44 "Circular on VAT Exemption for Certain Products Applying Integrated Use of Resources issued by the Ministry of Finance and the State Administration of Taxation" (《財政部、國家稅務總局關於對部分資源綜合利用產品免徵增值稅問題的通知》) and the relevant requirements of Cai Shui [2001] Document No. 72, Shandong Chenming Panels Co., Ltd. (山東晨鳴板材有限責任公司), Qihe Chenming Panels Co., Ltd. (齊河晨鳴板材有限公司), Juancheng Chenming Panels Co., Ltd (鄆城晨鳴板材有限公司) and Heze Chenming Panels Co., Ltd., (河澤晨鳴板材有限責任公司) all being subsidiaries of the Company and produce products that applied integrated use of resources, are subject to an immediate VAT refund policy.



# XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

## VI. Business Combination and Consolidated Financial Statements

### 1. Subsidiaries

(1) Subsidiaries acquired through establishment or investment

| Full name of subsidiary                                 | Subsidiary type                 | Place of Incorporation | Business Nature      | Registered capital | Business activity   | Legal representative | Organisation code | The actual investment at the end of period | Balance of other projects that constitutes net investment in the subsidiary | Shareholding (%) | Voting rights (%) | Whether consolidated | Minority interests | Set off the profit or loss of the minority interests from the equity of the minority | Set off the profit or loss of the minority interests from the equity of the minority | Set off the loss attributable to the minority shareholders of the subsidiaries in the current period from the owner's equity of the Company exceeds the minority shareholders' portion of the opening balance of owners' equity of the subsidiary | Unit: RMB '0000 |
|---|---------------------------------|------------------------|----------------------|--------------------|---|----------------------|-------------------|--|---|------------------|-------------------|----------------------|--------------------|--|--|---|-----------------|
|   |                                 |                        |                      |                    |   |                      |                   |  |   |                  |                   |                      |                    |  |  |   | 42,847.53       |
| Wuhan Chenming Hanyang Paper Holdings Co., Ltd.         | Sino-foreign joint venture      | Wuhan City             | Manufacture of paper | 2,136              | Manufacture and sales of paper products, the materials of manufacture of paper and machinery                                  | Tan Daocheng         | 27169235-4        | 20,283                                     | —   | 50.93            | 50.93             | Yes                  | 42,847.53          | —  | —  | —   |                 |
| Shandong Chenming Paper Group Qihe Paperboard Co., Ltd. | Limited liability company       | Qihe, Shandong         | Manufacture of paper | 37,620             | Manufacture, processing and sales of paperboard and packaging paper   | Hou Huanai           | 72074277-4        | 37,620                                     | —   | 100              | 100               | Yes                  | —                  | —  | —  | —   |                 |
| Shandong Chenming Power Supply Holdings Co., Ltd.       | Limited liability stock company | Shouguang, Shandong    | Electricity          | 9,955              | Manufacture and supply of electricity and steam   | 孫林吉                  | 70620711-8        | 15,781                                     | —   | 86.71            | 86.71             | Yes                  | 10,916.39          | —  | —  | —   |                 |
| Yanbian Chenming Paper Co., Ltd.                        | Limited liability company       | Yanji, Jilin           | Manufacture of paper | 8,163.30           | Mucilage glue fiber pulp and machine-made paper   | 桑赫高                  | 72958840-0        | 4,009                                      | —   | 76.73            | 76.73             | Yes                  | 4,667.94           | —  | —  | —   |                 |
| Jiangxi Chenming Paper Co., Ltd.                        | Sino-foreign joint venture      | Nanchang city          | Manufacture of paper | USD 72.00 million  | Production and processing, etc. of machine-made paper, paperboard, paper panel, paper products and paper-making raw materials | Geng Guanglin        | 74426460-7        | 66,755                                     | —   | 51               | 51                | Yes                  | 83,277.28          | —  | —  | —   |                 |
| Shouguang Chenming Tianyuan Arboriculture Co., Ltd.     | Limited liability company       | Shouguang, Shandong    | Arboriculture        | 1,059              | Development, culture of fast growth poplar forest, vegetable and fruit  | 李德江                  | 73925671-7        | 720  | —   | 68               | 68                | Yes                  | -80.26             | —  | —  | —   |                 |
| Halaer Chenming Paper Co., Ltd.                         | Limited liability company       | Halaer City            | Manufacture of paper | 1,600              | Sales and processing, sales of machine-made paper and pulp paper  | 高子偉                  | 70190836-6        | 1,200                                      | —   | 75               | 75                | Yes                  | 3,201.80           | —  | —  | —   |                 |

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

### 1. Subsidiaries (Cont'd)

(1) Subsidiaries acquired through establishment or investment (Cont'd)

Unit: RMB '0000

| Full name of subsidiary                           | Subsidiary type            | Place of Incorporation | Business Nature                     | Registered capital | Business activity  | Legal representative | Organisation code | The actual investment at the end of period | Balance of other projects that constitutes net investment in the subsidiary | Shareholding (%) | Voting rights (%) | Whether consolidated | Minority interests | Set off the profit or loss of the minority interests from the equity of the minority interests | Setting off of the loss attributable to the minority shareholders of the subsidiaries in the current period from the owner's equity of the Company exceeds the minority shareholders' portion of the opening balance of owners' equity of the subsidiary |
|---|----------------------------|------------------------|-------------------------------------|--------------------|--|----------------------|-------------------|--|---|------------------|-------------------|----------------------|--------------------|--|--|
|   |                            |                        |                                     |                    |  |                      |                   |  |   |                  |                   |                      |                    |  |  |
| Chibi Chemming Paper Co., Ltd.                    | Limited liability company  | Chibi, Hubei           | Manufacture of paper                | 17,742             | Production, processing and sales of pulp and paper products; land transport  | 葉建明                  | 422039353         | 2,627                                      | —   | 51               | 51                | Yes                  | 20,448.55          | —  | —  |
| Wuhan Chemming Cheming Electric Power Co., Ltd.   | Limited liability company  | Wuhan City             | Electricity                         | 8,824              | Generation and sales of electricity and steam  | 胡建國                  | 725793722         | 4,500                                      | —   | 51               | 51                | Yes                  | 8,091.09           | —  | —  |
| Wuhan Chemming New-style Wall Materials Co., Ltd. | Limited liability company  | Wuhan City             | Wall materials                      | 1,000              | Production operation and sales of aerated fly ash concrete blocks  | 呂輝峰                  | 744754040         | 510  | —   | 51               | 51                | Yes                  | 2,744.12           | —  | —  |
| Shandong Chemming Xinli Power Co., Ltd.           | Sino-foreign joint venture | Shouguang, Shandong    | Electricity                         | USD11.80 million   | Generation and sales of electricity and steam  | 孫洪吉                  | 720731215         | 4,982                                      | —   | 51               | 51                | Yes                  | 9,000.93           | —  | —  |
| Shouguang Chemming Cement Co., Ltd.               | Limited liability company  | Shouguang, Shandong    | Production and sales of cement      | 700                | Utilisation of ash in the production of cement and sales of cement   | 孫洪吉                  | 73720178-X        | 700  | —   | 100              | 100               | Yes                  | 288.36             | —  | —  |
| Shandong Chemming Panels Co., Ltd.                | Limited liability company  | Shouguang, Shandong    | Production and sales of panels      | 3,000              | Decorative board of the layer of laminated board, wooden products, laminated board and certified wooden floorboard | 劉洪森                  | 73816170-8        | 3,000                                      | —   | 100              | 100               | Yes                  | 1,692.07           | —  | —  |
| Shouguang Chemming Floor Board Co., Ltd.          | Limited liability company  | Shouguang, Shandong    | Production and sales of floor board | 50                 | Production, processing and sales of certified wooden floorboard and impregnated paper                              | 劉洪森                  | 763822125         | 50   | —   | 100              | 100               | Yes                  | 111.55             | —  | —  |

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

### 1. Subsidiaries (Cont'd)

(1) Subsidiaries acquired through establishment or investment (Cont'd)

Unit: RMB '0000

| Full name of subsidiary                    | Subsidiary type           | Place of Incorporation | Business Nature                | Registered capital | Business activity  | Legal representative | Organisation code | The actual investment at the end of period | Balance of other projects that constitutes net investment in the subsidiary | Shareholding (%) | Voting rights (%) | Whether consolidated | Minority interests | Set off the profit or loss of the minority interests from the equity of the minority | Set off of the loss attributable to the minority shareholders of the subsidiaries in the current period from the owner's equity of the Company exceeds the minority shareholders' portion of the opening balance of owners' equity of the subsidiary |
|--|---------------------------|------------------------|--------------------------------|--------------------|--|----------------------|-------------------|--|---|------------------|-------------------|----------------------|--------------------|--|--|
|  |                           |                        |                                |                    |  |                      |                   |  |   |                  |                   |                      |                    |  |  |
| Qihe Chenming Panels Co., Ltd.             | Limited liability company | Qihe, Shandong         | Production and sales of panels | 4,082              | Production, processing and sales of high-density (medium-density) fiberboard, decorative panel, melamine impregnated paper and composite floor | 魏树森                  | 76071404-2        | 4,082                                      | —   | 100              | 100               | Yes                  | —                  | —  | —  |
| Heze Chenming Panels Co., Ltd.             | Limited liability company | Heze, Shandong         | Production and sales of panels | 3,000              | Production and sales of high-density (medium-density) fiberboard, decorative panel, melamine impregnated paper and composite floor             | 魏树森                  | 75827615-8        | 2,010                                      | —   | 67               | 67                | Yes                  | -953.59            | —  | —  |
| Yangjiang Chenming Arboriculture Co., Ltd. | Limited liability company | Yangjiang, Guangdong   | Arboriculture                  | 100                | Plantation and development of forest, and technology consultation of forestry  | Yin Tongyuan         | 79467494-6        | 100  | —   | 100              | 100               | Yes                  | —                  | —  | —  |
| Zhanjiang Chenming Arboriculture Co., Ltd. | Limited liability company | Zhanjiang, Guangdong   | Arboriculture                  | 100                | Plantation of forest, nutrition and sales of seedling, processing and sales of timber and processing and sales of by-products of timber        | Wang Zenguo          | 78288807-5        | 100  | —   | 100              | 100               | Yes                  | —                  | —  | —  |
| Jilin Chenming Paper Co., Ltd.             | Limited liability company | Jilin City, Jilin      | Manufacture of paper           | 150,000            | Processing and sales of machine-made paper, paperboard, paper product, paper pulp, machinery and equipment of manufacture of paper             | Zheng Chunlin        | 78286566-0        | 150,135                                    | —   | 100              | 100               | Yes                  | —                  | —  | —  |
| Juancheng Chenming Panels Co., Ltd.        | Limited liability company | Juancheng, Shandong    | Production and sales of panels | 1,500              | Production and sales of particle board, decorative impregnated paper   | 魏树森                  | 77872435-X        | 1,500                                      | —   | 100              | 100               | Yes                  | —                  | —  | —  |

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

### 1. Subsidiaries (Cont'd)

(1) Subsidiaries acquired through establishment or investment (Cont'd)

| Full name of subsidiary                          | Subsidiary type            | Place of Incorporation | Business Nature                              | Registered capital | Business activity   | Legal representative | Organisation code | The actual investment at the end of period | Balance of other projects that constitutes net investment in the subsidiary | Shareholding (%) | Voting rights (%) | Whether consolidated | Minority interests | Set off the profit or loss of the minority interests from the equity of the minority | Set off the loss attributable to the minority shareholders of the subsidiaries in the current period from the owner's equity of the Company exceeds the minority shareholders' portion of the opening balance of owners' equity of the subsidiary | Unit: RMB '0000 |
|--|----------------------------|------------------------|--|--------------------|---|----------------------|-------------------|--|---|------------------|-------------------|----------------------|--------------------|--|---|-----------------|
|  |                            |                        |  |                    |   |                      |                   |  |   |                  |                   |                      |                    |  |   |                 |
| Shandong Grand View Hobe Co., Ltd.               | Sino-foreign joint venture | Shouguang, Shandong    | Beverage                                     | USD13.91 million   | Restaurant and beverage services  | Xia Guangchun        | 97529857-8        | 8,050                                      | —   | 70               | 70                | Yes                  | 325.39             | —  | —   |                 |
| Zhanjiang Chemming Paper Pulp Co., Ltd.          | Limited liability company  | Zhanjiang, Guangdong   | Agriculture                                  | 80,000             | Improvement of plant todering, tree planting and soil, research of forestry, manufacture, production, processing and sales of paper pulp etc. | Yin Tongyuan         | 77527894-1        | 80,000                                     | —   | 100              | 100               | Yes                  | —                  | —  | —   |                 |
| Chemming (HK) Limited                            | Limited liability company  | Hong Kong, China       | Trade of paper                               | USD0.10 million    | Export and import trade of paper products and market research   | LI Feng              | 3734273001080     | 78   | —   | 100              | 100               | Yes                  | —                  | —  | —   |                 |
| Shouguang Chemming Modern Logistic Co., Ltd.     | Limited liability company  | Shouguang, Shandong    | Transportation                               | 1,000              | Transportation of goods   | Chen Hongguo         | 66016223-7        | 1,000                                      | —   | 100              | 100               | Yes                  | —                  | —  | —   |                 |
| Shouguang Chemming Art Paper Co., Ltd.           | Sino-foreign joint venture | Shouguang, Shandong    | Manufacture of paper                         | USD20.00 million   | Production and sales of machine-made paper  | Yin Tongyuan         | 79867677-0        | 11,362                                     | —   | 75               | 75                | Yes                  | 5,356.60           | —  | —   |                 |
| Qile Chemming Waste Collection Co., Ltd.         | Limited liability company  | Qile, Shandong         | Purchase and sales of waste and old material | 50                 | Purchase and sales of wastes and old materials  | 汪秉耀                  | 75925591-2        | 50   | —   | 100              | 100               | Yes                  | —                  | —  | —   |                 |
| Jilin Chemming Waste Collection Co., Ltd.        | Limited liability company  | Jilin                  | Purchase and sales of waste and old material | 100                | Purchase and sales of wastes and old materials  | 張邦吉                  | 77827231-5        | 100  | —   | 100              | 100               | Yes                  | —                  | —  | —   |                 |
| Jilin Chemming Machinery Manufacturing Co., Ltd. | Limited liability company  | Jilin                  | Processing of machinery                      | 60                 | Processing of machinery, manufacture, installation and repair of the equipment of machinery   | Zhang Chunlin        | 66012410-5        | 60   | —   | 100              | 100               | Yes                  | —                  | —  | —   |                 |

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

### 1. Subsidiaries (Cont'd)

(1) Subsidiaries acquired through establishment or investment (Cont'd)

| Full name of subsidiary                         | Subsidiary type           | Place of Incorporation    | Business Nature                             | Registered capital | Business activity  | Legal representative | Organisation code | The actual investment at the end of period | Balance of other projects that constitutes net investment in the subsidiary | Shareholding (%) | Voting rights (%) | Whether consolidated | Minority interests | Set off the profit or loss of the minority interests from the equity of the minority | Set off the loss attributable to the minority shareholders of the subsidiaries in the current period from the owner's equity of the Company exceeds the minority shareholders' portion of the opening balance of owners' equity of the subsidiary | Unit: RMB '0000 |
|---|---------------------------|---------------------------|---|--------------------|--|----------------------|-------------------|--|---|------------------|-------------------|----------------------|--------------------|--|---|-----------------|
|   |                           |                           |   |                    |  |                      |                   |  |   |                  |                   |                      |                    |  |   |                 |
| Nanchang Chemming Aboniculture Co., Ltd.        | Limited liability company | Nanchang, Jiangxi         | Arboriculture                               | 1,000              | Processing and sales of wooden finished products, semi-finished products and by-products of timber | Geng Guanglin        | 6824336-9         | 1,000                                      | —   | 100              | 100               | Yes                  | 683.25             | —  | —   |                 |
| Fuyu Chemming Paper Co., Ltd.                   | Limited liability company | Fuyu County, Qinihar City | Manufacture of paper                        | 20,800             | Production and sales of machine-made paper and paperboard  | 魏春山                  | 68382286-6        | 20,800                                     | —   | 100              | 100               | Yes                  | —                  | —  | —   |                 |
| Huanggang Chemming Aboniculture Co., Ltd.       | Limited liability company | Huanggang City, Hubei     | Arboriculture                               | 1,000              | Plantation, processing and sales of forests  | Wang Ziqiao          | 67036898-X        | 1,000                                      | —   | 100              | 100               | Yes                  | —                  | —  | —   |                 |
| Huanggang Chemming Paper Co., Ltd.              | Limited liability company | Huanggang City, Hubei     | Arboriculture                               | 2,000              | Operation and acquisition of forest establishment of paper pulp projects                           | 肖翔                   | 67976586-9        | 2,000                                      | —   | 100              | 100               | Yes                  | —                  | —  | —   |                 |
| Xianming Chemming Aboniculture Co., Ltd.        | Limited liability company | Xianming, Hubei           | Arboriculture                               | 1,000              | Plantation, processing and sales of forests  | Wang Ziqiao          | 67975036-8        | 1,000                                      | —   | 100              | 100               | Yes                  | —                  | —  | —   |                 |
| Shouguang Meilun Paper Co., Ltd.                | Limited liability company | Shouguang, Shandong       | Manufacture of paper                        | 150,000            | Production and sales of machine-made paper and paperboard  | Yin Tongyuan         | 69064934-0        | 150,000                                    | —   | 100              | 100               | Yes                  | —                  | —  | —   |                 |
| Shouguang Shun Da Customs Declaration Co., Ltd. | Limited liability company | Shouguang, Shandong       | Customs declaration, inspection declaration | 150                | Business agency of professional customs declaration and inspection declaration                     | Chen Hongguo         | 68689781-2        | 150  | —   | 100              | 100               | Yes                  | —                  | —  | —   |                 |
| Wuhan Chemming Wan Xing Real Estate Co., Ltd.   | Limited liability company | Wuhan, Hubei              | Real estate                                 | 2,000              | Development of real estate and sales of commodity house  | Tan Daocheng         | 68534385-0        | 2,000                                      | —   | 100              | 100               | Yes                  | 924.37             | —  | —   |                 |
| Shandong Chemming Paper Sales Company Limited   | Limited liability company | Shouguang, Shandong       | Sales of paper                              | 10,000             | Sales of machine-made paper, paperboard and paper making raw materials                             | Chen Hongguo         | 55222631-5        | 10,000                                     | —   | 100              | 100               | Yes                  | —                  | —  | —   |                 |

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

### 1. Subsidiaries (Cont'd)

(2) The subsidiaries not acquired from business combination under common control

Unit: RMB '0000

| Full name of subsidiary                                 | Subsidiary type           | Place of Incorporation | Business Nature                           | Registered capital | Business activity  | Legal representative | Organisation code | The actual investment at the end of period | Balance of other projects that constitutes net investment in the subsidiary | Shareholding (%) | Voting rights (%) | Whether consolidated | Minority interests | Set off the profit or loss of the minority interests from the equity of the minority interests | Set off the loss attributable to the minority shareholders of the subsidiaries in the current period from the owner's equity of the Company exceeds the minority shareholders' portion of the opening balance of owners' equity of the subsidiary |
|---|---------------------------|------------------------|---|--------------------|--|----------------------|-------------------|--|---|------------------|-------------------|----------------------|--------------------|--|---|
|   |                           |                        |   |                    |  |                      |                   |  |   |                  |                   |                      |                    |  |   |
| Shouguang City Run Sheng Wasted Paper Recycle Co., Ltd. | Limited liability company | Shouguang, Shandong    | Purchase and sales of waste and materials | 100                | Purchase and sales of waste and obsolete materials   | Chen Honguo          | 7731657-9         | 100  | 100   | 100              | 100               | Yes                  | —                  | —  | —   |
| Wuxie Song Ling Paper Co., Ltd.                         | Limited liability company | Wuxi City              | Manufacture of paper                      | 501                | Sales, cutting and processing of paper   | 魏春山                  | 74243145-6        | —  | 100   | 100              | 100               | Yes                  | —                  | —  | —   |
| Shouguang Hongji Decorative Packaging Co., Ltd.         | Limited liability company | Shouguang, Shandong    | Packaging                                 | 155                | Processing and sales of packaging products, indoor and outdoor decorations   | 丁步麟                  | 78077580-7        | 170  | 100   | 100              | 100               | Yes                  | —                  | —  | —   |
| Shouguang Wei Yuan Logistics Company Limited            | Limited liability company | Shouguang, Shandong    | Transportation                            | 383                | Transportation of goods, maintenance of vehicles, storage and loading of goods, international freight agency service | 郝利民                  | 78079463-X        | 400  | 100   | 100              | 100               | Yes                  | —                  | —  | —   |
| Shouguang Xinyuan Coal Co., Ltd.                        | Limited liability company | Shouguang, Shandong    | Coal                                      | 300                | Retail of coal, gasoline, construction materials and plumbing parts  | 郝利民                  | 86570424-2        | 200  | 100   | 100              | 100               | Yes                  | —                  | —  | —   |
| Shandong Lin Dun Wood Industry Co., Ltd.                | Limited liability company | Shouguang, Shandong    | Panels                                    | 1384               | Production and sales of panels   | 魏树森                  | 16889764-1        | 370  | 67  | 67               | 67                | Yes                  | 822.87             | —  | —   |

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

### 1. Subsidiaries (Cont'd)

#### (3) Entities newly consolidated during the reporting period

Subsidiaries newly consolidated during the period

| Name  | Net assets as at the end of the period | Net profit for the period |
|---|--|---------------------------|
| Shandong Chenming Paper Sales Company Limited | 100,267,956.34                         | 267,956.34                |

#### (4) The exchange rate of translation of the major statement items of the overseas operating entities

The reporting currency of the consolidated financial statements of exchange rate of translation translated from Chenming (HK) Limited, an overseas controlling subsidiary of the Company, is as follows: all asset and liability items of the balance sheet was translated according to the spot exchange rate (i.e. translated according to RMB6.6227: USD1) prevailing at the reporting date; all the owner's equity items were translated according to the spot exchange rate when occurrence, except the "retained profit" item. The income and expense items in the income statement shall be translated at the approximate exchange rate of the spot exchange rate of the transaction date.

## VII. Notes to the Consolidated Financial Statements

Unless specified otherwise, the notes to the consolidated financial statements, the "opening balance" and "closing balance" refer to the balances as at 1 January 2010 and 31 December 2010 respectively, and the "current period" and "prior period" refer to 2009 and 2010 respectively.

### 1. Monetary funds

| Items                 | Closing balance          |               |                         | Opening balance          |               |                         |
|-----------------------|--------------------------|---------------|-------------------------|--------------------------|---------------|-------------------------|
|                       | Foreign currency amounts | Exchange Rate | Amount in RMB           | Foreign currency amounts | Exchange Rate | Amount in RMB           |
| Treasury cash:        |                          |               |                         |                          |               |                         |
| – RMB                 | —                        | —             | 1,100,197.18            | —                        | —             | 1,734,099.25            |
| – USD                 | 20,000.00                | 6.6227        | 132,454.00              | 25,035.00                | 6.8282        | 170,943.99              |
| Cash in Bank:         |                          |               |                         |                          |               |                         |
| – RMB                 | —                        | —             | 1,546,974,335.41        | —                        | —             | 1,922,160,187.63        |
| – USD                 | 45,958,441.92            | 6.6227        | 304,368,975.24          | 63,601,348.40            | 6.8282        | 434,282,727.15          |
| – HKD                 | 759,304.73               | 0.8509        | 646,115.18              | 750.18                   | 0.8805        | 660.53                  |
| – EURO                | 228,683.68               | 8.8065        | 2,013,902.79            | 917,167.73               | 9.7971        | 8,985,583.95            |
| Other monetary funds: |                          |               |                         |                          |               |                         |
| – RMB                 | —                        | —             | 95,802,510.63           | —                        | —             | 524,368,583.55          |
| – USD                 | 123,264.82               | 6.6227        | 816,345.94              | 177,901.64               | 6.8282        | 1,214,747.97            |
| – EURO                | 11.85                    | 8.8065        | 104.35                  | 583.02                   | 9.7971        | 5,711.91                |
| Total                 |                          |               | <b>1,951,854,940.72</b> |                          |               | <b>2,892,923,245.93</b> |

## VII. Notes to the Consolidated Financial Statements (Cont'd)

### 1. Monetary funds (Cont'd)

- Note: (1) As at 31 December 2010, the Group's restricted monetary funds was RMB22,640,933.48 (31 December 2009: RMB39,333,000.00), which contained certificate of the Group's fixed deposit of RMB22,640,933.48 secured for 6-month bank borrowings of USD3,104,700.00;
- (2) Other monetary funds of RMB13,899,565.96 (31 December 2009: RMB467,154,426.78) contained the Group's bank acceptance deposit to the bank;
- (3) Other monetary funds of RMB60,078,461.48 (31 December 2009: RMB19,101,616.65) contained the Group's letter of credit deposit to the bank.

### 2. Held-for-trading financial assets/liabilities

#### (1) Held-for-trading financial assets

| Items   | Fair value<br>as at the end<br>of the period | Fair value<br>as at the beginning<br>of the period |
|---|--|--|
| Derivative financial assets (foreign<br>currency forward contracts) | —  | 14,900,000.00                                      |
| Total   | —  | 14,900,000.00                                      |

#### (2) Held-for-trading financial liabilities

Held-for-trading financial liabilities

| Items  | Fair value<br>as at the end of<br>the period | Fair value<br>as at the beginning<br>of the period |
|--|--|--|
| Derivative financial assets (foreign currency forward contracts) | —  | 6,450,000.00                                       |
| Total  | —  | 6,450,000.00                                       |

The decrease of RMB14,900,000.00 in held-for-trading financial assets and of RMB6,450,000.00 in held-for-trading financial liabilities were caused by the expiry of the foreign currency forward contracts entered between the Company and its subsidiary Chenming (HK) Limited.



## VII. Notes to the Consolidated Financial Statements (Cont'd)

### 3. Bills receivable

#### (1) Classification of bills receivable

| Category              | Closing balance  | Opening balance  |
|-----------------------|------------------|------------------|
| Bank acceptance       | 2,762,389,909.89 | 2,704,799,074.02 |
| Commercial acceptance | —                | —                |
| Total                 | 2,762,389,909.89 | 2,704,799,074.02 |

Note: (1) As at 31 December 2010, notes with a carrying value of RMB1,583,925,454.80 (31 December 2009: RMB2,091,067,806.59) was discounted for short-term borrowings. The Group did not cease to recognise discounted bills.

(2) Overview of outstanding notes endorsed to other parties at the end of the period (Top 5 amounts)

| Unit of issue | Date of issue | Date of expiry | Amount         | Whether de-recognised | Remarks |
|---------------|---------------|----------------|----------------|-----------------------|---------|
| Customer I    | 2010.11.20    | 2011.3.31      | 34,927,194.40  | Yes                   |         |
| Customer II   | 2010.12.1     | 2011.3.31      | 31,991,781.48  | Yes                   |         |
| Customer III  | 2010.12.15    | 2011.3.15      | 13,990,000.00  | Yes                   |         |
| Customer IV   | 2010.9.30     | 2011.2.28      | 13,925,000.00  | Yes                   |         |
| Customer V    | 2010.11.29    | 2011.5.29      | 10,000,000.00  | Yes                   |         |
| Total         |               |                | 104,833,975.88 |                       |         |

## VII. Notes to the Consolidated Financial Statements (Cont'd)

### 4. Accounts receivable

(1) The breakdown of accounts receivable according to classification is as follows

| Category  | Book balance     |           | Closing balance |           |
|---|------------------|-----------|-----------------|-----------|
|   | Amount           | Ratio (%) | Amount          | Ratio (%) |
| Single item with significant accounts receivable provided as single bad debt        | 2,059,893,496.83 | 87.36     | 192,995,370.65  | 9.37      |
| Accounts receivable provided as bad debt by category                                |                  |           |                 |           |
| Accounts receivable aged within two years (including two years)                     | 255,673,024.22   | 10.84     | 13,138,786.03   | 5.14      |
| Accounts receivable aged over two years   | 32,119,826.36    | 1.36      | 29,221,227.50   | 90.98     |
| Sub-total   | 287,792,850.58   | 12.20     | 42,360,013.53   | 14.72     |
| Single item without significant accounts receivable yet provided as single bad debt | 10,247,861.04    | 0.44      |                 |           |
| Total   | 2,357,934,208.45 | 100.00    | 235,355,384.18  | 9.98      |

## VII. Notes to the Consolidated Financial Statements (Cont'd)

### 4. Accounts receivable (Cont'd)

(1) The breakdown of accounts receivable according to classification is as follows (Cont'd)

| Category  | Opening balance        |           | Bad debt provision |           |
|---|------------------------|-----------|--------------------|-----------|
|   | Book balance<br>Amount | Ratio (%) | Amount             | Ratio (%) |
| Single item with significant accounts receivable provided as single bad debt        | 1,462,971,676.02       | 85.08     | 132,882,322.49     | 9.08      |
| Accounts receivable provided as bad debt by category                                |                        |           |                    |           |
| Accounts receivable aged within two years (including two years)                     | 202,405,187.34         | 11.77     | 26,758,259.93      | 13.22     |
| Accounts receivable aged over two years   | 35,161,196.35          | 2.04      | 31,038,532.32      | 88.27     |
| Sub-total   | 237,566,383.69         | 13.81     | 57,796,792.25      | 24.32     |
| Single item without significant accounts receivable yet provided as single bad debt | 19,132,552.72          | 1.11      |                    |           |
| Total   | 1,719,670,612.43       | 100.00    | 190,679,114.74     | 11.09     |

(2) Accounts receivable stated according to aging

| Items         | Closing balance  |           | Bad debt       |           |
|---------------|------------------|-----------|----------------|-----------|
|               | Amount           | Ratio (%) | Amount         | Ratio (%) |
| Within 1 year | 2,223,077,582.95 | 94.28     | 120,249,426.99 | 51.09     |
| 1 to 2 years  | 28,201,927.17    | 1.20      | 12,316,780.20  | 5.23      |
| 2 to 3 years  | 59,631,780.81    | 2.53      | 55,766,259.47  | 23.70     |
| Over 3 years  | 47,022,917.52    | 1.99      | 47,022,917.52  | 19.98     |
| Total         | 2,357,934,208.45 | 100.00    | 235,355,384.18 | 100.00    |

| Items         | Closing balance  |           | Bad debt       |           |
|---------------|------------------|-----------|----------------|-----------|
|               | Amount           | Ratio (%) | Amount         | Ratio (%) |
| Within 1 year | 1,507,264,155.22 | 87.65     | 72,733,231.12  | 38.14     |
| 1 to 2 years  | 152,953,443.62   | 8.89      | 65,319,432.65  | 34.26     |
| 2 to 3 years  | 8,758,784.64     | 0.51      | 1,932,222.02   | 1.01      |
| Over 3 years  | 50,694,228.95    | 2.95      | 50,694,228.95  | 26.59     |
| Total         | 1,719,670,612.43 | 100.00    | 190,679,114.74 | 100.00    |

## VII. Notes to the Consolidated Financial Statements (Cont'd)

### 4. Accounts receivable (Cont'd)

#### (3) Overview of bad debt provision

- (1) Single item with significant accounts receivable provided as single bad debt

| Accounts receivable | Carrying amount  | Bad debt provision | Percentage of provision(%) | Reason                       |
|---------------------|------------------|--------------------|----------------------------|------------------------------|
| Good payments       | 2,059,893,496.83 | 192,995,370.65     | 9.37                       | Provision according to aging |
| Total               | 2,059,893,496.83 | 192,995,370.65     | 9.37                       |                              |

- (2) Provision of bad debt on accounts receivable by category

Within the category, the provision of bad debt on accounts receivable according to aging analysis:

| Aging         | Closing balance |           |                    | Opening balance |           |                    |
|---------------|-----------------|-----------|--------------------|-----------------|-----------|--------------------|
|               | Book balance    |           | Bad debt provision | Book balance    |           | Bad debt provision |
|               | Amount          | Ratio (%) |                    | Amount          | Ratio (%) |                    |
| Within 1 year | 249,299,453.17  | 86.62     | 12,464,972.68      | 214,967,642.86  | 84.05     | 10,748,382.14      |
| 1 to 2 years  | 6,373,571.05    | 2.21      | 637,357.10         | 5,626,755.67    | 2.20      | 562,675.57         |
| 2 to 3 years  | 3,577,678.27    | 1.24      | 715,535.66         | 5,154,237.01    | 2.02      | 1,031,572.98       |
| Over 3 years  | 28,542,148.09   | 9.93      | 28,542,148.09      | 30,006,959.34   | 11.73     | 30,006,959.34      |
| Total         | 287,792,850.58  | 100.00    | 42,360,013.53      | 255,755,594.88  | 100.00    | 42,349,590.03      |

- (3) Single item without significant accounts receivable yet provided as single bad debt

| Accounts receivable | Book balance  | Percentage of provision(%) | Bad debt provision | Reason for provision  |
|---------------------|---------------|----------------------------|--------------------|---|
| Good payments       | 10,247,861.04 | —                          | —                  | Mainly good payments settled by letter of credit, could be fully recover upon individual recognition. |
| Total               | 10,247,861.04 |                            |                    |   |

## VII. Notes to the Consolidated Financial Statements (Cont'd)

### 4. Accounts receivable (Cont'd)

#### (4) Actual write-off of significant accounts receivable (RMB1 million) during the reporting period

| Name                             | Nature of accounts receivable | Amount of write-off | Reason for write-off  | Whether arising from connected transaction |
|----------------------------------|-------------------------------|---------------------|---|--|
| 丹東化學纖維股份有限公司                     | Good payments                 | 2,048,394.36        | Non-recoverable due to the customer's bankruptcy  | No   |
| 瀋陽錦增化工建材有限公司                     | Good payments                 | 332,485.50          | Failure to recognise all of the amounts by the court upon proceedings with the difference written off | No   |
| Other write-off of small amounts | Good payments                 | 1,993,300.17        | Non-recoverable due to the reasons such as customer's bankruptcy                                      | No   |
| Total                            |                               | 4,374,180.03        |   |  |

- (5) There is no outstanding amount within the accounts receivable due from shareholders holding 5% or more (including 5%) in the shares of the Company during the reporting period.

## VII. Notes to the Consolidated Financial Statements (Cont'd)

### 4. Accounts receivable (Cont'd)

(6) Top 5 accounts receivable are as follows

| Name         | Relationship with the Group | Amount         | Aging         | Percentage of the total balance of accounts receivable (%) |
|--------------|-----------------------------|----------------|---------------|--|
| Customer I   | Non-related party           | 47,706,660.23  | 2 to 3 years  | 2.02   |
| Customer II  | Non-related party           | 24,743,097.06  | Within 1 year | 1.05   |
| Customer III | Non-related party           | 19,992,163.33  | Within 1 year | 0.85   |
| Customer IV  | Non-related party           | 19,750,329.91  | Within 1 year | 0.84   |
| Customer V   | Non-related party           | 18,086,187.24  | Within 1 year | 0.77   |
| Total        |                             | 130,278,437.77 |               | 5.53   |

(7) Overview of accounts receivable of the related parties

Please refer to Note 9 5. Amounts receivable and payable of the related parties.

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

| Item | Amount in Translated foreign currency | Closing balance |                     | Opening balance            |               |                |
|------|---------------------------------------|-----------------|---------------------|----------------------------|---------------|----------------|
|      |                                       | Exchange rate   | Translated into RMB | Amount in foreign currency | Exchange rate | into RMB       |
| USD  | 49,294,334.22                         | 6.6227          | 326,461,587.20      | 44,132,791.00              | 6.8282        | 301,347,523.52 |

## VII. Notes to the Consolidated Financial Statements (Cont'd)

### 5. Other receivables

(1) The breakdown of other receivables according to classification is as follows

| Category  | Closing balance |           |                    |           |
|---|-----------------|-----------|--------------------|-----------|
|   | Book balance    |           | Bad debt provision |           |
|   | Amount          | Ratio (%) | Amount             | Ratio (%) |
| Single item with significant other receivables provided as single bad debt        | 154,360,691.65  | 69.39     | 61,922,131.27      | 40.12     |
| Other receivables provided as bad debt by category                                |                 |           |                    |           |
| Other receivables aged within two years (including two years)                     | 10,888,111.35   | 4.89      | 1,800,736.15       | 16.54     |
| Other receivables aged over two years   | 31,710,164.35   | 14.25     | 18,690,064.13      | 58.94     |
| Sub-total   | 42,598,275.70   | 19.15     | 20,490,800.28      | 48.10     |
| Single item without significant other receivables yet provided as single bad debt | 25,495,433.35   | 11.46     | 22,407,088.63      | 87.89     |
| Total   | 222,454,400.70  | 100.00    | 104,820,020.18     | 47.12     |
| Category  | Opening balance |           |                    |           |
|   | Book balance    |           | Bad debt provision |           |
|   | Amount          | Ratio (%) | Amount             | Ratio (%) |
| Single item with significant other receivables provided as single bad debt        | 72,104,024.34   | 49.63     | 24,837,434.15      | 34.45     |
| Other receivables provided as bad debt by category                                |                 |           |                    |           |
| Other receivables aged within two years (including two years)                     | 50,797,029.90   | 34.96     | 22,698,735.18      | 44.69     |
| Other receivables aged over two years   | 19,169,593.80   | 13.19     | 16,542,105.20      | 86.29     |
| Sub-total   | 69,966,623.70   | 48.16     | 39,240,840.38      | 56.09     |
| Single item without significant other receivables yet provided as single bad debt | 3,218,270.43    | 2.21      | —                  | —         |
| Total   | 145,288,918.47  | 100.00    | 64,078,274.53      | 44.10     |

## VII. Notes to the Consolidated Financial Statements (Cont'd)

### 5. Other receivables (Cont'd)

#### (2) Other receivables stated according to aging

| Items         | Closing balance |           | Bad debt       |           |
|---------------|-----------------|-----------|----------------|-----------|
|               | Amount          | Ratio (%) | Amount         | Ratio (%) |
| Within 1 year | 151,664,283.27  | 68.19     | 65,207,184.95  | 62.21     |
| 1 to 2 years  | 17,605,155.37   | 7.91      | 696,954.52     | 0.67      |
| 2 to 3 years  | 17,427,665.73   | 7.83      | 3,158,584.38   | 3.01      |
| Over 3 years  | 35,757,296.33   | 16.07     | 35,757,296.33  | 34.11     |
| Total         | 222,454,400.70  | 100.00    | 104,820,020.18 | 100.00    |

| Items         | Opening balance |           | Bad debt      |           |
|---------------|-----------------|-----------|---------------|-----------|
|               | Amount          | Ratio (%) | Amount        | Ratio (%) |
| Within 1 year | 88,229,738.28   | 60.73     | 28,833,141.06 | 45.00     |
| 1 to 2 years  | 17,862,033.95   | 12.29     | 770,390.47    | 1.20      |
| 2 to 3 years  | 5,542,592.98    | 3.81      | 820,189.34    | 1.28      |
| Over 3 years  | 33,654,553.66   | 23.17     | 33,654,553.66 | 52.52     |
| Total         | 145,288,988.47  | 100.00    | 64,078,274.53 | 100.00    |

#### (3) Bad debt provisions

##### (1) Single item with significant other receivables provided as single bad debt

| Other receivables | Carrying amount | Bad debt provision | Percentage of provision | Reason                             |
|-------------------|-----------------|--------------------|-------------------------|------------------------------------|
| Current accounts  | 154,360,691.65  | 61,922,131.27      | 40.12%                  | Mainly amounts aged over two years |
| Total             | 154,360,691.65  | 61,922,131.27      | 40.12%                  |                                    |



## VII. Notes to the Consolidated Financial Statements (Cont'd)

### 5. Other receivables (Cont'd)

#### (3) Bad debt provisions (Cont'd)

##### (2) Other receivables provided as bad debt by category

Within the category, the provision of bad debt on other receivables according to aging analysis:

| Aging         | Closing balance |           | Bad debt<br>provision | Opening balance |           |               |
|---------------|-----------------|-----------|-----------------------|-----------------|-----------|---------------|
|               | Book balance    | Bad debt  |                       | Book            | balance   |               |
|               | Amount          | Ratio (%) | Amount                | Ratio (%)       | provision |               |
| Within 1 year | 9,379,072.78    | 22.02     | 468,953.62            | 23,785,634.00   | 34.00     | 10,628,649.12 |
| 1 to 2 years  | 1,482,824.56    | 3.48      | 148,282.46            | 27,011,395.90   | 38.60     | 12,070,086.06 |
| 2 to 3 years  | 14,828,517.70   | 34.81     | 2,965,703.54          | 3,022,880.10    | 4.32      | 395,391.50    |
| Over 3 years  | 16,907,860.66   | 39.69     | 16,907,860.66         | 16,146,713.70   | 23.08     | 16,146,713.70 |
| Total         | 42,598,275.70   | 100       | 20,490,800.28         | 69,966,623.70   | 100.00    | 39,240,840.38 |

##### (3) Single item without significant other receivables yet provided as single bad debt

| Other receivables                         | Book balance  | Percentage of provision (%) | Bad debt provision | Reasons for provision   |
|---|---------------|-----------------------------|--------------------|---|
| Transfer from prepayments of over 2 years | 22,407,088.63 | 100                         | 22,407,088.63      | Estimated to be unable to be recoverable due to the passage of a prolonged time |
| Deposits and petty cash                   | 3,088,344.72  |                             |                    | Estimated to be able to be recoverable in full                                  |
| Total                                     | 25,495,433.35 | 87.79                       | 22,407,088.63      |   |

(4) No other receivables of significance were written off during the reporting period.

(5) There is no outstanding amount within the other receivables due from shareholders holding 5% or more (including 5%) in the shares of the Company during the reporting period.

## VII. Notes to the Consolidated Financial Statements (Cont'd)

### 5. Other receivables (Cont'd)

#### (6) Top 5 other receivables are as follows

| Name         | Relationship with the Group | Amount        | Aging         | Percentage of the total balance of other receivables (%) |
|--------------|-----------------------------|---------------|---------------|--|
| Customer I   | Non-related party           | 57,070,093.03 | Within 1 year | 25.66  |
| Customer II  | Non-related party           | 13,389,926.07 | Over 5 years  | 6.02   |
| Customer III | Non-related party           | 5,189,046.86  | Within 1 year | 2.33   |
| Customer IV  | Non-related party           | 4,316,772.78  | 1 to 3 years  | 1.94   |
| Customer V   | Non-related party           | 2,899,642.97  | Within 1 year | 1.30   |
| Total        |                             | 82,865,481.71 |               | 37.25  |

#### (7) Overview of other receivables of the related parties

Please refer to Note 9 5. Amounts receivable and payable of the related parties.

## VII. Notes to the Consolidated Financial Statements (Cont'd)

### 6. Prepayments

(1) Prepayments stated according to aging

| Aging         | Closing balance |           | Opening balance  |           |
|---------------|-----------------|-----------|------------------|-----------|
|               | Amount          | Ratio (%) | Amount           | Ratio (%) |
| Within 1 year | 618,529,456.56  | 66.91     | 869,002,788.87   | 86.83     |
| 1 to 2 years  | 305,825,088.99  | 33.09     | 131,770,086.98   | 13.17     |
| Total         | 924,354,545.55  | 100.00    | 1,000,772,875.85 | 100.00    |

(2) Top 5 prepayments are set out as follows

| Name         | Relationship with the Group | Amount         | Year of prepayment             | Reason of outstanding                                      |
|--------------|-----------------------------|----------------|--------------------------------|--|
| Customer I   | Non-related party           | 80,000,000.00  | Within 1 year                  | Prepaid the good payments according to the agreed contract |
| Customer II  | Non-related party           | 42,129,020.25  | 1 to 2 years                   | Prepaid the good payments according to the agreed contract |
| Customer III | Non-related party           | 37,409,402.21  | Within 1 year,<br>1 to 2 years | Prepaid the good payments according to the agreed contract |
| Customer IV  | Non-related party           | 35,051,725.63  | Within 1 year                  | Prepaid the good payments according to the agreed contract |
| Customer V   | Non-related party           | 29,516,562.46  | Within 1 year,<br>1 to 2 years | Prepaid the good payments according to the agreed contract |
| Total        |                             | 224,106,610.55 |                                |  |

(3) There is no outstanding amount within the prepayments due from shareholders holding 5% or more (including 5%) in the shares of the Company in the reporting period.

## VII. Notes to the Consolidated Financial Statements (Cont'd)

### 6. Prepayments (Cont'd)

(4) Other advances denominated in foreign currency stated in original currency and exchange rate are as follows

| Items | Closing balance               |               |                        | Opening balance               |               |                        |
|-------|-------------------------------|---------------|------------------------|-------------------------------|---------------|------------------------|
|       | Amount in<br>foreign currency | Exchange rate | Translated<br>into RMB | Amount in<br>foreign currency | Exchange rate | Translated<br>into RMB |
| USD   | 58,981,185.01                 | 6.6227        | 390,614,694.000        | 65,435,367.15                 | 6.8282        | 446,805,773.97         |
| EURO  | 4,878,217.69                  | 8.8065        | 42,960,024.10          |                               |               |                        |

### 7. Inventory

(1) Inventory categories:

| Items            | Book<br>balance  | Closing balance              |                  |
|------------------|------------------|------------------------------|------------------|
|                  |                  | Allowance for<br>inventories | Carrying amount  |
| Raw materials    | 1,834,652,151.48 | 3,092,298.90                 | 1,831,559,852.58 |
| Goods-in stock   | 118,807,317.30   |                              | 118,807,317.30   |
| Work-in-progress | 1,101,441,158.39 | 4,730,113.26                 | 1,096,711,045.13 |
| Total            | 3,054,900,627.17 | 7,822,412.16                 | 3,047,078,215.01 |

| Items            | Book<br>balance  | Opening balance              |                  |
|------------------|------------------|------------------------------|------------------|
|                  |                  | Allowance for<br>inventories | Carrying amount  |
| Raw materials    | 1,469,188,916.71 | 4,175,527.37                 | 1,465,013,389.34 |
| Goods-in stock   | 58,174,106.14    | 3,743,111.46                 | 54,430,994.68    |
| Work-in-progress | 712,296,442.78   | 5,161,334.21                 | 707,135,108.57   |
| Total            | 2,239,659,465.63 | 13,079,973.04                | 2,226,579,492.59 |

## VII. Notes to the Consolidated Financial Statements (Cont'd)

### 7. Inventory (Cont'd)

(2) Changes in allowance for inventories

| Opening<br>Items | Provision for<br>the current<br>balance | Decrease for<br>the current period<br>Reversals | Write-offs   | Closing balance |
|------------------|---|---|--------------|-----------------|
| Raw materials    | 4,175,527.37                            |   | 1,083,228.47 | 3,092,298.90    |
| Work-in-progress | 3,743,111.46                            | 2,775,300.05                                    | 967,811.41   |                 |
| Goods-in stock   | 5,161,334.21                            | 251,574.39                                      | 179,646.56   | 4,730,113.26    |
| Total            | 13,079,973.04                           | 3,026,874.44                                    | 2,230,686.44 | 7,822,412.16    |

(3) Allowance for inventories and reason for reversal

| Items            | Basis of allowance<br>for inventories | Reason of reversal<br>and write-off of<br>allowance for inventories<br>for the current period                      | Percentage of<br>the reversal and<br>write-off in the<br>current period to<br>the closing balance<br>of such inventory |
|------------------|---------------------------------------|--|--|
| Work-in-progress |                                       | Provided impairment was reversed<br>resulting from an improvement in the<br>market price of a portion of the goods | 2.34%  |
| Goods-in-stock   |                                       | Provided impairment was reversed<br>resulting from an improvement in the<br>market price of a portion of the goods | 0.02%  |

### 8. Other current assets

| Items                         | Closing balance | Opening balance |
|-------------------------------|-----------------|-----------------|
| Non-credited VAT proceeds     | 652,018,306.99  | 64,332,041.62   |
| Prepaid enterprise income tax | 6,553,818.35    | 26,424,163.98   |
| Total                         | 658,572,125.34  | 90,756,205.60   |

## VII. Notes to the Consolidated Financial Statements (Cont'd)

### 9. Long-term equity investments

#### (1) Classification of Long-term equity investments

| Items   | Opening balance | Increase for the current period | Decrease for the current period | Closing balance |
|---|-----------------|---------------------------------|---------------------------------|-----------------|
| Investments in associates                                 | 58,033,225.56   |                                 | 13,863,141.44                   | 44,170,084.12   |
| Other equity investments                                  | 24,950,000.00   | 1,000,000.00                    | 1,000,000.00                    | 24,950,000.00   |
| Less: Provision for impairment of long equity investments | 1,998,538.07    |                                 | 80,385.84                       | 1,918,152.23    |
| Total   | 80,984,687.49   | 1,000,000.00                    | 14,782,755.60                   | 67,201,931.89   |

#### (2) The details of long-term equity investments

| Name of investee entity                                  | Accounting Closing method | Initial investment | Opening balance | Additions /deduction | balance       |
|--|---------------------------|--------------------|-----------------|----------------------|---------------|
| Shouguang Liben Paper Making Co., Ltd.                   | Equity method             | 19,550,000.00      | 18,826,749.91   | -2,146,119.62        | 16,680,630.29 |
| Arjo Wiggins Chenming Specialty Paper Co., Ltd.          | Equity method             | 80,100,000.00      | 32,610,827.22   | -10,959,327.37       | 21,651,499.85 |
| Qingzhou Chenming Denaturation Amylum Co., Ltd           | Equity method             | 900,000.00         | 900,000.00      |                      | 900,000.00    |
| Jiangxi Jiangbao Media Colour Printing Co. Ltd.          | Equity method             | 6,000,000.00       | 5,695,648.43    | -757,694.45          | 4,937,953.98  |
| Weifang Venture Capital Co., Ltd.                        | Cost method               | 1,000,000.00       | 1,000,000.00    | -1,000,000.00        |               |
| Shandong Paper Making & Printing Enterprises Corporation | Cost method               | 200,000.00         | 200,000.00      |                      | 200,000.00    |
| Zhejiang Province Guangyu Media Printing Company Limited | Cost method               | 2,000,000.00       | 2,000,000.00    |                      | 2,000,000.00  |
| Jinan Shangyou Commercial Company Limited                | Cost method               | 350,000.00         | 350,000.00      |                      | 350,000.00    |
| Shouguang Mihe Water Company Limited                     | Cost method               | 20,000,000.00      | 20,000,000.00   |                      | 20,000,000.00 |
| Shanghai Forest & Paper E-Commerce Co., Ltd              | Cost method               | 1,400,000.00       | 1,400,000.00    |                      | 1,400,000.00  |
| 安徽時代物資股份有限公司   | Cost method               | —                  | —               | 1,000,000.00         | 1,000,000.00  |
| Total  |                           |                    | 82,983,225.56   | - 13,863,141.44      | 69,120,084.12 |

## VII. Notes to the Consolidated Financial Statements (Cont'd)

### 9. Long-term equity investments (Cont'd)

(2) The details of long-term investments (Cont'd)

| Name of investee entity                                  | Percentage of shareholding in the investee entity (%) | Percentage of voting right in the investee entity (%) | Explanation of the inconsistent percentage and voting right in the investee entity | impairment provision | Write off provision of bonuses for the current period | Cash the current? period |
|--|---|---|--|----------------------|---|--------------------------|
| Shouguang Liben Paper Making Co., Ltd.                   | 26.40   | 26.40   |  |                      |   |                          |
| Arjo Wiggins Chenming Specialty Paper Co., Ltd.          | 30.00   | 30.00   |  |                      |   |                          |
| Qingzhou Chenming Denaturation Amylum Co., Ltd.          | 30.00   | 30.00   |  | 900,000.00           |   |                          |
| Jiangxi Jiangbao Media Colour Printing Co. Ltd.          | 21.16   | 21.16   |  |                      |   |                          |
| Weifang Venture Capital Co., Ltd.                        |   |   |  | 80,385.84            | -80,385.84  |                          |
| Shandong Paper Making & Printing Enterprises Corporation | 2.00  | 2.00  |  | 200,000.00           |   |                          |
| Zhejiang Province Guangyu Media Printing Company Limited | 9.96  | 9.96  |  |                      |   |                          |
| Jinan Shangyou Commercial Company Limited                | 5.00  | 5.00  |  | 350,000.00           |   |                          |
| Shouguang Mihe Water Company Limited                     | 19.46   | 19.46   |  |                      |   |                          |
| Shanghai Forest & Paper E-Commerce Co., Ltd              | 14.00   | 14.00   |  | 468,152.23           |   |                          |
| 安徽時代物資股份有限公司   | 10.00   | 10.00   |  |                      |   |                          |
| Total  |   |   |  | 1,998,538.07         | -80,385.84  | —                        |

## VII. Notes to the Consolidated Financial Statements (Cont'd)

### 9. Long-term equity investments (Cont'd)

#### (3) Investments in associates

Overview of associates

| Name of investee entity                         | Enterprise type            | Registration place | Legal Representative | Business nature           | Registered capital | Percentage of the shareholding of the investee entity (%) | Percentage of the voting right in the investee entity (%) |
|---|----------------------------|--------------------|----------------------|---------------------------|--------------------|---|---|
| Shouguang Liben Paper Making Co., Ltd.          | Sino-foreign joint venture | Shandong           | Cang Tiantai         | Manufacture of paper      | 74,070,000         | 30  | 30  |
| Arjo Wiggins Chenming Specialty Paper Co., Ltd. | Sino-foreign joint venture | Shandong           | Tong Chong           | Manufacture of paper      | 267,368,330        | 26.4  | 26.4  |
| Qingzhou Chenming Denaturation Amylum Co., Ltd. | Limited liability company  | Shandong           | Fang Shiming         | Deep processing of starch | 3,000,000          | 30  | 30  |
| Jiangxi Jiangbao Media Colour Printing Co. Ltd. | Limited liability company  | Jiangxi            | Ou Yang              | Printing                  | 23,140,000         | 21.15   | 21.15   |

| Name of investee entity                         | Total assets at the end of period  | Total liabilities at the end of period | Total net asset value for the current period | Operating revenue for the current period | Net profit for the current period | Relationship            | Organisation No. |
|---|--|--|--|--|-----------------------------------|-------------------------|------------------|
| Shouguang Liben Paper Making Co., Ltd.          | 81,136,121.80  | 17,951,916.17                          | 63,184,205.63                                | 90,759,099.57                            | -7,090,607.15                     | Associated corporations | 61358854-8       |
| Arjo Wiggins Chenming Specialty Paper Co., Ltd. | 359,971,449.39   | 287,799,783.22                         | 72,171,666.17                                | 8,953,600.21                             | -36,899,421.25                    | Associated corporations | 78233868-9       |
| Qingzhou Chenming Denaturation Amylum Co., Ltd. | Its operation was poor and it was fully provided for impairment in prior years |  |  |  |                                   | Associated corporations | 16937769-8       |
| Jiangxi Jiangbao Media Colour Printing Co. Ltd. | 40,577,059.46  | 17,229,759.30                          | 23,347,300.16                                | 13,399,770.17                            | -514,152.08                       | Associated corporations | 79479506-X       |



## VII. Notes to the Consolidated Financial Statements (Cont'd)

### 9. Long-term equity investments (Cont'd)

(6) Details of impairment provision on long-term equity investments

| Items   | Opening balance | Increase for the current period | Decrease for the current period | Closing balance |
|---|-----------------|---------------------------------|---------------------------------|-----------------|
| Qingzhou Chenming<br>Denaturation Amylum Co., Ltd.          | 900,000.00      |                                 |                                 | 900,000.00      |
| Weifang Venture Capital Co., Ltd.                           | 80,385.84       |                                 | 80,385.84                       |                 |
| Shandong Paper Making & Printing<br>Enterprises Corporation | 200,000.00      |                                 |                                 | 200,000.00      |
| Jinan Shangyou Commercial Company Limited                   | 350,000.00      |                                 |                                 | 350,000.00      |
| Shanghai Forest & Paper E-Commerce Co., Ltd                 | 468,152.23      |                                 |                                 | 468,152.23      |
| Total   | 1,998,538.07    |                                 | 80,385.84                       | 1,918,152.23    |

## VII. Notes to the Consolidated Financial Statements (Cont'd)

### 10. Investment Properties

#### (1) The details of investment properties

| Items  | Opening<br>Closing<br>balance | Increase for the<br>current period | Decrease for the<br>current period | Decrease for the<br>balance |
|--|-------------------------------|------------------------------------|------------------------------------|-----------------------------|
| Investment property<br>adopting cost<br>method for subsequent<br>measurement | 26,426,468.11                 |                                    | 1,738,256.04                       | 24,688,212.07               |
| Less: Provision for<br>impairment of long<br>investment property             | —                             |                                    | —                                  | —                           |
| Total  | 26,426,468.11                 |                                    | 1,738,256.04                       | 24,688,212.07               |

#### (2) Investment properties measured at cost

| Items  | Opening<br>Closing<br>balance | Increase for the<br>current period | Decrease for the<br>current period | Decrease for the<br>balance |
|--|-------------------------------|------------------------------------|------------------------------------|-----------------------------|
| I. Total original value  | 38,291,395.70                 |                                    |                                    | 38,291,395.70               |
| Buildings  | 38,291,395.70                 |                                    |                                    | 38,291,395.70               |
| II. Accumulated<br>depreciation and<br>accumulated<br>amortisation<br>in total | 11,864,927.59                 | 1,738,256.04                       |                                    | 13,603,183.63               |
| Buildings  | 11,864,927.59                 | 1,738,256.04                       |                                    | 13,603,183.63               |
| III. Impairment provision<br>in total  |                               |                                    |                                    |                             |
| Buildings  |                               |                                    |                                    |                             |
| IV. Total carrying<br>amount   | 26,426,468.11                 | 1,738,256.04                       |                                    | 24,688,212.07               |
| Buildings  | 26,426,468.11                 | 1,738,256.04                       |                                    | 24,688,212.07               |

Note: Depreciation and amortisation for the current period amounted to RMB1,738,256.04.

## VII. Notes to the Consolidated Financial Statements (Cont'd)

### 11. Fixed Assets

#### (1) Overview of fixed assets

| Items                              | Opening balance   | Additions for the   |   | Deductions for the |                   |
|------------------------------------|-------------------|---|---|--------------------|-------------------|
|                                    |                   | current period  | current period                          | current period     | Closing balance   |
| I. Total original carrying amount: | 19,994,415,603.39 | 606,028,646.91  |   | 199,117,650.92     | 20,401,326,599.38 |
| Of which: Buildings                | 3,406,027,308.96  | 117,110,655.99  |   | 34,016,167.56      | 3,489,121,797.39  |
| Machinery and equipment            | 15,904,536,297.54 | 427,681,142.28  |   | 144,880,559.32     | 16,187,336,880.50 |
| Electronic equipment and others    | 527,857,057.43    | 35,042,849.79   |   | 11,974,579.97      | 550,925,327.25    |
| Vehicles                           | 155,994,939.46    | 26,193,998.85   |   | 8,246,344.07       | 173,942,594.24    |
|                                    |                   | <b>New provision for fixed assets in the current period</b> | <b>Provision for the current period</b> |                    |                   |
| II. Accumulated depreciation       |                   |   |   |                    |                   |
| Total accumulated depreciation:    | 6,458,522,672.77  | 25,211,745.08   | 1,160,051,669.56                        | 128,388,227.96     | 7,490,186,114.37  |
| Of which: Buildings                | 671,663,469.93    | 4,062,436.02  | 117,225,584.98                          | 12,750,290.04      | 776,138,764.87    |
| Machinery and equipment            | 5,443,371,103.92  | 17,523,640.73   | 981,884,775.67                          | 100,181,997.40     | 6,325,073,882.19  |
| Electronic equipment and others    | 275,345,215.51    | 941,375.78  | 44,303,393.03                           | 10,254,982.61      | 309,393,625.93    |
| Vehicles                           | 68,142,883.41     | 2,684,292.55  | 16,637,915.88                           | 5,200,957.91       | 79,579,841.38     |
| III. Net carrying amount           | 13,535,892,930.62 |   |   |                    | 12,911,140,485.01 |
| Of which: Buildings                | 2,734,363,839.03  |   |   |                    | 2,712,983,032.52  |
| Machinery and equipment            | 10,461,165,193.62 |   |   |                    | 9,862,262,998.31  |
| Electronic equipment and others    | 252,511,841.92    |   |   |                    | 241,531,701.32    |
| Vehicles                           | 87,852,056.05     |   |   |                    | 94,362,752.86     |
| IV. Total impairment provision     | 6,302,014.99      |   | 22,480,088.46                           |                    | 28,782,103.45     |
| Of which: Buildings                |                   |   |   |                    |                   |
| Machinery and equipment            | 6,302,014.99      |   | 22,480,088.46                           |                    | 28,782,103.45     |
| Electronic equipment and others    |                   |   |   |                    |                   |
| Vehicles                           |                   |   |   |                    |                   |
| V. Net carrying amount             | 13,529,590,915.63 |   |   |                    | 12,882,358,381.56 |
| Of which: Buildings                | 2,734,363,839.03  |   |   |                    | 2,712,983,032.52  |
| Machinery and equipment            | 10,454,863,178.63 |   |   |                    | 9,833,480,894.86  |
| Electronic equipment and others    | 252,511,841.92    |   |   |                    | 241,531,701.32    |
| Vehicles                           | 87,852,056.05     |   |   |                    | 94,362,752.86     |

Note: Depreciation for the current period amounted to RMB 1,160,051,669.56. RMB 446,602,913.83 was transferred from construction in progress to the original value of fixed assets for the current period.

## VII. Notes to the Consolidated Financial Statements (Cont'd)

### 11. Fixed Assets (Cont'd)

#### (2) Details of restricted fixed assets

As at 31 December 2010, the titles of buildings and equipment with a carrying value of approximately RMB1,022,544,077.50 in an original value of RMB1,352,124,400.00 (31 December 2009: carrying amount of RMB1,083,389,675.50, original value of RMB1,352,124,400.00) and land use rights within intangible assets with a carrying value of RMB71,448,435.14 (31 December 2009: RMB73,051,016.90) was restricted as the collaterals for a long-term borrowings of RMB127,175,683.11 (31 December 2009: RMB205,341,955.16) and long-term borrowings due within 1 year of RMB71,890,463.15 (31 December 2009: RMB91,223,477.87).

#### (3) Temporary unused fixed assets

| Items                   | Original carrying value | Accumulated depreciation | Impairment provision | Carrying value | Remarks    |
|-------------------------|-------------------------|--------------------------|----------------------|----------------|------------|
| Buildings               | 58,297,955.63           | 15,426,453.42            |                      | 42,871,502.21  | Suspension |
| Machinery and equipment | 193,610,851.11          | 102,085,646.51           | 26,986,104.60        | 64,539,100.00  | Suspension |
| Total                   | 251,908,806.74          | 117,512,099.93           | 26,986,104.60        | 107,410,602.21 |            |

#### (4) Fixed assets without property right certificates

| Items  | Reason for not yet obtaining property right certificates | Estimated time for obtaining property right certificates | Carrying amount |
|--|--|--|-----------------|
| Jilin Chenming Paper Co., Ltd.                   | Being applied  | 2011   | 136,036,223.84  |
| Wuhan Chenming Hanyang Paper Holdings Co., Ltd.  | Being applied  | 2011   | 42,702,749.01   |
| Wuhan Chenming Qianneng Electric Power Co., Ltd. | Being applied  | 2011   | 30,729,099.13   |
| Fuyu Chenming Paper Co., Ltd.                    | Being applied  | 2011   | 48,395,983.13   |
| Total  |  |  | 257,864,055.11  |

Note: During the current period, the Group recognised an impairment loss on fixed assets of RMB22,480,088.46 due to the suspension of the subsidiaries, Qihe Chenming Paper Co., Ltd. and Heze Chenming Panels Co., Ltd., which resulted in an allowance for impairment on the difference between recoverable amount and carrying value of their machinery and equipment. Recoverable amount was determined by the estimated net realisable value of asset group.

# XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

## VII. Notes to the Consolidated Financial Statements (Cont'd)

### 12 Construction in progress

#### (1) The general information of constructions in progress

| Items   | Closing balance  |                      | Carrying amount  | Opening balance  |                      | Carrying amount  |
|---|------------------|----------------------|------------------|------------------|----------------------|------------------|
|   | Book balance     | Impairment provision |                  | Book balance     | Impairment provision |                  |
| The high-end coated paper project of annual production capacity of 800,000 tonnes | 2,277,312,260.67 |                      | 2,277,312,260.67 | 413,790,949.09   |                      | 413,790,949.09   |
| The household paper project of annual production capacity of 98,000 tonnes        | 407,103,435.25   |                      | 407,103,435.25   | 61,564,178.12    |                      | 61,564,178.12    |
| Huanggang forestry pulp integration project (Huanggang)                           | 30,383,565.19    |                      | 30,383,565.19    | 3,404,520.95     |                      | 3,404,520.95     |
| Intermediate water advance treatment in drainage workshops (Qihe)                 | —                |                      | —                | 45,552,578.47    |                      | 45,552,578.47    |
| 4400 paper machine technological improvement (Qihe)                               | 61,850,381.70    |                      | 61,850,381.70    | 46,132,143.40    |                      | 46,132,143.40    |
| Pulping production plant oxygen delignification improvement (Qihe)                | 11,613,569.78    |                      | 11,613,569.78    |                  |                      |                  |
| Power workshop (Chibi)  |                  |                      |                  | 30,295,414.25    |                      | 30,295,414.25    |
| Desulphurisation of 130 tonnes and 75 tonnes boiler (Qianneng)                    | 10,513,384.07    |                      | 10,513,384.07    | 11,405,829.00    |                      | 11,405,829.00    |
| Sheet machine ultra pressure improvement (Jiangxi)                                |                  |                      |                  | 13,869,977.50    |                      | 13,869,977.50    |
| Intermediate water advance treatment (Jilin)                                      | 34,341,668.12    |                      | 34,341,668.12    | 12,572,495.32    |                      | 12,572,495.32    |
| Second plant paper machine improvement (Jilin)                                    | 45,216,980.09    |                      | 45,216,980.09    | 12,944,711.67    |                      | 12,944,711.67    |
| Power plant phase III expansion and improvement (the Company)                     | 234,299,205.48   |                      | 234,299,205.48   | 77,591,734.87    |                      | 77,591,734.87    |
| Data improvement of construction in progress (the Company)                        | 42,830,017.64    |                      | 42,830,017.64    | 13,665,377.92    |                      | 13,665,377.92    |
| Thermoelectrical pipes of eastern cities (Xinli)                                  |                  |                      |                  | 22,232,122.98    |                      | 22,232,122.98    |
| Reclamation of recyclable water (electricity and steam)                           | 20,129,045.13    |                      | 20,129,045.13    | 3,595,587.98     |                      | 3,595,587.98     |
| 700,000 tonnes paper pulp and 450,000 tonnes cultural paper                       | 4,092,344,011.00 |                      | 4,092,344,011.00 | 959,976,410.72   |                      | 959,976,410.72   |
| Mihe River view wetland (Grand View Hotel)  | 33,615,119.48    |                      | 33,615,119.48    | 15,967,509.04    |                      | 15,967,509.04    |
| Other projects of construction in progress  | 569,959,920.24   |                      | 569,959,920.24   | 253,399,720.90   |                      | 253,399,720.90   |
| Total   | 7,871,512,563.84 |                      | 7,871,512,563.84 | 1,997,961,262.18 |                      | 1,997,961,262.18 |

## VII. Notes to the Consolidated Financial Statements (Cont'd)

### 12 Construction in progress (Cont'd)

#### (2) Change in material constructions in progress projects

| Project name   | (RMB in Closing 100 million) | Opening balance  | Additions for the current period | Transfer to fixed asset for the current period | Other deductions | Other balance    |
|--|------------------------------|------------------|----------------------------------|--|------------------|------------------|
| The high-end coated paper project of an annual production capacity of 800,000 tonnes | 35                           | 413,790,949.09   | 1,863,606,531.01                 | 85,219.43                                      |                  | 2,277,312,260.67 |
| 98,000-tonne household paper project   | 5                            | 61,564,178.12    | 345,563,313.97                   | 24,056.84                                      |                  | 407,103,435.25   |
| Huanggang forestry pulp integration project (Huanggang)                              | 0.5                          | 3,404,520.95     | 26,979,044.24                    |  |                  | 30,383,565.19    |
| Intermediate water advance treatment in drainage workshops (Qihe)                    | 0.39                         | 45,552,578.47    | 2,537,637.31                     | 48,090,215.78                                  |                  | —                |
| 4400 paper machine technological improvement (Qihe)                                  | 0.32                         | 46,132,143.40    | 15,718,238.30                    |  |                  | 61,850,381.70    |
| Pulping production plant oxygen delignification improvement (Qihe)                   |                              |                  | 11,613,569.78                    |  |                  | 11,613,569.78    |
| Power workshop (Chibi)   | 0.43                         | 30,295,414.25    | 4,897,071.56                     | 35,192,485.81                                  |                  |                  |
| Desulphurisation of 130 tonnes and 75 tonnes boilers (Qianneng)                      | 0.15                         | 11,405,829.00    | 497,201.42                       | 1,389,646.35                                   |                  | 10,513,384.07    |
| Sheet machine ultra pressure improvement (Jiangxi)                                   | 0.15                         | 13,869,977.50    | 2,971,062.21                     | 16,841,039.71                                  |                  |                  |
| Intermediate water advance treatment (Jilin)   |                              | 12,572,495.32    | 21,769,172.80                    |  |                  | 34,341,668.12    |
| Second plant paper machine improvement (Jilin)                                       |                              | 12,944,711.67    | 32,272,268.42                    |  |                  | 45,216,980.09    |
| Power plant phase III expansion and improvement (the Company)                        | 4.5                          | 77,591,734.87    | 156,707,470.61                   |  |                  | 234,299,205.48   |
| Data improvement of construction in progress (the Company)                           |                              | 13,665,377.92    | 36,710,147.35                    | 7,545,507.63                                   |                  | 42,830,017.64    |
| Thermoelectrical pipes of eastern cities (Xinli)                                     |                              | 22,232,122.98    | 3,023,112.71                     | 25,255,235.69                                  |                  |                  |
| Reclamation of recyclable water (electricity and steam)                              | 0.13                         | 3,595,587.98     | 16,533,457.15                    |  |                  | 20,129,045.13    |
| 700,000 tonnes paper pulp and 450,000 tonnes cultural paper                          | 94                           | 959,976,410.72   | 3,132,367,600.28                 |  |                  | 4,092,344,011.00 |
| Mihe River view wetland (Grand View Hotel)   | 0.6                          | 15,967,509.04    | 17,647,610.44                    |  |                  | 33,615,119.48    |
| Other projects of construction in progress   |                              | 253,399,720.90   | 628,739,705.93                   | 312,179,506.59                                 |                  | 569,959,920.24   |
| Total  |                              | 1,997,961,262.18 | 6,320,154,215.49                 | 446,602,913.83                                 |                  | 7,871,512,563.84 |

## VII. Notes to the Consolidated Financial Statements (Cont'd)

### 12 Construction in progress (Cont'd)

#### (2) Change in material constructions in progress projects (Cont'd)

| Project name   | Accumulated capitalised interest amount | Of which: capitalised interest amount for the current period | Capitalisation rate of the interest amount for the current period (%) | Investment to budgeted costs (%) | Construction progress | Sources of Fund           |
|--|---|--|---|----------------------------------|-----------------------|---------------------------|
| The high-end coated paper project of an annual production capacity of 800,000 tonnes | 26,739,666.67                           | 26,739,666.67  | 3.43%   | 65%                              | 65.07%                | Self raised and borrowing |
| 98,000-tonne household paper project   | 20,950,380.74                           | 20,950,380.74  | 3.43%   | 79.42%                           | 81.42%                | Self raised and borrowing |
| Huanggang forestry pulp integration project (Huanggang)                              |   |  |   | 59.87%                           | 60.77%                | Self raised               |
| Intermediate water advance treatment in drainage workshops (Qihe)                    |   |  |   | 123%                             | Completed             | Self raised               |
| 4400 paper machine technological improvement (Qihe)                                  |   |  |   | 130%                             | 97%                   | Self raised               |
| Pulping production plant oxygen delignification improvement (Qihe)                   |   |  |   |                                  | Completed             | Self raised               |
| Power workshop (Chibi)   |   |  |   | 81.84%                           | Completed             | Self raised               |
| Desulphurisation of 130 tonnes and 75 tonnes boilers (Qianneng)                      |   |  |   | 70.01%                           | 71%                   | Self raised               |
| Sheet machine ultra pressure improvement (Jiangxi)                                   |   |  |   | 112%                             | Completed             | Self raised               |
| Intermediate water advance treatment (Jilin)   |   |  |   | 99%                              | 98.11%                | Self raised               |
| Second plant paper machine improvement (Jilin)                                       |   |  |   | 27.23%                           | 26%                   | Self raised               |
| Power plant phase III expansion and improvement (the Company)                        |   |  |   | 52.01%                           | 52%                   | Self raised               |
| Data improvement of construction in progress (the Company)                           |   |  |   |                                  | Completed             | Self raised               |
| Thermoelectrical pipes of eastern cities (Xinli)                                     | 1,814,064.27                            | 680,282.78   | 5%  | 99%                              | Completed             | Self raised and borrowing |
| Reclamation of recyclable water (electricity and steam)                              | 320,532.63                              | 320,532.63   | 5%  | 120%                             | 99%                   | Self raised and borrowing |
| 700,000 tonnes paper pulp and 450,000 tonnes cultural paper                          | 23,177,105.88                           | 19,646,120.78  | 3.38%   | 43.54%                           | 40%                   | Proceeds and borrowing    |
| Mihe River view wetland (Grand View Hotel)   | 1,799,756.58                            | 1,476,425.95   | 4%  | 56.03%                           | 57%                   | Self raised and borrowing |
| Other projects of construction in progress   | 3,632,235.62                            | 3,631,164.39   | 3.43%   |                                  |                       | Self raised and borrowing |
| Total  | 78,433,742.39                           | 73,444,573.94  |   |                                  |                       |                           |

## VII. Notes to the Consolidated Financial Statements (Cont'd)

### 12 Construction in progress (Cont'd)

(3) There was no provision for impairment of construction in progress.

#### (4) Construction progress of material constructions

| Projects   | Construction progress | Notes  |
|--|-----------------------|--|
| The high-end coated paper project of an annual production capacity of 800,000 tonnes | 32.17%                | Construction progress was estimated on the basis of investment to budgeted costs |
| 98,000-tonne household paper project   | 87.49%                | Construction progress was estimated on the basis of investment to budgeted costs |
| 600,000 white coated linerboard project  | 7%                    | Construction progress was estimated on the basis of investment to budgeted costs |
| Zhanjiang 700,000-tonne pulp paper and 450,000-tonne culture paper                   | 40%                   | Construction progress was estimated on the basis of investment to budgeted costs |

### 13. Project materials

| Items             | Opening balance | Additions for the current period | Deduction for the current period | Closing balance |
|-------------------|-----------------|----------------------------------|----------------------------------|-----------------|
| Special equipment | 26,266,286.51   | 426,434,100.05                   | 358,955,111.80                   | 93,745,274.76   |
| Special materials | 16,646,675.76   | 35,955,705.34                    | 29,866,569.74                    | 22,735,811.36   |
| Total             | 42,912,962.27   | 462,389,805.39                   | 388,821,681.54                   | 116,481,086.12  |

### 14. Consumable biological assets

#### Measured at fair value

| Items  | Opening Closing balance | Additions for the current period | Deduction for the current period | Closing balance |
|--------|-------------------------|----------------------------------|----------------------------------|-----------------|
| Timber | 496,724,974.94          | 230,448,055.78                   | 430,462.28                       | 726,742,568.44  |
| Total  | 496,724,974.94          | 230,448,055.78                   | 430,462.28                       | 726,742,568.44  |

Consumable biological assets are measured at fair value, the fair value of timber increased by RMB26,436,097.29 due to acquisition, increased by RMB149,259,707.91 due to breeding, decreased by RMB 430,462.28 due to disposal, and increased by RMB54,752,250.58 due to change of fair value.

As at 31 December 2010, consumable biological assets held by Yangjiang Chenming Forestry Development Co., Ltd., Zhanjiang Chenming Forestry Development Co., Ltd. and Huanggang Chenming Arboriculture Co., Ltd., subsidiaries of the Company, were assessed to be RMB 726,742,568.44 in fair value by Jones Lang LaSalle Sallmanns Limited.



## VII. Notes to the Consolidated Financial Statements (Cont'd)

### 15. Intangible assets

#### (1) The details of intangible assets

| Items                              | Opening book balance | Additions for the current period | Deductions for the current period | Closing book balance |
|------------------------------------|----------------------|----------------------------------|-----------------------------------|----------------------|
| I. Total original carrying amount: | 1,440,628,963.95     | 322,430,124.03                   | 163,565,124.30                    | 1,599,493,963.68     |
| Land use rights                    | 1,425,343,340.90     | 322,430,124.03                   | 163,565,124.30                    | 1,584,208,340.63     |
| Software                           | 15,285,623.05        |                                  |                                   | 15,285,623.05        |
| II. Total accumulated amortisation | 127,200,096.83       | 32,111,970.96                    | 19,271,332.05                     | 140,040,735.74       |
| Land use rights                    | 120,017,377.03       | 30,530,476.32                    | 19,271,332.05                     | 131,276,521.30       |
| Software                           | 7,182,719.80         | 1,581,494.64                     |                                   | 8,764,214.44         |
| III. Total impairment provision    |                      |                                  |                                   |                      |
| Land use rights                    |                      |                                  |                                   |                      |
| Software                           |                      |                                  |                                   |                      |
| IV. Total carrying amount          | 1,313,428,867.12     |                                  |                                   | 1,459,453,227.94     |
| Land use rights                    | 1,305,325,963.87     |                                  |                                   | 1,452,931,819.33     |
| Software                           | 8,102,903.25         |                                  |                                   | 6,521,408.61         |

Notes: ① The amortisation amount was RMB 32,111,970.96 during the current period.

② Intangible assets -for the pledge of land use rights, please see Note VII. 11. (2). The amortisation of the land use right in 2010 was RMB1,602,581.76(2009: RMB1,602,581.76).

③ As at 31 December 2010, the carrying amount of land use right of land use right certificates not yet obtained was RMB80,539,494.82.

## VII. Notes to the Consolidated Financial Statements (Cont'd)

### 16. Goodwill

#### (1) Breakdown of the goodwill

| Name of investee  | provision     | Additions | Deductions |               | Impairment    |
|---|---------------|-----------|------------|---------------|---------------|
| units or matters  | Opening       | for the   | for the    | Closing       | at the end    |
| generating goodwill                                     | balance       | current   | current    | balance       | of the period |
|   |               | period    | period     |               |               |
| Jilin Chenming Paper Co., Ltd.                          | 14,314,160.60 | —         | —          | 14,314,160.60 | —             |
| Shandong Chenming decorating materials Panels Co., Ltd. | 5,969,626.57  | —         | —          | 5,969,626.57  | —             |
| Total   | 20,283,787.17 | —         | —          | 20,283,787.17 | —             |

#### (2) Impairment test method and impairment provision on goodwill

Goodwill of the Group arose from the acquisition of minority interests in prior year by a subsidiary of the Company.

On the balance sheet date, management of the Group assesses the recoverable amount of cash-generating unit which results goodwill, in order to determine whether to make provision for impairment loss accordingly. The recoverable amount of cash-generating unit is determined based on the estimated cash flow in financial budget of five years in the future by management, using the steady annual growth rate in the industry of 5% (2009: 5%) expected by the market, and time value of currency was estimated using the discount rate of 8.32% (2009: 5.33%). Management of the Group expects no provision for impairment loss is necessary to be made for goodwill during the reporting period.

### 17. Long-term prepaid expenses

| Items                                 | Opening       | Additions      | Amortisation  | Other        | Closing        | Reasons          |
|---------------------------------------|---------------|----------------|---------------|--------------|----------------|------------------|
|                                       | balance       | for the        | for the       | deductions   | balance        | for other        |
|                                       |               | current        | current       |              |                | deductions       |
|                                       |               | period         | period        |              |                |                  |
| Transforming expense on leased assets | 23,250,993.55 | 994,328.91     | 3,610,766.32  |              | 20,634,556.14  |                  |
| Woodland expenses                     |               | 160,171,689.80 | 5,340,352.56  | 2,082,589.42 | 152,748,747.82 | Lease terminated |
| Others                                | 9,160,939.30  |                | 6,107,292.84  |              | 3,053,646.46   |                  |
| Total                                 | 32,411,932.85 | 161,166,018.71 | 15,058,411.72 | 2,082,589.42 | 176,436,950.42 |                  |

## VII. Notes to the Consolidated Financial Statements (Cont'd)

### 18. Deferred income tax assets / deferred income tax liabilities

#### (1) Recognised deferred income tax assets and deferred income tax liabilities

##### (1) Recognised deferred income tax assets

| Items   | Closing balance            |  | Opening balance            |  |
|---|----------------------------|--|----------------------------|--|
|   | Deferred income tax assets | Deductible temporary differences and deductible loss | Deferred income tax assets | Deductible temporary differences and deductible loss |
| Provision for impairment of assets                        | 74,965,397.98              | 338,243,809.22                                       | 53,878,364.07              | 222,033,817.90                                       |
| Elimination of unrealised profit arising from intra-group | 15,789,316.34              | 63,157,265.36  | 14,994,641.01              | 59,978,564.03  |
| Prepaid salaries of senior management                     | 14,321,072.45              | 91,406,128.57  | 27,168,742.57              | 157,407,608.42                                       |
| Unpaid payables   | 11,347,991.44              | 59,934,063.55  | 6,054,842.19               | 37,790,684.33  |
| Deferred income   | 21,067,365.45              | 96,948,558.78  | 15,567,479.30              | 68,791,580.31  |
| Preliminary expenses                                      |                            |  | 433,988.10                 | 3,471,904.76   |
| Decrease in fair value of consumable biological assets    |                            |  | 2,236,876.05               | 8,947,504.20   |
| Deductible losses   | 10,019,335.57              | 40,077,342.27  | 10,123,548.35              | 40,494,193.42  |
| Changes in fair value                                     |                            |  | 967,500.00                 | 6,450,000.00   |
| Total   | 147,510,479.23             | 689,767,167.75                                       | 131,425,981.64             | 605,365,857.37                                       |

##### (2) Recognised deferred income tax liabilities

| Items   | Closing balance                 |                               | Opening balance                 |                               |
|---|---------------------------------|-------------------------------|---------------------------------|-------------------------------|
|   | Deferred income tax liabilities | Taxable temporary differences | Deferred income tax liabilities | Taxable temporary differences |
| Business combination not under common control | 1,340,281.66                    | 5,361,126.68                  | 1,371,092.74                    | 5,484,370.99                  |
| Change in fair value of biological assets     |                                 |                               | 11,037,525.39                   | 44,150,101.59                 |
|   | 1,340,281.66                    | 5,361,126.68                  | 12,408,618.13                   | 49,634,472.58                 |

## VII. Notes to the Consolidated Financial Statements (Cont'd)

### 18. Deferred income tax assets / deferred income tax liabilities

#### (2) The breakdown of unrecognised deferred income tax assets

| Items                            | Closing balance | Opening balance |
|----------------------------------|-----------------|-----------------|
| Deductible temporary differences | 4,496,126.97    | 4,506,016.14    |
| Deductible loss                  | 293,028,858.81  | 208,897,048.41  |
| Total                            | 297,524,985.78  | 213,403,064.55  |

Note: As shown in the table above, it is uncertain that whether there is sufficient taxable profit in the future. Therefore, deductible temporary differences and deductible loss of deferred income tax assets were not recognised.

#### (3) Deductible loss of unrecognised deferred income tax will expire by the following periods:

| Year  | Closing balance | Opening balance | Note |
|-------|-----------------|-----------------|------|
| 2010  |                 | 45,659,451.85   |      |
| 2011  | 6,982,828.04    | 6,982,828.04    |      |
| 2012  | 14,585,476.04   | 14,585,476.04   |      |
| 2013  | 72,648,810.53   | 72,648,810.53   |      |
| 2014  | 69,020,481.95   | 69,020,481.95   |      |
| 2015  | 129,791,262.25  |                 |      |
| Total | 293,028,858.81  | 208,897,048.41  |      |

### 19. Provision for impairment of assets

| Items   | Opening Closing balance | Provision for the current period | Decrease for the current period | period balance |                |
|---|-------------------------|----------------------------------|---------------------------------|----------------|----------------|
|   |                         |                                  | Reversals                       | Write-offs     |                |
| I. Provisions for bad debts                                 | 254,757,389.27          | 90,966,571.02                    |                                 | 5,548,555.93   | 340,175,404.36 |
| II. Provisions for inventory impairment                     | 13,079,973.04           |                                  | 3,026,874.44                    | 2,230,686.44   | 7,822,412.16   |
| III. Impairment provisions for long-term equity investments | 1,998,538.07            |                                  |                                 | 80,385.84      | 1,918,152.23   |
| IV. Impairment provisions for fixed assets                  | 6,302,014.99            | 22,480,088.46                    |                                 |                | 28,782,103.45  |
| Total   | 276,137,915.37          | 113,446,659.48                   | 3,026,874.44                    | 7,859,628.21   | 378,698,072.20 |

## VII. Notes to the Consolidated Financial Statements (Cont'd)

### 20 Assets with limited ownership or use rights

| <b>Items</b>  | <b>Closing<br/>balance</b> | <b>Reasons<br/>of limitations</b>   |
|---|----------------------------|---|
| Sub-total of assets used for<br>providing guarantees                                | 1,093,992,512.64           |   |
| Machinery and equipment (Jiangxi)   | 1,022,544,077.50           | As collaterals for bank borrowings  |
| Land use rights (Jiangxi)   | 71,448,435.14              | As collaterals for bank borrowings  |
| Sub-total of assets with limited<br>ownership or use rights due<br>to other reasons | 96,618,960.92              |   |
| Other monetary funds  | 96,618,960.92              | Secured bank borrowings, bank acceptance<br>bills and letter of credit deposits |
| Total   | 1,190,611,473.56           |   |

## VII. Notes to the Consolidated Financial Statements (Cont'd)

### 21. Short-term borrowings

| Items              | Closing balance  | Opening balance  |
|--------------------|------------------|------------------|
| Secured borrowings | 20,561,496.69    | 39,093,574.20    |
| Guarantee loans    | 187,493,632.08   | 40,000,000.00    |
| Credit loans       | 1,802,176,636.90 | 932,992,447.39   |
| Discounted bills   | 1,583,925,454.80 | 2,091,067,806.59 |
| Total              | 3,594,157,220.47 | 3,103,153,828.18 |

Note: ① For the category and amount of secured assets under secured borrowings, please see Note VII.1;

② Guarantee loans are the loans obtained by the subsidiaries of the Company from financial institutions when the Company acts as their guarantee;

③ Discounted loans are the loans obtained from financial institutions with pledged bank acceptance.

### 22. Bills payable

| Type                  | Closing balance | Opening balance |
|-----------------------|-----------------|-----------------|
| Bank acceptance       | 213,607,186.75  | 544,532,508.19  |
| Commercial acceptance | 5,150,000.00    |                 |
| Total                 | 218,757,186.75  | 544,532,508.19  |

Note: Amount to be due in the next accounting period amounted to RMB218,757,186.75.

### 23. Accounts payable

(1) Breakdown of accounts payable:

| Items         | Closing balance  | Opening balance  |
|---------------|------------------|------------------|
| Within 1 year | 2,516,618,611.43 | 1,885,379,043.87 |
| 1-2 years     | 71,824,074.09    | 155,633,581.77   |
| 2-3 years     | 64,607,259.87    | 52,665,733.96    |
| Over 3 years  | 55,014,731.05    | 29,182,532.98    |
| Total         | 2,708,064,676.44 | 2,122,860,892.58 |

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

## VII. Notes to the Consolidated Financial Statements (Cont'd)

### 23. Accounts payable (Cont'd)

(3) Explanation on the significant trade payables (above RMB1,000,000) aged over one year :

| Name of creditors | Amount        | Reason of outstanding loans | Repay after the reporting period or not |
|-------------------|---------------|-----------------------------|---|
| Customer I        | 11,318,056.97 | Temporary outstanding       | No                                      |
| Customer II       | 4,435,786.09  | Temporary outstanding       | No                                      |
| Customer III      | 3,672,748.71  | Temporary outstanding       | No                                      |
| Customer IV       | 3,180,110.15  | Temporary outstanding       | No                                      |
| Customer V        | 2,100,307.00  | Temporary outstanding       | No                                      |
| Total             | 24,707,008.92 |                             |   |

(4) Accounts receivable at the end of the reporting period comprised the following balances in foreign currencies:

| Items | Closing balance  |                        |                | Opening balance  |                        |                |
|-------|------------------|------------------------|----------------|------------------|------------------------|----------------|
|       | Foreign currency | Foreign exchange rates | RMB            | Foreign currency | Foreign exchange rates | RMB            |
| USD   | 99,658,689.98    | 6.6227                 | 660,009,606.14 | 99,120,930.23    | 6.8282                 | 676,817,535.78 |
| EURO  | 7,753.51         | 8.8065                 | 68,281.29      |                  |                        |                |
| Total |                  |                        | 660,077,887.43 |                  |                        | 676,817,535.78 |

### 24. Advance receipts

(1) Breakdown of advance receipts

| Items         | Closing balance | Opening balance |
|---------------|-----------------|-----------------|
| Within 1 year | 400,171,708.36  | 226,597,505.20  |
| 1-2 years     | 10,071,846.39   | 6,526,185.91    |
| Total         | 410,243,554.75  | 233,123,691.11  |

(2) As at the end of the reporting period, the advance receipts were not received from any shareholders holding over 5% (5% inclusive) of the Company's shares.

## VII. Notes to the Consolidated Financial Statements (Cont'd)

### 24. Advance receipts (Cont'd)

(3) Explanation on the significant advance receipts (above RMB1,000,000) aged over one year :

| Name of creditors | Amount       | Reasons of not being carried forward          |
|-------------------|--------------|---|
| Customer I        | 1,065,775.96 | No delivery requirement from the counterparty |
| Total             | 1,065,775.96 |   |

### 25. Staff remuneration payables

| Items   | Opening<br>Closing<br>balance | Increase for<br>the period | Decrease for<br>the period | Decrease for<br>balance |
|---|-------------------------------|----------------------------|----------------------------|-------------------------|
| I. Salaries, bonuses, allowance and subsidies         | 173,292,799.49                | 599,894,138.69             | 667,022,000.52             | 106,164,937.66          |
| II. Staff welfare                                     | 2,062,876.48                  | 58,652,761.09              | 60,023,498.17              | 692,139.40              |
| III. Social insurance premiums                        | 19,007,627.96                 | 130,317,260.45             | 133,802,951.95             | 15,521,936.46           |
| Of which:   |                               |                            |                            |                         |
| 1. Medical insurance premium                          | 11,588,304.58                 | 19,484,239.28              | 20,944,846.82              | 10,127,697.04           |
| 2. Pension insurance premium                          | 4,813,758.04                  | 98,931,054.70              | 100,335,147.89             | 3,409,664.85            |
| 3. Unemployment insurance premium                     | 331,610.39                    | 8,273,456.03               | 8,447,850.62               | 157,215.80              |
| 4. Work-related injury insurance premium              | 48,535.03                     | 2,533,332.61               | 2,533,339.26               | 48,528.38               |
| 5. Maternity insurance premium                        | 2,225,419.92                  | 1,095,177.83               | 1,541,767.36               | 1,778,830.39            |
| IV. Housing provident funds                           | 9,172,595.01                  | 39,619,210.34              | 42,631,657.71              | 6,160,147.64            |
| V. Union operation costs and employee education costs | 22,245,970.39                 | 13,856,193.70              | 14,077,963.56              | 22,024,200.53           |
| VI Non-monetary welfare                               |                               |                            |                            |                         |
| VII Lay off welfare                                   |                               |                            |                            |                         |
| VIII Cash-settled share-based payment                 |                               |                            |                            |                         |
| IX Others   | 19,719,411.71                 | 818,747.36                 | 1,674,860.35               | 18,863,298.72           |
| Total   | 245,501,281.04                | 843,158,311.63             | 919,232,932.26             | 169,426,660.41          |



## VII. Notes to the Consolidated Financial Statements (Cont'd)

### 26. Taxes payables

| Items                                  | Closing balance | Opening balance |
|--|-----------------|-----------------|
| Enterprise income tax                  | 63,216,459.39   | 39,908,712.66   |
| Value added tax                        | 22,409,317.62   | 66,671,372.07   |
| Business tax                           | 4,809,383.74    | 7,355,951.33    |
| Land use tax                           | 13,840,227.24   | 9,183,246.64    |
| Property tax                           | 5,578,174.83    | 6,765,846.63    |
| Urban maintenance and construction tax | 5,088,049.71    | 1,142,128.84    |
| Educational surcharges and others      | 6,402,114.55    | 1,066,275.19    |
| Individual income tax                  | 10,532,914.69   | 1,386,280.36    |
| Stamp duty                             | 2,152,746.05    | 4,011,290.96    |
| Total                                  | 134,029,387.82  | 137,491,104.68  |

### 27. Dividend payable

| Name                | Closing balance | Opening balance |
|---------------------|-----------------|-----------------|
| Legal person shares |                 | 78,807.70       |
| Total               |                 | 78,807.70       |

## VII. Notes to the Consolidated Financial Statements (Cont'd)

### 28. Other payables

#### (1) Breakdown of other payables

| Items         | Closing balance | Opening balance |
|---------------|-----------------|-----------------|
| Within 1 year | 467,607,969.48  | 122,415,639.41  |
| 1-2 years     | 38,962,690.39   | 114,863,418.12  |
| 2-3 years     | 51,434,377.75   | 25,071,672.83   |
| Over 3 years  | 24,047,473.81   | 58,869,849.25   |
| Total         | 582,052,511.43  | 321,220,579.61  |

(2) The other payables during of the reporting period were not due to any shareholders who holding over 5% (5% inclusive) of the Company's shares.

(3) Explanation on the significant other payables (above RMB1 million) aged over one year :

| Name of creditors | Amount        | Reason of outstanding loans | Repay after the reporting period or not |
|-------------------|---------------|-----------------------------|---|
| Customer I        | 19,137,819.41 | Temporary outstanding       | No                                      |
| Customer II       | 11,475,826.89 | Temporary outstanding       | No                                      |
| Customer III      | 8,800,000.00  | Temporary outstanding       | No                                      |
| Customer IV       | 2,760,000.00  | Temporary outstanding       | No                                      |
| Customer V        | 2,623,200.00  | Temporary outstanding       | No                                      |
| Total             | 44,796,846.30 |                             |   |

(4) Explanation on the significant other payables (the top five):

| Name of creditors | Outstanding balance | Nature or details     |
|-------------------|---------------------|-----------------------|
| Customer I        | 39,608,592.98       | Temporary outstanding |
| Customer II       | 20,518,970.91       | Temporary outstanding |
| Customer III      | 19,137,819.41       | Temporary outstanding |
| Customer IV       | 18,722,869.49       | Temporary outstanding |
| Customer V        | 17,000,000.00       | Temporary outstanding |
| Total             | 114,988,252.79      |                       |

## VII. Notes to the Consolidated Financial Statements (Cont'd)

### 29. Non-current liabilities due within one year

#### (1) Breakdown of long-term liabilities due within one year

| Items   | Closing balance  | Opening balance |
|---|------------------|-----------------|
| Long-term liabilities due within one year (Note VII.31) | 1,432,841,463.15 | 345,353,527.87  |
| Total   | 1,432,841,463.15 | 345,353,527.87  |

#### (1) Breakdown of long-term borrowings due within one year

| Items              | Closing balance  | Opening balance |
|--------------------|------------------|-----------------|
| Secured borrowings | 71,890,463.15    | 91,223,477.87   |
| Guarantee loans    |                  | 1,707,050.00    |
| Credit loans       | 1,360,951,000.00 | 252,423,000.00  |
| Total              | 1,432,841,463.15 | 345,353,527.87  |

#### (2) Top five long-term borrowings due within one year:

| Borrowing units | Starting date | Expiry date | Interest rate(%) | Currency | Closing balance  |                     |
|-----------------|---------------|-------------|------------------|----------|------------------|---------------------|
|                 |               |             |                  |          | Foreign currency | Functional currency |
| Bank I          | 20081223      | 20111222    | 4.8600           | RMB      |                  | 400,000,000.00      |
| Bank II         | 20091020      | 20111019    | 1.4178           | USD      | 30,000,000.00    | 198,681,000.00      |
| Bank III        | 20091228      | 20111228    | 1.6943           | USD      | 30,000,000.00    | 198,681,000.00      |
| Bank IV         | 20090520      | 20110509    | 1.3291           | USD      | 25,000,000.00    | 165,567,500.00      |
| Bank V          | 20091106      | 20111105    | 1.4629           | USD      | 25,000,000.00    | 165,567,500.00      |
| Total           |               |             |                  |          |                  | 1,128,497,000.00    |

| Borrowing units | Starting date | Expiry date | Interest rate(%) | Currency | Opening balance  |                     |
|-----------------|---------------|-------------|------------------|----------|------------------|---------------------|
|                 |               |             |                  |          | Foreign currency | Functional currency |
| Bank I          | 20080227      | 20101227    | 4.8600           | RMB      |                  | 150,000,000.00      |
| Bank II         | 20090511      | 20101010    | 1.1500           | USD      | 10,000,000.00    | 68,282,000.00       |
| Bank III        | 20061129      | 20101215    | 1.4500           | USD      | 7,000,000.00     | 47,797,400.00       |
| Bank IV         | 20050228      | 20101215    | 2.2000           | USD      | 5,333,334.00     | 36,417,071.22       |
| Bank V          | 20090319      | 20090918    | 1.1500           | USD      | 5,000,000.00     | 34,141,000.00       |
| Total           |               |             |                  |          |                  | 336,637,471.22      |

## VII. Notes to the Consolidated Financial Statements (Cont'd)

### 30. Other current liabilities/other non-current liabilities

#### (1) Other current liabilities

| Items                            | Details | Closing balance  | Opening balance |
|----------------------------------|---------|------------------|-----------------|
| Deferred income                  |         | 7,609,415.89     |                 |
| Medium-term debentures interests |         | 46,115,333.31    |                 |
| Short-term debentures payable    |         | 3,358,769,166.68 |                 |
| Total                            |         | 3,412,493,915.88 |                 |

#### (2) Other non-current liabilities

| Items                  | Details | Closing balance  | Opening balance  |
|------------------------|---------|------------------|------------------|
| Deferred income        |         | 142,414,214.19   | 121,890,615.92   |
| Medium-term debentures |         | 2,285,483,331.48 | 1,189,484,415.60 |
| Total                  |         | 2,427,897,545.67 | 1,311,375,031.52 |

Of which,

① the breakdown of deferred income is as follows:

| Items   | Closing balance | Opening balance |
|---|-----------------|-----------------|
| Funds for three projects in connection with technology allocated by the local financial authority |                 | 80,000.00       |
| Special subsidy funds for environmental protection  | 49,868,423.92   | 38,777,543.10   |
| Project fund for National technological support scheme  | 4,660,575.00    | 3,196,628.91    |
| Special subsidy fund for Songhuajiang environmental protection project                            | 23,060,833.12   | 31,698,333.15   |
| Modification of alkaline recycling system   | 5,350,416.65    | 1,381,250.00    |
| Atmospheric pollution prevention and treatment subsidy fund                                       | 993,785.71      | 1,000,000.00    |
| Sewage treatment and water conservation reconfiguration project                                   | 21,892,797.56   | 4,364,285.71    |
| Financial grants for technological modification project   | 2,164,285.79    | 2,332,142.89    |
| Zhejiang pulp project and construction project of eucalyptus forest                               | 40,992,000.00   | 37,996,000.00   |
| Others  | 1,040,512.33    | 1,064,432.16    |
| Total   | 150,023,630.08  | 121,890,615.92  |

Deferred income of RMB35,337,000.00 was received in the current period. Deferred income recognised through profit or loss was RMB7,203,985.84 for the current period.

② .....Principal payments of short-term debentures were RMB3,300,000,000.00. Accrued interest was RMB58,769,166.68.

③ .....Principal payments of medium-term notes were RMB 2,300,000,000.00. Interest due within one year was RMB46,115,333.31. Handling charges not fully amortised under the effective interest method were RMB14,516,668.52.

## VII. Notes to the Consolidated Financial Statements (Cont'd)

### 31. Long-term borrowings

#### (1) Types of long-term borrowings

##### ① Types of long-term borrowings

| Items  | Closing balance  | Opening balance  |
|--|------------------|------------------|
| Secured borrowings   | 199,066,146.26   | 296,565,433.03   |
| Guarantee loans  | 3,746,230,300.00 | 1,454,064,350.00 |
| Credit loans   | 2,213,173,735.94 | 3,682,147,927.10 |
| Less: Long-term borrowings due within one year (Note VII.31) | 1,432,841,463.15 | 345,353,527.87   |
| Total  | 4,725,628,719.05 | 5,087,424,182.26 |

Note: For the category and amount of secured assets under secured borrowings, please see Note VII.11 and VII.15.

##### ② Top five long-term borrowings

| Borrowing units | Starting date | Expiry date | Interest rate(%) | Currency | Closing balance  |                     |
|-----------------|---------------|-------------|------------------|----------|------------------|---------------------|
|                 |               |             |                  |          | Foreign currency | Functional currency |
| Bank I          | 20080325      | 20230324    | 2.96             | USD      | 309,000,000.00   | 2,046,414,300.00    |
| Bank II         | 20090325      | 20230324    | 4.86             | RMB      |                  | 540,000,000.00      |
| Bank III        | 20090910      | 20130910    | 3.60             | USD      | 80,000,000.00    | 529,816,000.00      |
| Bank IV         | 20091210      | 20121210    | 4.06             | RMB      |                  | 450,000,000.00      |
| Bank V          | 20081213      | 20111222    | 4.86             | RMB      |                  | 400,000,000.00      |
| Total           |               |             |                  |          |                  | 3,966,230,300.00    |

| Borrowing units | Starting date | Expiry date | Interest rate(%) | Currency | Opening balance  |                     |
|-----------------|---------------|-------------|------------------|----------|------------------|---------------------|
|                 |               |             |                  |          | Foreign currency | Functional currency |
| Bank I          | 20080325      | 20230324    | 2.96             | USD      | 76,500,000.00    | 522,357,300.00      |
| Bank II         | 20091210      | 20121210    | 3.81             | RMB      |                  | 450,000,000.00      |
| Bank III        | 20081223      | 20111222    | 4.86             | RMB      |                  | 400,000,000.00      |
| Bank IV         | 20081223      | 20111112    | 4.86             | RMB      |                  | 300,000,000.00      |
| Bank V          | 20090928      | 20120927    | 3.51             | RMB      |                  | 280,000,000.00      |
| Total           |               |             |                  |          |                  | 1,952,357,300.00    |

## VII. Notes to the Consolidated Financial Statements (Cont'd)

### 32. Share capital

| Items | Opening balance                       | Change for the period (Increase/decrease) |            |           | Closing balance |                              | Others   | Sub-total   | Amounts       | Percentage |
|-------|---------------------------------------|---|------------|-----------|-----------------|------------------------------|----------|-------------|---------------|------------|
|       |                                       | Amounts                                   | Percentage | New issue | Bonus shares    | Shares transfer from reserve |          |             |               |            |
| I.    | Restricted shares                     |   |            |           |                 |                              |          |             |               |            |
| 1.    | State-owned legal person shares       | 293,003,657                               | 14.21      |           |                 |                              |          | 293,003,657 | 14.21         |            |
| 2.    | Other domestic shares                 | 10,295,148                                | 0.50       |           |                 |                              | -286,833 | -286,833    | 10,008,315    | 0.48       |
|       | Total number of restricted shares     | 303,298,805                               | 14.71      |           |                 |                              | -286,833 | -286,833    | 303,011,972   | 14.69      |
| II.   | Non-restricted shares                 |   |            |           |                 |                              |          |             |               |            |
| 1.    | RMB ordinary shares                   | 809,979,651                               | 39.28      |           |                 |                              | 286,833  | 286,833     | 810,266,484   | 39.30      |
| 2.    | Domestic listed foreign shares        | 557,497,485                               | 27.04      |           |                 |                              |          |             | 557,497,485   | 27.04      |
| 3.    | Overseas listed foreign shares        | 391,270,000                               | 18.97      |           |                 |                              |          |             | 391,270,000   | 18.97      |
|       | Total number of non-restricted shares | 1,758,747,136                             | 85.29      |           |                 |                              | 286,833  | 286,833     | 1,759,033,969 | 85.31      |
| III.  | Total shares                          | 2,062,045,941                             | 100.00     |           |                 |                              |          |             | 2,062,045,941 | 100.00     |

A capital review report named as Zhong Rui Yue Hua Yan Zi [2008] No. 2189 was published for the certification of the review.

## VII. Notes to the Consolidated Financial Statements (Cont'd)

### 33. Capital reserves

| Items  | Opening<br>balance | Increase<br>for the<br>current period | Decrease<br>for the<br>current period | Closing<br>balance |
|--|--------------------|---------------------------------------|---------------------------------------|--------------------|
| Capital premium  | 5,391,471,967.47   |                                       |                                       | 5,391,471,967.47   |
| Of which: Capital contribution<br>from investors                         | 3,373,256,665.49   |                                       |                                       | 3,373,256,665.49   |
| Exercise of conversion<br>rights in convertible bonds<br>of the Company  | 2,018,215,301.98   |                                       |                                       | 2,018,215,301.98   |
| Acquisition of minority interests  |                    | 9,202.79                              |                                       | 9,202.79           |
| Other capital reserves   | 702,011,834.45     |                                       |                                       | 702,011,834.45     |
| Of which: transfer from capital<br>reserves under the<br>original system | 702,011,834.45     |                                       |                                       | 702,011,834.45     |
| Total  | 6,093,483,801.92   |                                       |                                       | 6,093,493,004.71   |

### 34. Surplus reserve

| Items                      | Opening<br>balance | Increase<br>for the<br>current period | Decrease<br>for the<br>current period | Closing<br>balance |
|----------------------------|--------------------|---------------------------------------|---------------------------------------|--------------------|
| Statutory surplus reserves | 906,929,047.49     | 139,581,633.50                        |                                       | 1,046,510,680.99   |
| Total                      | 906,929,047.49     | 139,581,633.50                        |                                       | 1,046,510,680.99   |

## VII. Notes to the Consolidated Financial Statements (Cont'd)

### 35. Retained profit

#### (1) Information on the change of retained profit

| Items  | Amounts in the current period | Amounts in prior period | Proportion of appropriation or allocation |
|--|-------------------------------|-------------------------|---|
| Retained profit of prior period before adjustment  | 3,928,586,297.55              | 3,277,192,810.40        |   |
| Adjustment of the aggregate retained profit as at the beginning of the period (increase after adjustment +, decrease after adjustment -) |                               |                         |   |
| Retained profit as at the beginning of the period after adjustment   | 3,928,586,297.55              | 3,277,192,810.40        |   |
| Add : Net profit of the current period attributable to equity holders of the Company   | 1,163,341,066.21              | 835,947,981.16          |   |
| Less : Withdrawn statutory surplus reserves  | 139,581,633.50                | 81,452,196.96           | 10% of net profit of the Company          |
| Ordinary shares dividend payable   | 618,613,782.30                | 103,102,297.05          |   |
| Retained profit as at the end of the period  | 4,333,731,947.96              | 3,928,586,297.55        |   |

#### (2) Information on the breakdown of profit distribution

According to the profit distribution plan for 2009 approved by 2010 Annual General Meeting of the Company on 12 December 2010, the Company declared cash dividends of RMB0.3 per share to all shareholders, totalling RMB618,613,782.30, which was calculated based on the 2,062,045,941 shares in issue.

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

The transfer to surplus reserve of subsidiaries in 2010 was RMB36,678,585.19, of which RMB22,137,235.52 was attributable to the parent company.

### 36. Operating revenue and operating costs

#### (1) Operating revenue and operating costs

| Items                                       | Incurred during the current period | Incurred during the prior period |
|---|------------------------------------|----------------------------------|
| Operating revenue from principal operations | 17,129,820,871.55                  | 14,754,119,019.01                |
| Other operating revenue                     | 73,302,157.94                      | 130,510,330.49                   |
| Total operating revenue                     | 17,203,123,029.49                  | 14,884,629,349.50                |
| Operating costs from principal operations   | 13,651,586,236.61                  | 11,989,510,699.92                |
| Other operating costs                       | 31,415,223.71                      | 67,905,161.50                    |
| Total operating costs                       | 13,683,001,460.32                  | 12,057,415,861.42                |



## VII. Notes to the Consolidated Financial Statements (Cont'd)

### 36. Operating revenue and operating costs (Cont'd)

#### (2) Principal operation (by products)

| Product name              | Incurred during the current period |                   | Incurred during the prior period |                   |
|---------------------------|------------------------------------|-------------------|----------------------------------|-------------------|
|                           | Operating revenue                  | Operating costs   | Operating revenue                | Operating costs   |
| I. Machine-made paper     | 16,163,909,140.60                  | 12,886,896,603.15 | 14,083,887,907.78                | 11,545,540,911.31 |
| II. Electricity and steam | 444,972,993.46                     | 392,235,364.46    | 238,892,641.07                   | 144,143,760.11    |
| III. Building materials   | 388,957,755.02                     | 306,730,154.46    | 340,100,005.22                   | 267,499,944.43    |
| IV. Paper chemicals       | 74,269,212.30                      | 50,859,132.91     | 31,390,145.44                    | 15,027,019.84     |
| V. Hotel                  | 47,197,701.30                      | 12,352,389.61     | 40,925,941.35                    | 11,672,673.72     |
| VI. Others                | 10,514,068.87                      | 2,512,592.02      | 18,922,378.15                    | 5,626,390.51      |
| Total                     | 17,129,820,871.55                  | 13,651,586,236.61 | 14,754,119,019.01                | 11,989,510,699.92 |

#### (3) Principal operations - Machine-made paper (by geographical segment)

| Regions                              | Incurred during the current period | Incurred during the prior period |
|--------------------------------------|------------------------------------|----------------------------------|
| PRC                                  | 14,166,233,174.99                  | 12,297,186,133.31                |
| Hong Kong                            | 160,884,123.01                     | 374,478,230.81                   |
| United States                        | 167,762,309.03                     | 157,117,644.23                   |
| Japan                                | 187,537,719.18                     | 308,298,475.22                   |
| South Africa                         | 67,501,630.34                      | 128,115,404.52                   |
| Other overseas countries and regions | 1,413,990,184.26                   | 818,692,019.69                   |
| Total                                | 16,163,909,140.60                  | 14,083,887,907.78                |

#### (4) The following table sets forth operating revenue from top 5 customers:

| Period | Total operating revenue from top 5 customers | Percentage of the total operating revenue of the Company (%) |
|--------|--|--|
| 2010   | 994,768,181.55                               | 5.81   |
| 2009   | 884,783,299.65                               | 6.00   |

## VII. Notes to the Consolidated Financial Statements (Cont'd)

### 37. Business taxes and surcharges

| Items                                   | Incurred during the current period | Incurred during the prior period |
|---|------------------------------------|----------------------------------|
| Business taxes                          | 7,952,885.00                       | 7,133,927.79                     |
| Urban maintenances and construction tax | 13,037,023.71                      | 5,539,020.33                     |
| Educational surcharges                  | 9,127,571.48                       | 3,595,858.69                     |
| Total                                   | 30,117,480.19                      | 16,268,806.81                    |

Note: For the calculation standard of business taxes and surcharges, please see Note V. Taxation.

### 38. Selling expenses

| Items                                | Incurred during the current period | Incurred during the prior period |
|--------------------------------------|------------------------------------|----------------------------------|
| Wages                                | 70,958,713.15                      | 48,094,735.01                    |
| Depreciation expense                 | 23,472,608.62                      | 26,147,830.64                    |
| Material consumption expense         | 4,373,193.85                       | 3,898,212.87                     |
| Office expense                       | 5,409,515.58                       | 5,359,891.61                     |
| Travel expense                       | 14,761,401.84                      | 19,493,531.97                    |
| Sales commission and selling expense | 7,528,296.95                       | 2,500,323.00                     |
| Transportation expense               | 636,649,348.94                     | 560,963,219.97                   |
| Cargo handling charges               | 19,857,614.51                      | 14,867,777.04                    |
| Rental expense                       | 5,808,268.58                       | 5,257,013.05                     |
| Hospitality expense                  | 43,408,878.49                      | 48,316,564.22                    |
| Others                               | 41,551,352.54                      | 39,786,875.66                    |
| Total                                | 873,779,193.05                     | 774,685,975.04                   |

### 39. General and administrative expenses

| Items                             | Incurred during the current period | Incurred during the prior period |
|-----------------------------------|------------------------------------|----------------------------------|
| Wages and surcharges              | 188,691,060.22                     | 150,935,941.88                   |
| Welfare expense                   | 42,228,553.17                      | 25,882,735.94                    |
| Depreciation expense              | 40,359,737.06                      | 40,411,344.61                    |
| Waste disposal expense            | 23,727,498.39                      | 20,917,652.71                    |
| Hospitality expense               | 22,865,705.13                      | 9,966,422.19                     |
| Amortisation of intangible assets | 26,402,995.63                      | 28,732,413.75                    |
| Technological development expense | 199,666,494.12                     | 74,057,678.49                    |
| Tax                               | 79,297,284.58                      | 70,898,333.80                    |
| Production interruption loss      | 70,450,167.93                      | 139,591,029.97                   |
| Insurance premium                 | 18,562,842.04                      | 16,911,644.83                    |
| Others                            | 158,885,866.44                     | 148,046,463.50                   |
| Total                             | 871,138,204.71                     | 726,351,661.67                   |

## VII. Notes to the Consolidated Financial Statements (Cont'd)

### 40 Finance expenses

| Items  | Incurred<br>during the<br>current period | Incurred<br>during the<br>prior period |
|--|--|--|
| Interest expenses  | 371,456,433.00                           | 403,545,987.55                         |
| Less: interest income                                      | 21,817,317.38                            | 85,355,112.41                          |
| Less: capitalised interest amount                          | 88,798,479.28                            | 19,522,907.59                          |
| Foreign exchange gains and losses                          | -51,823,694.62                           | -2,036,771.53                          |
| Less: capitalised foreign exchange gains and losses amount | —  | —                                      |
| Others   | 24,438,716.38                            | 16,055,808.00                          |
| <b>Total</b>   | <b>233,455,658.10</b>                    | <b>312,687,004.02</b>                  |

Note: Out of the capitalised interest amount, RMB73,744,573.93 was used in construction in progress and RMB15,353,905.35 was used in consumable biological assets.

### 41. Gain on changes in fair value

| Source of gain on changes in fair value  | Incurred<br>during the<br>current period | Incurred<br>during the<br>prior period |
|--|--|--|
| Gain on changes in fair value generated from<br>derivative financial Instruments | -8,450,000.00                            | 8,443,100.00                           |
| Biological assets measured at fair value   | 54,752,250.58                            | 9,868,745.48                           |
| <b>Total</b>   | <b>46,302,250.58</b>                     | <b>18,311,845.48</b>                   |

## VII. Notes to the Consolidated Financial Statements (Cont'd)

### 42 Investment income

(1) Breakdown of investment income

| Items  | Incurring during the current period | Incurring during the prior period |
|--|-------------------------------------|-----------------------------------|
| Gain from long-term equity investments accounted for using the equity method | -13,863,141.44                      | -15,689,081.65                    |
| Investment gain on disposal of long-term equity investments                  | 100,385.84                          | —                                 |
| Total  | -13,762,755.60                      | -15,689,081.65                    |

(2) Gain on long-term equity investments accounted for using the cost method

| Name of investee entity           | Incurring during the current period | Incurring during the prior period |
|-----------------------------------|-------------------------------------|-----------------------------------|
| Weifang Venture Capital Co., Ltd. | 100,385.84                          | —                                 |
| Total                             | 100,385.84                          | —                                 |

(3) Gain on long-term equity investments of the Company accounted for using equity method

| Name of investee entity                         | Incurring during the current period | Incurring during the prior period | Reason of addition or deduction           |
|---|-------------------------------------|-----------------------------------|---|
| Arjo Wiggins Chenming Specialty Paper Co., Ltd  | -10,959,327.37                      | -15,868,038.28                    | Investment loss due to the company's loss |
| Jiangxi Jiangbao Media Colour Printing Co. Ltd. | -757,694.45                         | -304,351.57                       | Investment loss due to the company's loss |
| Shouguang Liben Paper Making Co., Ltd.          | -2,146,119.62                       | 483,308.20                        | Investment loss due to the company's loss |
| Total   | -13,863,141.44                      | -15,689,081.65                    |   |

## VII. Notes to the Consolidated Financial Statements (Cont'd)

### 43 Loss on impairment of assets

| Items                              | Incurring<br>Incurred<br>during the<br>during the<br>current period | prior period   |
|------------------------------------|---|----------------|
| Loss on bad debts                  | 90,966,571.02   | 35,447,564.77  |
| Loss on allowance for inventories  | -3,026,874.44   | -22,676,605.03 |
| Loss on impairment of fixed assets | 22,480,088.46   | 4,506,016.14   |
| Total                              | 110,419,785.04  | 17,276,975.88  |

### 44. Non-operating income

| Items   | Incurring<br>during the<br>recorded for the<br>current period | Incurring<br>prior period | Amount of<br>extraordinary<br>gains and losses<br>during the<br>current period |
|---|---|---------------------------|--|
| Total income on disposal of non-current assets  | 36,633,268.16   | 12,345,492.47             | 36,633,268.16  |
| Of which: Income on disposal of fixed assets  | 36,633,268.16   | 12,345,492.47             | 36,633,268.16  |
| Income from debt reconstructing   | 54,841.22   | 329,236.08                | 54,841.22  |
| Government grants (For details,<br>please see the following table: breakdown<br>of government grants) | 128,131,184.48  | 159,814,323.91            | 96,530,256.72  |
| Others  | 14,598,743.74   | 29,249,354.34             | 14,598,743.74  |
| Total   | 179,418,037.60  | 201,738,406.80            | 147,817,109.84   |

Of which, breakdown of government grants:

| Items                  | Incurring<br>during the<br>current period | Incurring<br>prior period | Explanation   |
|------------------------|---|---------------------------|---|
| Expansion grants       | 96,530,256.72                             | 140,290,327.67            | Deferred income amortised was RMB7,203,985.84, and the income-related expansion grants were RMB89,326,270.88. |
| Value-added tax refund | 31,600,927.76                             | 19,523,996.24             |   |
| Total                  | 128,131,184.48                            | 159,814,323.91            |   |

## VII. Notes to the Consolidated Financial Statements (Cont'd)

### 45. Non-operating expenses

| Items  | Incurred<br>during the<br>current period | Incurred<br>during the<br>prior period | Amount of<br>extraordinary<br>gains and losses<br>recorded for the<br>current period |
|--|--|--|--|
| Total loss on disposal of non-current assets | 42,128,862.46                            | 10,496,542.97                          | 42,128,862.46  |
| Of which: Loss on disposal of fixed assets   | 42,128,862.46                            | 10,496,542.97                          | 42,128,862.46  |
| Donation expenses                            | 437,000.00                               | 303,100.00                             | 437,000.00   |
| Others                                       | 8,248,354.00                             | 581,961.09                             | 8,248,354.00   |
| Total  | 50,814,216.46                            | 11,381,604.06                          | 50,814,216.46  |

### 46. Income tax expenses

| Items   | Incurred<br>during the<br>current period | Incurred<br>during the<br>prior period |
|---|--|--|
| Current income tax calculated according to<br>tax laws and relevant rules | 287,849,279.19                           | 217,930,242.47                         |
| Adjustment on deferred income tax   | -27,152,834.06                           | 1,080,958.54                           |
| Total   | 260,696,445.13                           | 219,011,201.01                         |

### 47. Basic earnings per share and diluted earnings per share

The basic earnings per share is computed by dividing the net profit for the period attributable to ordinary shareholders of the Company by the number of weighted average ordinary shares in issue. The number of newly issued ordinary shares is confirmed starting from the day of consideration receivables (generally the offering date of stock) according to the specific terms in the offering agreement.

The numerator of the diluted earnings per share is the net profit for the period attributable to ordinary shareholders of the Company, which is confirmed after adjusting the following factors: (1) interests of diluted potential ordinary shares recognised as expenses for the period; (2) gains or expenses arising from the transfer of diluted potential ordinary shares; and (3) effect of income tax due to the above adjustment.

The denominator of diluted earnings per share is the sum of the followings: (1) weighted average number of ordinary shares in issue of the parent company in the basic earnings per share; and (2) average weighted number of the increased ordinary shares during the transfer of the estimated diluted potential ordinary shares to ordinary shares.

For the purpose of calculating the average weighted number of the increased ordinary shares during the transfer of the estimated diluted potential ordinary shares to ordinary shares in issue, diluted potential ordinary shares issued during the prior period were assumed to be transferred as at the beginning of the current period while diluted potential ordinary shares issued in the current period were assumed to be transferred on offering date.

## VII. Notes to the Consolidated Financial Statements (Cont'd)

### 47. Basic earnings per share and diluted earnings per share (Cont'd)

(1) Basic earnings per share and diluted earnings per share over the periods

| Profit for the reporting period  | Current period           |                            | Prior period             |                            |
|--|--------------------------|----------------------------|--------------------------|----------------------------|
|  | Basic earnings per share | Diluted earnings per share | Basic earnings per share | Diluted earnings per share |
| Net profit attributable to ordinary shareholders   | 0.56                     | 0.56                       | 0.41                     | 0.41                       |
| Net profit after deducting extraordinary gains and losses attributable to ordinary shareholders of the Company | 0.50                     | 0.50                       | 0.35                     | 0.35                       |

(2) Calculation of earnings per share and diluted earnings per share

During the reporting period, the Company did not have any potential diluted ordinary shares. Therefore, diluted earnings per share are equal to basic earnings per share.

(1) Net profit for the period attributable to ordinary shareholders for the purpose of calculating earnings per share are as follows:

| Items  | Incurred during the current period | Incurred during the prior period |
|--|------------------------------------|----------------------------------|
| Net profit for the period attributable to ordinary shareholders  | 1,163,341,066.21                   | 835,947,981.16                   |
| Of which: net profit attributable to continued operations  | 1,163,341,066.21                   | 835,947,981.16                   |
| net profit attributable to discontinued operations   | —                                  | —                                |
| Net profit after deducting extraordinary gains and losses attributable to ordinary shareholders of the Company | 1,034,233,761.46                   | 715,013,042.84                   |
| Of which: net profit attributable to continued operations  | 1,034,233,761.46                   | 715,103,042.84                   |
| net profit attributable to discontinued operations   | —                                  | —                                |

## VII. Notes to the Consolidated Financial Statements (Cont'd)

### 47. Basic earnings per share and diluted earnings per share (Cont'd)

(2) Calculation of earnings per share and diluted earnings per share (Cont'd)

(2) For the purpose of calculating earnings per share, the denominator is the weighted average of outstanding ordinary shares. The calculation is as follows:

|   | RMB                                      |  |
|---|--|--|
| Items   | Incurred<br>during the<br>current period | Incurred<br>during the<br>prior period |
| Number of outstanding ordinary<br>as at the beginning of the period       | 2,062,045,941.00                         | 2,062,045,941.00                       |
| Add: number of weighted ordinary shares<br>issued during the period       | —  | —                                      |
| Less: number of weighted ordinary shares<br>repurchased during the period | —  | —                                      |
| Number of outstanding ordinary<br>as at the end of the period             | 2,062,045,941.00                         | 2,062,045,941.00                       |

### 48 Other comprehensive income

| Items   | Incurred<br>during the<br>current period | Incurred<br>during the<br>prior period |
|---|--|--|
| Translation difference of financial statements<br>denominated in foreign currency | -855,013.84                              | -20,264.42                             |
| Total   | -855,013.84                              | -20,264.42                             |



## VII. Notes to the Consolidated Financial Statements (Cont'd)

### 49 Notes to the cash flow statement items

(1) Cash received relating to other operating activities

| Items                              | Incurred<br>during the<br>current period | Incurred<br>during the<br>prior period |
|------------------------------------|--|--|
| Finance support fund               | 89,326,270.88                            | 136,413,468.36                         |
| Interest income                    | 21,817,317.38                            | 85,355,112.41                          |
| Income on default penalty and fine | 671,021.75                               | 17,027.94                              |
| Bank balances and other income     | 277,836,446.51                           | 51,068,941.97                          |
| Total                              | 389,651,056.52                           | 272,854,550.68                         |

(2) Cash paid relating to other operating activities

| Items                         | Amounts<br>Amounts<br>during the<br>during the<br>current period | prior period   |
|-------------------------------|--|----------------|
| Transportation expense        | 330,426,629.06   | 580,416,679.11 |
| Hospitality expense           | 63,220,204.41  | 52,915,456.77  |
| Rental expense                | 10,705,849.00  | 19,467,795.74  |
| Travel expense                | 27,613,014.17  | 28,791,771.42  |
| Office expense                | 12,855,624.55  | 17,829,066.30  |
| Waste disposal expense        | 33,110,383.24  | 20,918,366.63  |
| Insurance premium             | 9,873,464.98   | 18,857,842.45  |
| Water and electricity expense | 201,268.63   | 17,169,140.88  |
| Repair expense                | 11,412,162.05  | 15,273,508.25  |
| Advertising expense           | 1,604,141.09   | 896,896.57     |
| Intermediary service expense  | 7,462,551.70   | 12,948,286.58  |
| Quality compensation          | 53,134.33  | 3,250,273.70   |
| Financial institutions charge | 24,438,716.38  | 16,055,808.00  |
| Others                        | 106,533,593.67   | 80,405,802.48  |
| Total                         | 639,510,737.26   | 885,196,694.88 |

## VII. Notes to the Consolidated Financial Statements (Cont'd)

### 49 Notes to the cash flow statement items (Cont'd)

(3) Cash received relating to other investing activities

| Items                          | Incurred<br>during the<br>during the<br>current period | Incurred<br>prior period |
|--------------------------------|--|--------------------------|
| Special subsidy funds received | 35,337,000.00  | 68,939,100.00            |
| Total                          | 35,337,000.00  | 68,939,100.00            |

(4) Cash received relating to other financing activities

| Items  | Amounts<br>Amounts<br>during the<br>during the<br>current period | prior period |
|--|--|--------------|
| Decrease in restricted bank deposits during the period | 428,970,082.51   | —            |
| Total  | 428,970,082.51   | —            |

(5) Cash paid relating to other financing activities

| Items  | Incurred<br>during the<br>during the<br>current period | Incurred<br>prior period |
|--|--|--------------------------|
| Increase in restricted bank deposits during the period | —  | 359,750,075.21           |
| Issuance expenses of medium-term debentures            | —  | 10,800,000.00            |
| Payments of bank balances                              | —  | 60,000,000.00            |
| Cash paid in repaying bonds                            | —  | 1,900,000,000.00         |
| Total  | —  | 2,330,550,075.21         |

## VII. Notes to the Consolidated Financial Statements (Cont'd)

### 50. Supplementary information on cash flow statements

#### (1) Information on reconciliation of net profit to cash flows from operating activities

| Items   | Amounts<br>during the<br>current period | Amounts<br>during the<br>prior period |
|---|---|---------------------------------------|
| <b>1. Reconciliation of net profit as cash flows from operating activities:</b>                               |   |                                       |
| Net profit  | 1,301,658,119.07                        | 953,911,430.22                        |
| Add: Provision for impairment of assets   | 110,419,785.04                          | 17,276,975.88                         |
| Depreciation of fixed assets, consumption of oil and gas assets, depreciation of productive biological assets | 1,161,789,925.60                        | 1,203,617,152.34                      |
| Amortisation of intangible assets   | 32,111,970.96                           | 32,772,748.83                         |
| Long-term prepaid expenses  | 15,058,411.72                           | 19,276,067.41                         |
| Loss on disposal of fixed assets, intangible assets and other long-term assets ("-" denotes gain)             | 5,495,594.30                            | -1,848,949.50                         |
| Loss on retired fixed assets ("-" denotes gain)   | —                                       | —                                     |
| Loss on change in fair value ("-" denotes gain)   | -46,302,250.58                          | -18,311,845.48                        |
| Finance expenses ("-" denotes gain)   | 282,657,953.72                          | 384,814,680.61                        |
| Investment loss ("-" denotes gain)  | 13,762,755.60                           | 15,689,081.65                         |
| Decrease in deferred income tax assets ("-" denotes increase)   | -16,084,497.59                          | -3,509,615.52                         |
| Increase in deferred income tax liabilities ("-" denotes decrease)  | -11,068,336.47                          | 4,590,574.06                          |
| Decrease in inventory ("-" denotes increase)  | -820,498,722.42                         | 1,120,251,944.17                      |
| Decrease in Consumable biological assets ("+" denotes increase)   | -175,265,342.92                         | -168,077,594.10                       |
| Decrease in operating receivables ("-" denotes increase)  | -584,900,050.48                         | -1,964,023,762.78                     |
| Increase in operating payables ("-" denotes decrease)   | -418,506,388.55                         | 53,095,813.60                         |
| Others  | —                                       | -10,490,441.40                        |
| <b>Net cash flows from operating activities</b>   | <b>850,328,927.00</b>                   | <b>1,639,034,259.99</b>               |
| <b>2. Major investing and financing activities not involving cash settlements:</b>                            |   |                                       |
| Capital converted from debts  | —                                       | —                                     |
| Convertible bonds of the Company due within one year  | —                                       | —                                     |
| Finance leases of fixed assets  | —                                       | —                                     |
| <b>3. Net change in cash and cash equivalents:</b>  |   |                                       |
| Cash balance at the end of the period   | 1,855,235,979.80                        | 2,367,334,202.50                      |
| Less: cash balance at the beginning of the period   | 2,367,334,202.50                        | 2,687,579,159.85                      |
| Add: balance of cash equivalents at the end of the period   | —                                       | —                                     |
| Less: balance of cash equivalents at the beginning of the period  | —                                       | —                                     |
| <b>Net increase in cash and cash equivalents</b>  | <b>-512,098,222.70</b>                  | <b>-320,244,957.35</b>                |

## VII. Notes to the Consolidated Financial Statements (Cont'd)

### 50. Supplementary information on cash flow statements (Cont'd)

(2) *Relevant information with respect to acquisition or disposal of subsidiaries and other operating units during the reporting period*

| Items  | Amounts<br>during the<br>current period | Amounts<br>during the<br>prior period |
|--|---|---------------------------------------|
| I. Relevant information with respect to acquisition of subsidiaries and other operating units: |   |                                       |
| 1 Consideration for acquisition of subsidiaries and other operating units                      | —                                       | 10,600,000.00                         |
| 2 Cash and cash equivalents paid on acquisition of subsidiaries and other operating units      | —                                       | 11,600,000.00                         |
| Less: cash and cash equivalents held by subsidiaries and other operating units                 | —                                       | 4,468,175.53                          |
| 3 Net cash paid on acquisition of subsidiaries and other operating units                       | —                                       | 7,131,824.47                          |
| 4 Net assets of subsidiaries acquired  | —                                       | 27,628,656.36                         |
| Of which: Current assets   | —                                       | 47,781,786.69                         |
| Non-current assets   | —                                       | 42,409,749.47                         |
| Current liabilities  | —                                       | 61,176,381.52                         |
| Non-current liabilities  | —                                       | 1,386,498.28                          |

(3) *The compositions of cash and cash equivalents*

| Items  | Closing balance  | Opening balance  |
|--|------------------|------------------|
| I. Cash  |                  |                  |
| Of which : Bank deposits repayable on demand                   | 1,232,651.18     | 1,905,043.24     |
| Treasury cash  | 1,854,003,328.62 | 2,365,429,159.26 |
| II. Cash equivalents   |                  |                  |
| Of which : bond investments due within 3 months                | —                | —                |
| III. Balance of cash and cash equivalents at the end of period | 1,855,235,979.80 | 2,367,334,202.50 |

## **VIII. Segment reporting**

The Group determined the reporting segments and disclosed the segments information according to the requirements of China Accounting Standards Explanatory Notice No.3 in 2010, and the Group no longer adopted the requirements of China Accounting Standards Explanatory Notice No.35 which was related to the determination of the geographical segment and business segments, and the requirements of disclosure of segment information of the primary reporting format and the secondary reporting format.

According to the internal organisation structure, the requirement of management and the internal reporting system of the Group, the operating businesses of the Group is categorised into 4 reporting segments, such reporting segments is based on its primary product categories. The management of the Group evaluates the financial results of such reporting segments in regular basis, in order to allocate the resources and evaluate its result. The primary products or services provided by each reporting segments of the Group are machine-made paper, construction materials, electricity and steam supply and others.

The segment reporting information disclosed according to the accounting standards and the measurements basis which reported from each segments to the management, such measurement basis is consistent with accounting and measurement basis of the preparation of the financial statements.

## VIII. Segment reporting

### (1) Segment revenue

|  | RMB'0000           |               |                        |               |                       |               |           |               |                                 |               |              |               |
|--|--------------------|---------------|------------------------|---------------|-----------------------|---------------|-----------|---------------|---------------------------------|---------------|--------------|---------------|
|  | Machine-made paper |               | Construction materials |               | Electricity and steam |               | Others    |               | Eliminations among each segment |               | Total        |               |
|  | This year          | Previous year | This year              | Previous year | This year             | Previous year | This year | Previous year | This year                       | Previous year | This year    | Previous year |
| External transaction sales                                 | 1,620,061.01       | 1,421,439.82  | 38,895.78              | 34,010.00     | 44,497.30             | 23,889.26     | 16,858.21 | 9,123.85      | —                               | —             | 1,720,312.30 | 1,488,462.93  |
| Intra-segment sales  | —                  | —             | 6,287.09               | 4,645.76      | 26,610.60             | 22,930.12     | 20,118.91 | 34,701.67     | 53,016.60                       | 62,277.55     | —            | —             |
| Total segment operating revenue                            | 1,620,061.01       | 1,421,439.82  | 45,182.87              | 38,655.76     | 71,107.90             | 46,819.38     | 36,977.12 | 43,825.52     | 53,016.60                       | 62,277.55     | 1,720,312.30 | 1,488,462.93  |
| Operating costs  | 1,401,036.67       | 1,247,657.95  | 45,352.57              | 38,779.97     | 67,112.49             | 38,313.06     | 36,241.56 | 43,969.46     | 53,016.60                       | 62,277.55     | 1,496,726.69 | 1,306,442.89  |
| Segment operating profit                                   | 219,024.34         | 173,781.87    | -169.70                | -124.21       | 3,995.41              | 8,506.32      | 735.56    | -143.94       | —                               | —             | 223,585.61   | 182,020.04    |
| Adjustment items:  |                    |               |                        |               |                       |               |           |               |                                 |               |              |               |
| Administrative expenses                                    |                    |               |                        |               |                       |               |           |               |                                 |               | 42,338.31    | 26,887.74     |
| Finance expenses   |                    |               |                        |               |                       |               |           |               |                                 |               | 28,265.80    | 38,402.31     |
| Profit or loss from change in fair value investment income |                    |               |                        |               |                       |               |           |               |                                 |               | -4,630.23    | -1,831.18     |
|  |                    |               |                        |               |                       |               |           |               |                                 |               | 1,376.28     | 1,568.91      |
| Total profit   |                    |               |                        |               |                       |               |           |               |                                 |               | 156,235.45   | 117,292.26    |
| Income tax   |                    |               |                        |               |                       |               |           |               |                                 |               | 26,069.64    | 21,901.12     |
| Net profit   |                    |               |                        |               |                       |               |           |               |                                 |               | 130,165.81   | 95,391.14     |

## VIII. Segment reporting (Cont'd)

### (2) Segment assets and liabilities

|                     | RMB'0000           |               |                        |               |                       |               |           |               |                                 |               |              |               |
|---------------------|--------------------|---------------|------------------------|---------------|-----------------------|---------------|-----------|---------------|---------------------------------|---------------|--------------|---------------|
|                     | Machine-made paper |               | Construction materials |               | Electricity and steam |               | Others    |               | Eliminations among each segment |               | Total        |               |
|                     | This year          | Previous year | This year              | Previous year | This year             | Previous year | This year | Previous year | This year                       | Previous year | This year    | Previous year |
| Segment assets      | 3,203,769.33       | 2,507,647.26  | 58,495.26              | 64,086.03     | 233,790.37            | 267,388.49    | 44,364.95 | 45,388.66     | -32,706.70                      | -63,161.96    | 3,507,713.21 | 2,821,308.49  |
| Segment liabilities | 1,915,539.36       | 1,311,401.22  | 42,327.35              | 39,777.32     | 21,462.84             | 24,200.02     | 35,050.46 | 35,405.81     | -32,706.70                      | -63,161.96    | 1,981,693.31 | 1,347,602.41  |

## IX. Related party relations and transactions

### 1. The information on the parent company of the Company:

| Name of the parent company           | Relationship            | Type of corporation       | Place of registration | Legal representative | Type of business   | Registered capital | The parent company's shareholding in the Company (%) | Voting rights of the largest shareholder in the Company (%) | Ultimate controller of the Company   | Organisation code |
|--------------------------------------|-------------------------|---------------------------|-----------------------|----------------------|--|--------------------|--|---|--|-------------------|
| Shouguang Chenming Holdings Co., Ltd | The largest shareholder | Limited liability company | Shouguang City        | Chen Hongguo         | Investments in papermaking, power and steam, forestry projects | RMB 168,542        | 14.21  | 14.21   | State-owned Assets Supervision and Administration Commission of Shouguang City | 78348518-9        |

# XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

## IX. Related party relations and transactions (Cont'd)

### 2. The subsidiaries of the Company

Refer to Note VI.1 for further information.

### 3. Information on the joint ventures and associates of the Company

Refer to Note VII.9 (3) for further information. For the investments in other related parties of the Group, please refer to Note VII.9 (2).

### 4. Information on related party transactions

#### (1) Related party transactions involving sales of goods and provision of services

| Related party  | Details of related party transactions | Pricing principle of related party transactions and decision making process | During the current period Amount | As a percentage of similar transaction amounts (%) | During the prior period Amount | As a percentage of similar transaction amounts (%) |
|--|---------------------------------------|---|----------------------------------|--|--------------------------------|--|
| 安徽時代物資股份有限公司<br>(Anhui Shidai Resources Holdings Co. Ltd.) | Sales of paper                        | Market price<br>Authorised<br>by the Board                                  | 18,221,859.35                    | 0.11   |                                |  |
| Jiangxi Jiangbao Media Colour Printing Co. Ltd.            | Sales of paper                        | Market price<br>Authorised<br>by the Board                                  | 2,077,643.00                     | 0.01   |                                |  |
| Shouguang Liben Paper Making Co., Ltd.                     | Purchase of electricity and steam     | Market price<br>Authorised<br>by the Board                                  | 8,086,265.50                     | 0.05   | 8,212,268.25                   | 0.06   |

#### (2) Guarantees provided for related parties

| Guarantor   | Party being guaranteed                     | Amounts under guarantee | Starting date of guarantee | Expiry date of guarantee | Performance of guarantee is completed |
|-------------|--|-------------------------|----------------------------|--------------------------|---------------------------------------|
| The Company | Jiangxi Chenming Paper Co., Ltd.           | 50,000,000.00           | 2009.4.22                  | 2012.4.21                | No                                    |
| The Company | Jiangxi Chenming Paper Co., Ltd.           | 450,000,000.00          | 2009.12.10                 | 2012.12.10               | No                                    |
| The Company | Wuhan Chenming                             | 40,000,000.00           | 2010.03.08                 | 2011.03.04               | No                                    |
| The Company | Huanggang Chenming Arboriculture Co., Ltd. | 50,000,000.00           | 2009.06.03                 | 2012.06.02               | No                                    |
| The Company | Huanggang Chenming Arboriculture Co., Ltd. | 20,000,000.00           | 2010.04.29                 | 2013.04.28               | No                                    |
| The Company | Huanggang Chenming Arboriculture Co., Ltd. | 30,000,000.00           | 2010.07.08                 | 2013.07.07               | No                                    |
| The Company | Shouguang Meilun Paper Co. Ltd.            | 529,816,000.00          | 2010.09.10                 | 2013.08.10               | No                                    |
| The Company | Shouguang Meilun Paper Co. Ltd.            | 147,493,632.08          | 2010.11.01                 | 2011.06.27               | No                                    |
| The Company | Zhanjiang Chenming Paper Pulp Co., Ltd.    | 2,586,414,300.00        | 2008.03.25                 | 2023.03.24               | No                                    |



## IX. Related party relations and transactions (Cont'd)

### 5. Information on related party transactions (Cont'd)

#### (3) Entrusted loan to subsidiaries of the Company

Unit: RMB'0000

| Related party                                    | Amount of entrusted loan incurred | Starting date | Expiry date | Explanation    |
|--|-----------------------------------|---------------|-------------|----------------|
| Jiangxi Chenming Paper Co., Ltd.                 | 30,000.00                         | 2007.05.24    | 2017.05.25  | Entrusted loan |
| Shouguang Chenming Art Paper Co.,Ltd             | 59,749.05                         | 2010.12.03    | 2011.12.02  | Entrusted loan |
| Shandong Chenming Qihe Paperboard Co., Ltd.      | 8,950.35                          | 2010.12.03    | 2011.12.02  | Entrusted loan |
| Huanggang Chenming Arboriculture Co., Ltd.       | 8,000.00                          | 2010.01.06    | 2011.01.05  | Entrusted loan |
| Fuyu Chenming Paper Co., Ltd.                    | 9,959.90                          | 2009.12.15    | 2010.12.14  | Entrusted loan |
| Heze Chenming Panels Co., Ltd.                   | 5,577.31                          | 2010.01.14    | 2011.04.20  | Entrusted loan |
| Wuhan Chenming Hanyang Paper Holdings Co., Ltd.  | 78,166.99                         | 2010.01.27    | 2011.08.02  | Entrusted loan |
| Jiangxi Chenming Paper Co., Ltd.                 | 20,000.00                         | 2010.04.19    | 2013.04.18  | Entrusted loan |
| Shandong Chenming Panels Co., Ltd.               | 2,576.21                          | 2010.12.03    | 2011.12.03  | Entrusted loan |
| Qihe Chenming Panels Co., Ltd.                   | 1,482.77                          | 2010.12.02    | 2011.12.03  | Entrusted loan |
| Wuhan Chenming Qianneng Electric Power Co., Ltd. | 5,500.00                          | 2010.04.21    | 2011.04.20  | Entrusted loan |

#### (4) Compensation of key management personnel

Unit: RMB'0000

| Annual Remunerations | Amounts during the current period | Amounts during the prior period |
|----------------------|-----------------------------------|---------------------------------|
| Total                | 2,525.64                          | 1,568.78                        |

## IX. Related party relations and transactions (Cont'd)

### 5. Information on related party transactions (Cont'd)

#### (5) Receivables and payables of related parties

##### (1) Receivables and prepayments of related parties

Unit: RMB'0000

| Name of items  | Closing balance |                    | Opening balance |                    |
|--|-----------------|--------------------|-----------------|--------------------|
|  | Book balance    | Bad debt provision | Book balance    | Bad debt provision |
| Accounts receivable:                                       |                 |                    |                 |                    |
| 安徽時代物資股份有限公司<br>(Anhui Shidai Resources Holdings Co. Ltd.) | 1,079.13        | 53.96              |                 |                    |
| Jiangxi Jiangbao Media Colour<br>Printing Co., Ltd.        | 56.67           | 2.83               | 113.56          | 5.68               |
| Total  | 1,135.80        | 56.79              | 113.56          | 5.68               |
| Other receivables:   |                 |                    |                 |                    |
| Arjo Wiggins Chenming Specialty<br>Paper Co., Ltd.         | 129.09          | 16.65              | 129.09          | 8.33               |
| Total  | 129.09          | 16.65              | 129.09          | 8.33               |

There were no prepayments of related parties during the reporting period.

##### (2) Payables and advances of related parties

There were no payables and advances of related parties during the reporting period.

## XI Contingent items

As at 31 December 2010, it was not necessary for the Group to disclose significant contingent items.

## XII. COMMITMENTS

### 1. Significant Commitments

#### (1) Capital commitments

|   | RMB              |                  |
|---|------------------|------------------|
| Items   | Closing balance  | Opening balance  |
| Contracted but not yet recognised in the financial statements |                  |                  |
| – commitments in relation to acquisition                      |                  |                  |
| and construction of long-term assets                          | 4,634,896,079.74 | 5,553,397,880.88 |
| Total   | 4,634,896,079.74 | 5,553,397,880.88 |

#### (2) Operating lease commitments

As at the balance sheet date, the Group entered into irrevocable operating lease contracts with non-group companies as follows:

|  | RMB              |                  |
|--|------------------|------------------|
| Name of items  | Closing balance  | Opening balance  |
| Minimum lease payments under irrevocable operating leases: |                  |                  |
| The first year after balance sheet date                    | 60,189,073.16    | 43,349,747.30    |
| The second year after balance sheet date                   | 28,385,986.80    | 31,564,538.27    |
| The third year after balance sheet date                    | 28,492,058.29    | 30,774,546.27    |
| In the years thereafter                                    | 938,172,599.89   | 1,081,173,531.06 |
| Total  | 1,055,239,718.14 | 1,186,862,362.90 |

### 2. Performance of commitments for the prior period

As at 31 December 2010, significant commitments had been performed by the Group.

## XIII After-Balance-Sheet-Date Events

### Explanation on profit distribution after the balance sheet date

As at 30 March 2011, the fifth meeting of the sixth session of the board of the Company approved the profit distribution proposal for 2010 to distribute cash dividends of RMB 618,613,782.30.

## XIV. Other important explanations

### 1. Lease

For details on investment properties held under operation lease, please refer to note VII.10.

| Remaining lease terms            | Minimum lease payments |
|----------------------------------|------------------------|
| Within 1 year (including 1 year) | 2,572,582.42           |
| 1-2 years                        | 141,172.20             |
| Total                            | 2,713,754.62           |

### 2. Biological assets measured at fair value

| Items                        | Opening balance | Profit or loss from change in fair value for the period | Accumulated change of fair value accounted for equity | Provision of impairment for the period | Closing balance |
|------------------------------|-----------------|---|---|--|-----------------|
| Consumable biological assets | 496,724,568.44  | 54,752,250.58   | 89,954,847.97   |  | 726,724,974.94  |
| Total                        | 496,724,568.44  | 54,752,250.58   | 89,954,847.97   |  | 726,724,974.94  |

## XV. Notes of the major financial statements' items of the company

### 1. Accounts receivable

Unless specified otherwise, in the notes to the financial statements, the "opening balance" and "closing balance" refer to the balances as at 1 January 2010 and 31 December 2010 respectively and the "current period" and "prior period" refer to 2009 and 2010 respectively.

#### (1) Accounts receivable stated according to breakdown

| Breakdown   | Closing balance  |           |                    |           | Opening balance  |           |                    |           |
|---|------------------|-----------|--------------------|-----------|------------------|-----------|--------------------|-----------|
|   | Book balance     |           | Bad debt provision |           | Book balance     |           | Bad debt provision |           |
|   | Amount           | Ratio (%) | Amount             | Ratio (%) | Amount           | Ratio (%) | Amount             | Ratio (%) |
| Single item with significant accounts receivable and bad debt provision         | 1,652,798,337.63 | 95.01     | 104,159,492.68     | 6.30      | 1,366,289,828.00 | 89.37     | 123,636,211.26     | 9.05      |
| Accounts receivable with bad debt provision by group                            |                  |           |                    |           |                  |           |                    |           |
| Accounts receivable aged within 2 years   | 75,752,870.19    | 4.35      | 4,256,709.90       | 5.62      | 151,309,437.89   | 9.90      | 8,506,292.04       | 5.62      |
| Accounts receivable aged more than 2 years                                      | 10,746,015.20    | 0.62      | 9,299,662.52       | 86.54     | 10,228,140.55    | 0.67      | 9,358,032.57       | 91.49     |
| Group sub-total   | 86,498,885.39    | 4.97      | 13,556,372.42      | 15.67     | 161,537,578.44   | 10.57     | 17,864,324.61      | 11.06     |
| Single item without significant accounts receivable but with bad debt provision | 358,195.26       | 0.02      | —                  | —         | 881,581.35       | 0.06      | —                  | —         |
| Total   | 1,739,655,418.28 | 100.00    | 117,715,865.10     | 6.77      | 1,528,708,987.79 | 100.00    | 141,500,535.87     | 9.26      |

#### (2) Accounts receivable stated according to aging

| Items         | Closing balance  |           | Opening balance  |           |
|---------------|------------------|-----------|------------------|-----------|
|               | Amount           | Ratio (%) | Amount           | Ratio (%) |
| Within 1 year | 1,644,505,095.40 | 94.53     | 1,438,967,138.28 | 94.13     |
| 1 to 2 years  | 21,571,510.58    | 1.24      | 71,019,354.05    | 4.65      |
| 2 to 3 years  | 57,067,573.19    | 3.28      | 4,221,540.91     | 0.28      |
| Over 3 years  | 16,511,239.11    | 0.95      | 14,500,953.55    | 0.94      |
| Total         | 1,739,655,418.28 | 100       | 1,528,708,987.79 | 100       |

## XV. Notes of the major financial statements' items of the company (Cont'd)

### 1. Accounts receivable (continued)

#### (3) Information on the provision of bad debts

- (1) Information on the provision of bad debts of single items with significant accounts receivable and bad debt provision

| Details of accounts receivable | Carrying amount  | Bad debt provision | Percentage of provision (%) | Reason         |
|--------------------------------|------------------|--------------------|-----------------------------|----------------|
| Types of paper                 | 1,652,798,337.63 | 104,159,492.68     | 6.30                        | aging analysis |
| Total                          | 1,652,798,337.63 | 104,159,492.68     |                             |                |

- (2) Accounts receivable with bad debt provision by group

Among the group, accounts receivable with bad debt provision based on the aging analysis:

| Aging         | Closing balance        |           |                    | Opening balance        |           |                    |
|---------------|------------------------|-----------|--------------------|------------------------|-----------|--------------------|
|               | Book balance<br>Amount | Ratio (%) | Bad debt provision | Book balance<br>Amount | Ratio (%) | Bad debt provision |
| Within 1 year | 72,156,953.55          | 83.42     | 3,607,847.68       | 132,493,034.98         | 82.02     | 6,624,651.75       |
| 1 to 2 years  | 3,595,916.64           | 4.16      | 359,591.66         | 18,816,402.91          | 11.65     | 1,881,640.29       |
| 2 to 3 years  | 1,446,352.65           | 1.67      | 289,270.53         | 1,087,634.97           | 0.67      | 217,526.99         |
| Over 3 years  | 9,299,662.55           | 10.75     | 9,299,662.55       | 9,140,505.58           | 5.66      | 9,140,505.58       |
| Total         | 86,498,885.39          | 100.00    | 13,556,372.42      | 161,537,578.44         | 100.00    | 17,864,324.61      |

- (3) Single item without significant accounts receivable but with bad debt provision as at the end of the period

| Details of accounts receivable | Carrying amount | Bad debt provision | Percentage of provision (%) | Reason  |
|--------------------------------|-----------------|--------------------|-----------------------------|---|
| Types of paper                 | 358,195.26      | —                  |                             | No provision of bad debt of related parties within the scope of consolidation |
| Total                          | 358,195.26      |                    |                             |   |

- (4) During the current reporting period, there were no accounts receivable from shareholder units holding 5% (including 5%) or more shares with voting power in the Company.

## XV. Notes of the major financial statements' items of the company (Cont'd)

### 1. Accounts receivable (continued)

(5) Top 5 accounts receivable are set out as follows

| Entities   | Relationship with the Company                   | Amount           | Aging         | As a percentage of the total balance of accounts receivable (%) |
|------------|---|------------------|---------------|---|
| Entity I   | Related party within the scope of consolidation | 978,541,407.22   | Within 1 year | 56.61   |
| Entity II  | Related party within the scope of consolidation | 192,336,505.56   | Within 1 year | 11.13   |
| Entity III | Non-related party                               | 47,706,660.23    | 2 to 3 years  | 2.76  |
| Entity IV  | Non-related party                               | 17,994,012.59    | Within 1 year | 1.04  |
| Entity V   | Non-related party                               | 16,755,095.30    | Within 1 year | 0.97  |
| Total      |   | 1,253,333,680.90 |               | 72.51   |

(6) Information on accounts receivable of the related parties

| Name of units   | Relationship with the Company | Amounts          | Percentage of the total accounts receivable (%) |
|---|-------------------------------|------------------|---|
| Shandong Chenming Paper Sales Company Limited           | Subsidiary of the Company     | 978,541,407.22   | 56.25   |
| Shouguang Chenming Art Paper Co., Ltd.                  | Subsidiary of the Company     | 192,336,505.56   | 11.06   |
| Shandong Chenming Paper Group Qihe Paperboard Co., Ltd. | Subsidiary of the Company     | 9,161,978.88     | 0.53  |
| Shouguang Meilun Paper Co., Ltd.                        | Subsidiary of the Company     | 6,112,135.10     | 0.35  |
| Fuyu Chenming Paper Co., Ltd.                           | Subsidiary of the Company     | 3,054,118.53     | 0.18  |
| Shandong Grand View Hotel Co., Ltd.                     | Subsidiary of the Company     | 226,195.26       | 0.01  |
| Wuhan Chenming Hanyang Paper Holdings Co., Ltd.         | Subsidiary of the Company     | 132,000.00       | 0.01  |
| Total   |                               | 1,189,564,340.55 | 68.39   |

## XV. Notes of the major financial statements' items of the company (Cont'd)

### 2. Other receivables

(1) Other receivables stated according to breakdown

| Breakdown   | Closing balance  |           |                    |           | Opening balance  |           |                    |           |
|---|------------------|-----------|--------------------|-----------|------------------|-----------|--------------------|-----------|
|   | Book balance     |           | Bad debt provision |           | Book balance     |           | Bad debt provision |           |
|   | Amount           | Ratio (%) | Amount             | Ratio (%) | Amount           | Ratio (%) | Amount             | Ratio (%) |
| Single item with significant other receivables and bad debt provision         | 4,803,742,856.08 | 99.16     | 39,885,247.29      | 0.83      | 2,039,880,017.86 | 98.13     | 7,993,27.36        | 0.39      |
| Other receivables with bad debt provision by group                            |                  |           |                    |           |                  |           |                    |           |
| Other receivables aged within 2 years   | 2,758,118.53     | 0.06      | 172,244.01         | 6.24      | 28,226,795.77    | 1.36      | 19,008,207.57      | 67.34     |
| Other receivables aged more than 2 years                                      | 15,143,251.74    | 0.31      | 8,972,454.14       | 59.25     | 7,429,754.74     | 0.36      | 6,630,034.74       | 89.24     |
| Group sub-total   | 17,901,370.27    | 0.37      | 9,144,698.15       | 51.08     | 35,656,550.51    | 1.72      | 25,638,242.31      | 71.90     |
| Single item without significant other receivables but with bad debt provision | 22,867,418.63    | 0.47      | 22,407,088.63      | 97.99     | 3,218,270.43     | 0.15      | —                  | —         |
| Total   | 4,844,511,644.98 | 100       | 71,437,034.07      | 1.47      | 2,078,754,838.80 | 100       | 33,631,449.67      | 1.62      |

(2) Other receivables stated according to aging

| Items         | Closing balance  |           | Bad debt balance |           |
|---------------|------------------|-----------|------------------|-----------|
|               | Amounts          | Ratio (%) | Amounts          | Ratio (%) |
| Within 1 year | 4,140,927,115.96 | 85.48     | 61,887,118.78    | 86.63     |
| 1 to 2 years  | 688,441,277.28   | 14.21     | 577,461.14       | 0.81      |
| 2 to 3 years  | 7,713,497.00     | 0.16      | 1,542,699.40     | 2.16      |
| Over 3 years  | 7,429,754.74     | 0.15      | 7,429,754.74     | 10.40     |
| Total         | 4,844,511,644.98 | 100.00    | 71,437,034.06    | 100.00    |
| Items         | Opening balance  |           | Bad debt balance |           |
|               | Amounts          | Ratio (%) | Amounts          | Ratio (%) |
| Within 1 year | 2,058,407,292.23 | 99.02     | 23,937,311.43    | 71.18     |
| 1 to 2 years  | 8,564,681.36     | 0.41      | 580,416.16       | 1.73      |
| 2 to 3 years  | 2,869,073.13     | 0.14      | 199,930.00       | 0.59      |
| Over 3 years  | 8,913,792.08     | 0.43      | 8,913,792.08     | 26.50     |
| Total         | 2,078,754,838.80 | 100.00    | 33,631,449.67    | 100.00    |



## XV. Notes of the major financial statements' items of the company (Cont'd)

### 2. Other receivables (continued)

#### (3) Information on the provision of bad debts

- (1) Information on the provision of bad debts of single items with significant other receivables and bad debt provision

| Details of other receivables | Carrying amount  | Bad debt provision | Bad debt of provision (%) | As Percentage Reason   |
|------------------------------|------------------|--------------------|---------------------------|--|
| Bank balances                | 4,803,742,856.08 | 39,885,247.29      | 0.83                      | No bad debt was provided for the accounts receivable from related parties upon consolidation and other accounts receivable were provided for |
| under                        |                  |                    |                           | aging analysis on individual basis.  |
| Total                        | 4,803,742,856.08 | 39,885,247.29      |                           |  |

- (2) Other receivables with bad debt provision by group

Among the group, other receivables with bad debt provision based on the aging analysis:

| Aging         | Closing balance      |           |                    | Opening balance      |           |                    |
|---------------|----------------------|-----------|--------------------|----------------------|-----------|--------------------|
|               | Book balance Amounts | Ratio (%) | Bad debt provision | Book balance Amounts | Ratio (%) | Bad debt provision |
| Within 1 year | 2,071,356.84         | 11.57     | 103,567.84         | 5,238,455.42         | 14.69     | 261,922.77         |
| 1 to 2 years  | 686,761.69           | 3.84      | 68,676.17          | 22,988,340.35        | 64.47     | 18,746,284.80      |
| 2 to 3 years  | 7,713,497.00         | 43.09     | 1,542,699.40       | 999,650.00           | 2.80      | 199,930.00         |
| Over 3 years  | 7,429,754.74         | 41.50     | 7,429,754.74       | 6,430,104.74         | 18.04     | 6,430,104.74       |
| Total         | 17,901,370.27        | 100       | 9,144,698.15       | 35,656,550.51        | 100       | 25,638,242.31      |

**XV. Notes of the major financial statements' items of the company (Cont'd)**

**2. Other receivables** (continued)

(3) *Information on the provision of bad debts* (continued)

(3) Single item without significant other receivables but with bad debt provision at the end of the period

| <b>Details of other receivables</b> | <b>Book balance</b> | <b>Percentage of provision (%)</b> | <b>Bad debt provision</b> | <b>Reason for provision</b>                                 |
|-------------------------------------|---------------------|------------------------------------|---------------------------|---|
| Bank balances of related parties    | 460,330.00          |                                    |                           | No provision of bad debts of consolidated related parties   |
| Other bank balances                 | 22,407,088.63       | 100                                | 22,407,088.63             | Longer aging; may be unrecoverable based on past experience |
| Total                               | 22,867,418.63       | 97.99                              | 22,407,088.63             |   |

(4) *During the current reporting period, there were no other receivables from shareholder units holding 5% (including 5%) or more shares with voting power in the Company.*

## XV. Notes of the major financial statements' items of the company (Cont'd)

### 2. Other receivables (continued)

(5) Top 5 other receivables are set out as follows

| Name                                    | Relationship with the Company                   | Amount           | Aging         | As a percentage of the total balance of accounts receivable (%) |
|---|---|------------------|---------------|---|
| Zhanjiang Chenming Paper Pulp Co., Ltd. | Related party within the scope of consolidation | 2,047,604,721.09 | Within 1 year | 42.27   |
| Shouguang Meilun Paper Co., Ltd.        | Related party within the scope of consolidation | 1,296,956,018.77 | Within 1 year | 26.77   |
| Jilin Chenming Paper Co., Ltd.          | Related party within the scope of consolidation | 851,196,513.48   | Within 1 year | 17.57   |
| Shandong Grand View Hotel Co., Ltd.     | Related party within the scope of consolidation | 274,699,954.60   | Within 1 year | 5.67  |
| Juancheng Chenming Panels Co., Ltd.     | Related party within the scope of consolidation | 46,731,171.36    | Within 1 year | 0.96  |
| Total                                   |   | 4,517,188,379.30 |               | 93.24   |

## XV. Notes of the major financial statements' items of the company (Cont'd)

### 2. Other receivables (continued)

(6) Information on other receivables of the related parties

| Name of units                                       | Relationship with the Company                   | Amounts          | As a percentage of the total balance of other receivables (%) |
|---|---|------------------|---|
| Zhanjiang Chenming Paper Pulp Co., Ltd.             | Related party within the scope of consolidation | 2,047,604,721.09 | 42.27   |
| Shouguang Meilun Paper Co. Ltd.                     | Related party within the scope of consolidation | 1,296,956,018.77 | 26.77   |
| Jilin Chenming Paper Co., Ltd.                      | Related party within the scope of consolidation | 851,196,513.48   | 17.57   |
| Shandong Grand View Hotel Co., Ltd.                 | Related party within the scope of consolidation | 274,699,954.60   | 5.67  |
| Juancheng Chenming Panels Co., Ltd.                 | Related party within the scope of consolidation | 46,731,171.36    | 0.96  |
| Wuhan Chenming Hanyang Paper Holdings Co., Ltd.     | Related party within the scope of consolidation | 41,466,796.21    | 0.86  |
| Chibi Chenming Paper Co., Ltd.                      | Related party within the scope of consolidation | 35,326,943.14    | 0.73  |
| Heze Chenming Panels Co., Ltd.                      | Related party within the scope of consolidation | 35,000,000.00    | 0.72  |
| Xianning Chenming Arboriculture Co., Ltd.           | Related party within the scope of consolidation | 32,663,530.00    | 0.67  |
| Fuyu Chenming Paper Co., Ltd.                       | Related party within the scope of consolidation | 24,445,022.39    | 0.50  |
| Yanbian Chenming Paper Co. Ltd.                     | Related party within the scope of consolidation | 20,156,262.43    | 0.42  |
| Huanggang Chenming Paper Co., Ltd.                  | Related party within the scope of consolidation | 13,842,200.00    | 0.29  |
| Zhanjiang Chenming Forestry Development Co., Ltd.   | Related party within the scope of consolidation | 7,000,000.00     | 0.14  |
| Hailaer Chenming Paper Co., Ltd.                    | Related party within the scope of consolidation | 4,194,485.63     | 0.09  |
| Yangjiang Chenming Arboriculture Co., Ltd.          | Related party within the scope of consolidation | 3,000,000.00     | 0.06  |
| Shouguang Chenming Tianyuan Arboriculture Co., Ltd. | Related party within the scope of consolidation | 2,492,142.92     | 0.05  |
| Arjo Wiggins Chenming Specialty Paper Co., Ltd.     | Associate enterprise of the Company             | 1,290,901.12     | 0.03  |
| Total   |   | 4,738,048,663.14 |   |

## XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

### XV. Notes of the major financial statements' items of the company (Cont'd)

#### 3. Long-term equity investments

(1) Types of long term equity investments

| Items   | Opening balance  | Increase during the current period | Decrease during the current period | Closing balance  |
|---|------------------|------------------------------------|------------------------------------|------------------|
| Investment in subsidiaries                                  | 4,010,685,807.88 | 1,880,000,000.00                   |                                    | 5,890,685,807.88 |
| Investment in associate enterprises                         | 58,033,225.56    |                                    | 13,863,141.44                      | 44,170,084.12    |
| Other equity investments                                    | 24,950,000.00    | 1,000,000.00                       | 1,000,000.00                       | 24,950,000.00    |
| Less: impairment provision for long term equity investments | 1,998,538.07     |                                    | 80,385.84                          | 1,918,152.23     |
| Total   | 4,091,670,495.37 | 1,881,000,000.00                   | 14,782,755.60                      | 5,957,887,739.77 |

## XV. Notes of the major financial statements' items of the company (Cont'd)

### 3. Long-term equity investments (Cont'd)

#### (2) Breakdown of long-term equity investments

| Name of investee entity                                 | Accounting method | Initial investment | Opening balance  | Additions /Deduction | Closing balance  |
|---|-------------------|--------------------|------------------|----------------------|------------------|
| Wuhan Chenming Hanyang Paper Holdings Co., Ltd.         | Cost method       | 202,824,716.34     | 202,824,716.34   |                      | 202,824,716.34   |
| Shandong Chenming Paper Group Qihe Paperboard Co., Ltd. | Cost method       | 376,200,000.00     | 376,200,000.00   |                      | 376,200,000.00   |
| Shandong Chenming Power Supply Holdings Co., Ltd.       | Cost method       | 157,810,117.43     | 157,810,117.43   |                      | 157,810,117.43   |
| Chibi Chenming Paper Co., Ltd.                          | Cost method       | 26,270,460.90      | 26,270,460.90    |                      | 26,270,460.90    |
| Yanbian Chenming Paper Co., Ltd.                        | Cost method       | 40,083,733.01      | 40,083,733.01    |                      | 40,083,733.01    |
| Hailaer Chenming Paper Co., Ltd.                        | Cost method       | 12,000,000.00      | 12,000,000.00    |                      | 12,000,000.00    |
| Jiangxi Chenming Paper Co., Ltd.                        | Cost method       | 697,548,406.40     | 697,548,406.40   |                      | 697,548,406.40   |
| Shouguang Chenming Tianyuan Arboriculture Co., Ltd.     | Cost method       | 7,199,000.00       | 7,199,000.00     |                      | 7,199,000.00     |
| Jilin Chenming Paper Co., Ltd.                          | Cost method       | 1,501,350,000.00   | 1,501,350,000.00 |                      | 1,501,350,000.00 |
| Juancheng Chenming Panels Co., Ltd.                     | Cost method       | 15,000,000.00      | 15,000,000.00    |                      | 15,000,000.00    |
| Shandong Grand View Hotel Co., Ltd.                     | Cost method       | 80,500,000.00      | 80,500,000.00    |                      | 80,500,000.00    |
| Zhanjiang Chenming Paper Pulp Co., Ltd.                 | Cost method       | 500,000,000.00     | 500,000,000.00   | 300,000,000.00       | 800,000,000.00   |
| Chenming (HK) Limited                                   | Cost method       | 783,310.00         | 783,310.00       |                      | 783,310.00       |
| Shouguang Chenming Modern Logistic Co., Ltd.            | Cost method       | 10,000,000.00      | 10,000,000.00    |                      | 10,000,000.00    |
| Shouguang Chenming Art Paper Co., Ltd.                  | Cost method       | 113,616,063.80     | 113,616,063.80   |                      | 113,616,063.80   |
| Fuyu Chenming Paper Co., Ltd.                           | Cost method       | 208,000,000.00     | 208,000,000.00   |                      | 208,000,000.00   |
| Xianning Chenming Arboriculture Co., Ltd.               | Cost method       | 10,000,000.00      | 10,000,000.00    |                      | 10,000,000.00    |
| Huanggang Chenming Paper Co., Ltd.                      | Cost method       | 20,000,000.00      | 20,000,000.00    |                      | 20,000,000.00    |
| Huanggang Chenming Arboriculture Co., Ltd.              | Cost method       | 10,000,000.00      | 10,000,000.00    |                      | 10,000,000.00    |

## XV. Notes of the major financial statements' items of the company (Cont'd)

### 3. Long-term equity investments (Cont'd)

#### (2) Breakdown of long-term equity investments (Cont'd)

| Name of investee entity                                  | Accounting method | Initial investment | Opening balance  | Additions /Deduction | Closing balance  |
|--|-------------------|--------------------|------------------|----------------------|------------------|
| Shouguang Meilun Paper Co. Ltd.                          | Cost method       | 20,000,000.00      | 20,000,000.00    | 1,480,000,000.00     | 1,500,000,000.00 |
| Shouguang Shun Da Customs Declaration Co, Ltd.           | Cost method       | 1,500,000.00       | 1,500,000.00     |                      | 1,500,000.00     |
| Shandong Chenming Paper Sales Company Limited            | Cost method       |                    |                  | 100,000,000.00       | 100,000,000.00   |
| Shouguang Liben Paper Making Co., Ltd.                   | Equity method     | 19,550,000.00      | 18,826,749.91    | -2,146,119.62        | 16,680,630.29    |
| Arjo Wiggins Chenming Specialty Paper Co., Ltd.          | Equity method     | 80,100,000.00      | 32,610,827.22    | -10,959,327.37       | 21,651,499.85    |
| Qingzhou Chenming Denaturation Amylum Co., Ltd.          | Equity method     | 900,000.00         | 900,000.00       |                      | 900,000.00       |
| Jiangxi Jiangbao Media Colour Printing Co. Ltd.          | Equity method     | 6,000,000.00       | 5,695,648.43     | -757,694.45          | 4,937,953.98     |
| Weifang Venture Capital Co., Ltd.                        | Cost method       | 1,000,000.00       | 1,000,000.00     | -1,000,000.00        |                  |
| Shandong Paper Making & Printing Enterprises Corporation | Cost method       | 200,000.00         | 200,000.00       |                      | 200,000.00       |
| Zhejiang Province Guangyu Media Printing Company Limited | Cost method       | 2,000,000.00       | 2,000,000.00     |                      | 2,000,000.00     |
| Jinan Shangyou Commercial Company Limited                | Cost method       | 350,000.00         | 350,000.00       |                      | 350,000.00       |
| Shouguang Mihe Water Company Limited                     | Cost method       | 20,000,000.00      | 20,000,000.00    |                      | 20,000,000.00    |
| Shanghai Forest & Paper E-Commerce Co., Ltd              | Cost method       | 1,400,000.00       | 1,400,000.00     |                      | 1,400,000.00     |
| 安徽時代物資股份有限公司   | Cost method       |                    |                  | 1,000,000.00         | 1,000,000.00     |
| Total  |                   |                    | 4,093,669,033.44 | 1,866,136,858.56     | 5,959,805,892.00 |

## XV. Notes of the major financial statements' items of the company (Cont'd)

### 3. Long-term equity investments (Cont'd)

#### (2) Breakdown of long-term equity investments (Cont'd)

| Name of investee entity                                 | Percentage of shareholding in investee entity (%) | Percentage of the voting right in the investee entity (%) | Explanation of the inconsistent of shareholding percentage and voting right in the investee entity | Impairment provision | Provision of impairment for the current period | Cash bonus     |
|---|---|---|--|----------------------|--|----------------|
| Wuhan Chenming Hanyang Paper Holdings Co., Ltd.         | 50.93   | 50.93   |  |                      |  | 81,488,000.00  |
| Shandong Chenming Paper Group Qihe Paperboard Co., Ltd. | 100.00  | 100.00  |  |                      |  |                |
| Shandong Chenming Power Supply Holdings Co., Ltd.       | 86.71   | 86.71   |  |                      |  | 108,769,576.86 |
| Chibi Chenming Paper Co., Ltd.                          | 51.00   | 51.00   |  |                      |  |                |
| Yanbian Chenming Paper Co., Ltd.                        | 76.75   | 76.75   |  |                      |  | 147,016,842.86 |
| Hailaer Chenming Paper Co., Ltd.                        | 75.00   | 75.00   |  |                      |  |                |
| Jiangxi Chenming Paper Co., Ltd.                        | 51.00   | 51.00   |  |                      |  | 25,500,000.00  |
| Shouguang Chenming Tianyuan Arboriculture Co., Ltd.     | 68.00   | 68.00   |  |                      |  |                |
| Jilin Chenming Paper Co., Ltd.                          | 100.00  | 100.00  |  |                      |  |                |
| Juancheng Chenming Panels Co., Ltd.                     | 100.00  | 100.00  |  |                      |  |                |
| Shandong Grand View Hotel Co., Ltd.                     | 70.00   | 70.00   |  |                      |  |                |
| Zhanjiang Chenming Paper Pulp Co., Ltd.                 | 100.00  | 100.00  |  |                      |  |                |
| Chenming (HK) Limited                                   | 100.00  | 100.00  |  |                      |  | 21,119,060.00  |
| Shouguang Chenming Modern Logistic Co., Ltd.            | 100.00  | 100.00  |  |                      |  |                |
| Shouguang Chenming Art Paper Co., Ltd.                  | 75.00   | 75.00   |  |                      |  |                |
| Fuyu Chenming Paper Co., Ltd.                           | 100.00  | 100.00  |  |                      |  |                |
| Xianning Chenming Arboriculture Co., Ltd.               | 100.00  | 100.00  |  |                      |  |                |
| Huanggang Chenming Paper Co., Ltd.                      | 100.00  | 100.00  |  |                      |  |                |
| Huanggang Chenming Arboriculture Co., Ltd.              | 100.00  | 100.00  |  |                      |  |                |



## XV. Notes of the major financial statements' items of the company (Cont'd)

### 3. Long-term equity investments (Cont'd)

#### (2) Breakdown of long-term equity investments (Cont'd)

| Name of investee entity                                  | Percentage of shareholding in investee entity (%) | Percentage of the voting right in the investee entity (%) | Explanation of the inconsistent of shareholding percentage and voting right in the investee entity | Impairment provision | Provision of impairment for the current period | Cash bonus     |
|--|---|---|--|----------------------|--|----------------|
| Shouguang Meilun Paper Co. Ltd.                          | 100.00  | 100.00  |  |                      |  |                |
| Shouguang Shun Da Customs Declaration Co, Ltd.           | 100.00  | 100.00  |  |                      |  |                |
| Shandong Chenming Paper Sales Company Limited            | 100.00  | 100.00  |  |                      |  |                |
| Shouguang Liben Paper Making Co., Ltd.                   | 26.40   | 26.40   |  |                      |  |                |
| Arjo Wiggins Chenming Specialty Paper Co., Ltd.          | 30.00   | 30.00   |  |                      |  |                |
| Qingzhou Chenming Denaturation Amylum Co., Ltd.          | 30.00   | 30.00   |  | 900,000.00           |  |                |
| Jiangxi Jiangbao Media Colour Printing Co. Ltd.          | 21.16   | 21.16   |  |                      |  |                |
| Weifang Venture Capital Co., Ltd.                        | —   | —   |  | 80,385.84            | -80,385.84                                     |                |
| Shandong Paper Making & Printing Enterprises Corporation | 2.00  | 2.00  |  | 200,000.00           |  |                |
| Zhejiang Province Guangyu Media Printing Company Limited | 9.96  | 9.96  |  |                      |  |                |
| Jinan Shangyou Commercial Company Limited                | 5.00  | 5.00  |  | 350,000.00           |  |                |
| Shouguang Mihe Water Company Limited                     | 19.46   | 19.46   |  |                      |  |                |
| Shanghai Forest & Paper E-Commerce Co., Ltd              | 14.00   | 14.00   |  | 468,152.23           |  |                |
| 安徽時代物資股份有限公司   | 10.00   | 10.00   |  |                      |  |                |
| Total  |   |   |  | 1,998,538.07         | -80,385.84                                     | 383,893,479.72 |

## XV. Notes of the major financial statements' items of the company (Cont'd)

### 3. Long-term equity investments (Cont'd)

(3) Breakdown of impairment provision of long term equity investments

| Items  | Opening balance | Increase during the current period | Decrease during the current period | Closing balance |
|--|-----------------|------------------------------------|------------------------------------|-----------------|
| Qingzhou Chenming Denaturation Amylum Co., Ltd.          | 900,000.00      |                                    |                                    | 900,000.00      |
| Shandong Paper Making & Printing Enterprises Corporation | 200,000.00      |                                    |                                    | 200,000.00      |
| Jinan Shangyou Commercial Company Limited                | 350,000.00      |                                    |                                    | 350,000.00      |
| Weifang Venture Capital Co., Ltd.                        | 80,385.84       |                                    | 80,385.84                          | —               |
| Shanghai Forest & Paper E-Commerce Co., Ltd              | 468,152.23      |                                    |                                    | 468,152.23      |
| Total  | 1,998,538.07    |                                    | 80,385.84                          | 1,918,152.23    |

## XV. Notes of the major financial statements' items of the company (Cont'd)

### 4. Operating Revenue and Operating Costs

(1) Operating revenue and operating costs

|   | Incurred during<br>the current period | Incurred during<br>the prior period |
|---|---------------------------------------|-------------------------------------|
| Operating revenue from principal operations | 13,608,918,924.77                     | 12,839,020,998.17                   |
| Revenue from other operations               | 350,726,288.57                        | 518,957,214.43                      |
| Total operating revenue                     | 13,959,645,213.34                     | 13,357,978,212.60                   |
| Operating costs from principal operations   | 11,438,120,302.94                     | 11,138,783,584.09                   |
| Costs of other operations                   | 319,866,108.73                        | 480,950,981.72                      |
| Total operating costs                       | 11,757,986,411.67                     | 11,619,734,565.81                   |

(2) Principal operations (by industry)

| Products                     | Incurred during<br>the current period |                   | Incurred during<br>the prior period |                   |
|------------------------------|---------------------------------------|-------------------|-------------------------------------|-------------------|
|                              | Operating revenue                     | Operating costs   | Operating revenue                   | Operating costs   |
| Machine-made paper           | 13,152,125,384.31                     | 11,038,128,469.34 | 12,608,435,463.26                   | 11,000,256,296.99 |
| Electricity and steam supply | 456,793,540.46                        | 399,991,833.60    | 230,585,534.91                      | 138,527,287.10    |
| Total                        | 13,608,918,924.77                     | 11,438,120,302.94 | 12,839,020,998.17                   | 11,138,783,584.09 |

## XV. Notes of the major financial statements' items of the company (Cont'd)

### 5. Investment Income

(1) Breakdown of investment income

| Name of investee entity   | Incurred during<br>the current period | Incurred during<br>the prior period |
|---|---------------------------------------|-------------------------------------|
| Gain from long-term equity investments accounted<br>for using the cost method   | 383,893,479.72                        | 116,988,000.00                      |
| Gain from long-term equity investments<br>accounted for using the equity method | -13,863,141.44                        | -15,689,081.65                      |
| Investment gain on disposal of long-term equity investments                     | 100,385.84                            |                                     |
| Interest income from entrusted loans  | 113,758,706.80                        | 91,520,754.27                       |
| Total   | 483,889,430.92                        | 192,819,672.62                      |

Note: There are no significant restrictions on remittance of investment gains back to the Company.

(2) Gains on long-term equity investment accounted for using cost method

| Name of investee entity                              | Incurred during<br>the current period | Incurred during<br>the prior period |
|--|---------------------------------------|-------------------------------------|
| Shandong Chenming Power<br>Supply Holdings Co., Ltd. | 108,769,576.86                        |                                     |
| Wuhan Chenming Hanyang Paper Holdings Co., Ltd       | 81,488,000.00                         | 81,488,000.00                       |
| Yanbian Chenming Paper Co., Ltd                      | 147,016,842.86                        |                                     |
| Jiangxi Chenming Paper Co., Ltd.                     | 25,500,000.00                         | 25,500,000.00                       |
| Chenming (HK) Limited                                | 21,119,060.00                         |                                     |
| Weifang Venture Capital Co., Ltd.                    | 100,385.84                            |                                     |
| Chibi Chenming Paper Co., Ltd.                       |                                       | 10,000,000.00                       |
| Total  | 383,993,865.56                        | 116,988,000.00                      |

## XV. Notes of the major financial statements' items of the company (Cont'd)

### 5. Investment Income (continued)

(3) Gain from long-term equity investments accounted for using the cost method

| Name of investee entity                         | Incurred during the current period | Incurred during the prior period | Reasons for change                     |
|---|------------------------------------|----------------------------------|--|
| Arjo Wiggins Chenming Specialty Paper Co., Ltd. | -10,959,327.37                     | -15,868,038.28                   | Investee's loss for the current period |
| Jiangxi Jiangbao Media Colour Printing Co. Ltd. | -757,694.45                        | -304,351.57                      | Investee's loss for the current period |
| Shouguang Liben Paper Making Co., Ltd.          | -2,146,119.62                      | 483,308.20                       | Investee's loss for the current period |
| Total   | -13,863,141.44                     | -15,689,081.65                   |  |

## XV. Notes of the major financial statements' items of the company (Cont'd)

### 6. Supplementary information on cash flow statements

| Supplementary Information  | Amounts<br>for the<br>current period | Amounts<br>for the<br>prior period |
|--|--------------------------------------|------------------------------------|
| 1. Reconciliation of net profits as cash flows from operating activities:                                      |                                      |                                    |
| Net profit   | 1,395,816,335.00                     | 814,521,969.57                     |
| Add: Provision for impairment of assets  | 14,020,913.64                        | 21,603,609.33                      |
| Depreciation of fixed assets, depreciation of oil and gas assets, depreciation of productive biological-assets | 588,144,762.31                       | 643,800,381.80                     |
| Amortisation of intangible assets  | 7,977,892.17                         | 9,162,240.14                       |
| Long-term prepaid expenses   | —                                    | —                                  |
| Loss from disposal of fixed assets, intangible assets and other long-term assets (gain is shown as "-")        | 33,788,191.33                        | -5,980,778.45                      |
| Loss from retired fixed assets (gain is shown as "-")  | —                                    | —                                  |
| Loss from change in fair value (gain is shown as "-")  | -6,450,000.00                        | 6,450,000.00                       |
| Financial expenses (gain is shown as "-")  | 262,396,581.31                       | 337,805,310.28                     |
| Investment losses (gain is shown as "-")   | -483,889,430.92                      | -192,819,672.62                    |
| Decrease in deferred income tax assets (increase is shown as "-")  | 13,174,219.25                        | 5,126,271.74                       |
| Increase in deferred income tax debt (decrease is shown as "-")  | —                                    | —                                  |
| Decrease in stock (gain is shown as "-")   | 103,024,051.89                       | 770,881,606.07                     |
| Decrease in operating receivables (increase is shown as "-")   | -2,634,300,205.14                    | -2,354,401,149.66                  |
| Increase in operating payables (decrease is shown as "-")  | -463,899,648.61                      | 112,207,917.98                     |
| Others   | —                                    | —                                  |
| Net cash flows from operating activities   | -1,170,196,337.77                    | 168,357,706.18                     |
| 2. Major investments and financing activities not involving cash settlements:                                  |                                      |                                    |
| Capital converted from debts   | —                                    | —                                  |
| Convertible bonds of the Company due within one year   | —                                    | —                                  |
| Finance leases of fixed assets   | —                                    | —                                  |
| 3. Net change in cash and cash equivalents:  |                                      |                                    |
| Cash balance at the end of the period  | 662,209,607.29                       | 1,586,045,998.83                   |
| Less: cash balance at the beginning of the period  | 1,586,045,998.83                     | 2,080,005,634.40                   |
| Add: cash equivalents as at the end of the period  | —                                    | —                                  |
| Less: cash equivalents as at the beginning of the period   | —                                    | —                                  |
| Net increase in cash and cash equivalents  | -923,836,391.54                      | -493,959,635.57                    |

# XI. PRC Auditors' Report and Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

## XVI. SUPPLEMENTARY INFORMATION

### 1. Breakdown of extraordinary gains and losses

| Items  | Unit: RMB                     |                             |
|--|-------------------------------|-----------------------------|
|  | Amounts in the current period | Amounts in the prior period |
| Profit or loss from disposal of non-current assets   | -5,495,594.30                 | 1,848,949.50                |
| Government grants accounted for in profit and loss account of the current period (except for government grants closely related to the corporate business that were given under at a fixed standard amount or quantity as stipulated by the State)  | 96,530,256.72                 | 140,290,327.67              |
| Profit or loss arising from investment costs for acquisition of subsidiary, associated corporation and joint-venture by the corporation being less than its share of fair value of identifiable net assets of the invested entity on acquisition   |                               | 10,490,441.40               |
| Net gains and losses from debt restructuring   | 54,841.22                     | 329,236.08                  |
| Except for effective hedging business conducted over the course of ordinary operation of the Company, profit or loss arising from fair value change in financial assets held for trading and financial liabilities held for trading, as well as investment gains from disposal of financial assets held for trading and financial liabilities held for trading and available-for-sale financial assets | 1,521,172.98                  | 8,443,100.00                |
| Reversal of impairment provision on receivables tested for impairment on individual basis  |                               | 1,085,771.23                |
| Gains or losses from changes in fair value of biological assets adopting fair value method for follow-up measurements  | 54,752,250.58                 | 9,868,745.48                |
| Non-operating gains and losses other than the above items  | 5,913,389.74                  | 17,948,671.99               |
| Sub-total  | 153,276,316.94                | 190,305,243.35              |
| Effect of income tax   | -4,961,885.60                 | -53,698,195.03              |
| Effect of minority interests (after tax)   | -19,207,126.59                | -15,762,110.00              |
| Total  | 129,107,304.75                | 120,844,938.32              |

Note: In respect the figures of extraordinary gains and losses, "+" refer to gains or incomes, "-" refer to losses or expenditures.

The Group's recognition of non-recurring items is in accordance with the regulations of "No.1 Interpretation - Non-recurring profit or loss on Disclosure of Companies with Public Offering of Securities" (CSRC [2008] No. 43).

## XVI. SUPPLEMENTARY INFORMATION (Cont'd)

### 2. Differences in accounting data between domestic and overseas accounting standards

- (1) The differences between net profit and net assets as disclosed in the financial statements prepared in accordance with IFRS and China Accounting Standards simultaneously

| Items  | Net profit                    |                             | Net assets        |                   |
|--|-------------------------------|-----------------------------|-------------------|-------------------|
|  | Amounts in the current period | Amounts in the prior period | Closing balance   | Opening balance   |
| Per China Accounting Standards                                       | 1,301,658,119.07              | 953,911,430.22              | 15,260,199,006.50 | 14,737,060,822.15 |
| Receipt of special funds   | 32,492,567.06                 | 32,492,567.06               | -279,963,111.77   | -312,455,678.83   |
| Capitalisation of foreign exchange gains and losses on project loans | 2,966,916.01                  | 2,966,916.01                | -13,923,684.81    | -16,890,600.82    |
| Per IFRS   | 1,337,117,602.14              | 989,370,913.29              | 14,966,312,209.92 | 14,407,714,542.50 |

- (2) In years prior to 2006, according to the principles of the PRC Accounting Standards of Business Enterprises (ASBEs), the Group will receive special funds related to construction of relevant fixed assets which are included in capital reserve. However, according to IAS, the Group will account for special funds under deferred income and be amortised by instalments over the useful lives of fixed assets.

The above differences were all incurred in years prior to 2006; the management believes such differences in accounting principles will gradually be eliminated in future years.

### 3. Return on net assets and earnings per share

| Profit during the reporting period   | Weighted average return on assets | Earnings per share (RMB/share) |         |
|--|-----------------------------------|--------------------------------|---------|
|  |                                   | Basic                          | Diluted |
| Net profit attributable to holders of ordinary shares of the Company   | 8.80%                             | 0.56                           | 0.56    |
| Net profit attributable to holders of ordinary shares of the Company, after deducting extraordinary gains and losses | 7.87%                             | 0.50                           | 0.50    |

Note: (1) Weighted average return on assets = Net profit attributable to holders of ordinary shares in the current period/(Equity attributable to holders of ordinary shares at the beginning of period + Net profit attributable to holders of ordinary shares in the current period/2 - Cash dividend in the current period\*(12- Dividend months)/12).

- (2) See Note 7 and 47 for the calculation of basic earnings per share and diluted earnings per share.



## XVI. SUPPLEMENTARY INFORMATION (Cont'd)

### 4. Explanation on irregular movements and the reasons in major items of the consolidated financial statements of the Group

#### (1) Items in balance sheet:

- (1) The amount of closing balance of monetary funds as at 31 December 2010 was RMB1,951,854,940.72, decreased by 32.53% as compared with the opening balance, mainly due to a significant increase in the Group's investment in construction in progress in the current period, which resulted the decrease in monetary fund as compared with the beginning of the year;
- (2) Held-for-trading financial assets and held-for-trading financial liabilities as at 31 December 2010 was Nil of the closing balance due to the expiry of the future polling foreign exchange contract of Chenming (HK) Limited, a subsidiary of the Group;
- (3) The closing balance of the remaining accounts receivable as at 31 December 2010 amounted to RMB2,122,578,824.27, increased by 38.82% as compared with the opening balance, an increase in the accounts receivable was mainly due to a significant increase in the Group's operating revenue of the current year;
- (4) The closing balance of inventory as at 31 December 2010 amounted to RMB3,047,078,215.01, increased by 36.85% as compared with the opening balance, mainly due to an increase in the Group's production and sales in the year with a higher price of raw materials as compared with the last year, which resulted in an increase in raw materials and finished goods;
- (5) The closing balance of other receivable as at 31 December 2010 amounted to RMB117,634,380.52, increased by 44.85% as compared with the opening balance, mainly due to an increase in the advanced customs duty paid by the Group's subsidiaries for the projects;
- (6) The closing balance of other current assets as at 31 December 2010 amounted to RMB658,572,125.34, increased by 625.65% as compared with the opening balance, mainly due to an increase in the Group's construction in progress and a significant increase in the input tax of the equipment procurement, which resulted in a significant increase in the input tax of non-credited value added tax;
- (7) The closing balance of construction in progress as at 31 December 2010 amounted to RMB7,871,512,563.84, increased by 293.98% as compared with the opening balance, mainly due to an increase in investments in the Group's major investment projects: the 800,000-tonne copperplate paper project, 98,000-tonne household paper project and 700,000-tonne pulp production line project of Shouguang Meilun Paper Co. Ltd. and Zhanjiang Chenming Paper Pulp Co., Ltd.;
- (8) The closing balance of biological assets as at 31 December 2010 amounted to RMB726,742,568.44, increased by 46.31% as compared with the opening balance, mainly due to purchase and growing of timber by the Company and change in their fair value;
- (9) The closing balance of intangible assets as at 31 December 2010 amounted to RMB1,459,453,227.94, increased by 11.12% as compared with the opening balance, mainly due to an increase in the land use rights in the current period;
- (10) The closing balance of long-term prepaid expenses as at 31 December 2010 amounted to RMB176,436,950.42, increased by 444.36% as compared with the opening balance, mainly due to a significant increase in the forestry charge in the current period;

## **XVI. SUPPLEMENTARY INFORMATION (Cont'd)**

### **4. Explanation on irregular movements and the reasons in major items of the consolidated financial statements of the Group (Cont'd)**

(1) Items in balance sheet: (Cont'd)

- (11) The closing balance of short-term borrowings as at 31 December 2010 amounted to RMB3,594,157,220.47, increased by 15.82% as compared with the opening balance, mainly due to an increase in the investment in the construction in progress of the current period;
- (12) The closing balance of non-current liabilities due within one year as at 31 December 2010 amounted to RMB1,432,841,463.15, increased by 314.89% as compared with the opening balance, mainly because of an increase in the long-term borrowings due within one year;
- (13) The closing balance of other current liabilities as at 31 December 2010 amounted to RMB3,412,493,915.88, as compared with nil opening balance, mainly because of the issuance of short-term debentures in the year;
- (14) The closing balance of deferred income tax liabilities as at 31 December 2010 amounted to RMB1,340,281.66, decreased 89.20% as compared with the opening balance, mainly because the provision of deferred income tax liabilities by the subsidiaries of growing timber which would be eligible for tax exemption policy has been reversed in the year;
- (15) The closing balance of long-term borrowings as at 31 December 2010 amounted to RMB4,725,628,719.05, decreased 7.11% as compared with the opening balance, mainly because long-term borrowings due within one year were reclassified as non-current liabilities due within one year, and the investment in construction projects resulted in an increase in a portion of long-term borrowings;
- (16) The closing balance of other non-current liabilities as at 31 December 2010 amounted to RMB2,427,897,545.67, increased 85.14% as compared with the opening balance, mainly because of an increase in the issuance of medium-term notes in the year;

## **XVI. SUPPLEMENTARY INFORMATION (Cont'd)**

### **4. Explanation on irregular movements and the reasons in major items of the consolidated financial statements of the Group (Cont'd)**

(2) Items in income statement:

- (1) Operating revenue incurred in 2010 amounted to RMB17,203,123,029.49, increased by 15.58% as compared to the prior period, mainly due to an increase in sales prices in the year under the influence of the changes in market condition;
- (2) Operating cost incurred in 2010 amounted to RMB13,683,001,460.32, increased by 13.48% as compared to the prior period, mainly due to the price rise in raw materials as well as the increased labour cost in the year;
- (3) Selling and distribution expenses incurred in 2010 amounted to RMB873,779,193.05, increased by 12.79% as compared to the prior period, mainly due to the higher transportation costs, handling charges and salaries;
- (4) General and administrative expenses incurred in 2010 amounted to RMB871,138,204.71, increased by 19.93% as compared to the prior period, mainly due to the higher technical development costs and salaries;
- (5) Finance expenses incurred in 2010 amounted to RMB233,455,658.10, decreased by 25.34% as compared to the prior period, mainly due to an increase in exchange gain resulting from the higher exchange rate of RMB, and the decrease in interests from short-term debentures bearing low interests issued in the year;
- (6) Loss on impairment of assets incurred in 2010 amounted to RMB110,419,785.04, increased by 539.12% as compared to the prior period, mainly due to an increase in accounts receivable caused by a higher sales revenue, therefore bad debt provision of accounts receivable was increase accordingly under the Group's accounting policy of bad debt provision, as well as the larger impairment provided for the machinery and equipment of the suspended subsidiaries;
- (7) Non-operating expenses incurred in 2010 amounted to RMB50,814,216.46, increased by 346.46% as compared to the prior period, mainly due to the increased loss on the disposal of fixed assets in the year.

Shandong Chenming Paper Holdings Limited  
30 March 2011

## **XII Documents Available for Inspection**

- I. They include the financial statements which is signed and sealed by the legal representative, financial controller and head of the financial department of the Company.
- II. They include the original copy of the auditors' report which is sealed by the accounting firm and signed by the certified public accountant.
- III. They include the original copies of all of the documents and announcements of the Company which have been disclosed in the designated newspaper and website as approved by China Securities Regulatory Commission during the reporting period.

Shandong Chenming Paper Holdings Limited  
30 March 2011