

Contents

I. Company Information	2
II. Summary of Financial and Operating Results	3
III. Changes in Share Capital and Shareholders	5
IV. Directors, Supervisors and Senior Management	8
V. Directors' Report	10
VI. Material Matters	20
VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises	29
VIII. Documents Available for Inspection	141

I. Company Information

1. Legal Chinese name of the Company: 山东晨鸣纸业集团股份有限公司
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 (Hong Kong): Poon Shiu Cheong
Securities Affairs Representatives: Fan Yingjie
Correspondence Address: No. 595 Shengcheng Road, Shouguang City,
Shandong Province, People's Republic of China
Telephone: (86)-0536-2158011, (86)-0536-2156488
Facsimile: (86)-0536-2158640
Email address: chenmmingpaper@163.com
4. Registered Address and Office: No. 595 Shengcheng Road, Shouguang City,
Address of the Company: Shandong Province, People's Republic of China
Postal Code: 262700
International Website of the Company: <http://www.chenmingpaper.com>
5. Designated Local Newspapers for Information Disclosure: *China Securities Journal* and *Hong Kong Commercial Daily*
Designated Website for Publication of Interim Report: <http://www.cninfo.com.cn>
<http://www.hkex.com.hk>
Places for Inspection of the Company's Interim Report: Capital operation department of the Company
6. Stock Information:
A shares
Shenzhen Stock Exchange
Stock Abbreviation: 晨鸣纸业
Stock Code: 000488
B shares
Shenzhen Stock Exchange
Stock Abbreviation: 晨鸣B
Stock Code: 200488
H shares
The Stock Exchange of Hong Kong Limited
Stock Abbreviation: Chenming Paper
Stock Code: 1812
7. 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

II. Summary of Financial and Operating Results

I. MAJOR FINANCIAL DATA AND INDICATORS PREPARED IN ACCORDANCE WITH ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

Unit: RMB

Items	As at the end of	As at the end	Increase / decrease
	the reporting period	of the prior year	as at the end of the reporting period compared with the end of the prior year (%)
Total assets	39,537,159,503.43	35,077,132,129.98	12.71%
Equity attributable to equity holders of the Company	13,400,443,827.34	13,535,785,794.54	-1.00%
Net assets per share (RMB/share)	6.50	6.56	-0.91%
	The reporting period	The	Increase/decrease
	(January to June)	corresponding	for the
		period of	reporting period
		the prior year	compared with
			the corresponding
			period of the
			prior year (%)
Operating profit	473,928,647.41	777,353,073.97	-39.03%
Total profit	593,538,893.05	838,558,409.76	-29.22%
Net profit attributable to equity holders of the Company	483,549,691.40	607,868,970.24	-20.45%
Net profits after extraordinary gains or losses attributable to the equity holders of the Company	382,038,739.41	571,504,710.16	-33.15%
Basic earnings per share (RMB)	0.23	0.29	-20.69%
Diluted earnings per share (RMB)	N/A	N/A	N/A
Weighted average return on net assets	3.51%	4.57%	decreased by 1.06 percentage points
Net cash flows from operating activities	737,643,905.04	1,189,723,076.40	-38.00%
Net cash flows per share from operating activities (RMB)	0.36	0.58	-37.93%

I. MAJOR FINANCIAL DATA AND INDICATORS PREPARED IN ACCORDANCE WITH ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES (continued)

NOTE: EXTRAORDINARY GAINS OR LOSSES ITEMS

	Unit: RMB
<u>Extraordinary gains or losses items</u>	<u>Amount</u>
Net gains or losses from disposal of non-current assets	887,857.74
Government grants received	125,301,439.93
Net gains or losses attributable to debt restructuring	-19,869,972.60
Gains or losses arising from disposal of subsidiaries	13,309,163.37
Gains or losses on change in fair value of consumable biological assets	3,715,429.62
Non-operating net gains or losses other than the above	1,984,493.37
Effect of extraordinary gains or losses on minority shareholders	-9,721,125.93
<u>Effect of extraordinary gains or losses on income tax</u>	<u>-14,096,333.51</u>
<u>Total</u>	<u>101,510,951.99</u>

III. Changes in Share Capital and Shareholders

I. CHANGES IN SHARE CAPITAL AT THE END OF THE REPORTING PERIOD

(Unit: shares)

		Opening balance		Increase/decrease (+/-) resulting from changes in the reporting period			Closing balance	
		Number of shares	Percentage	Increase in lock-up shares	Release of restricted Shares	Sub-total	Number of shares	Percentage
I.	Restricted shares	303,011,972	14.69%	52,300	-643,515	-591,215	302,420,757	14.67%
	1. State-owned legal person shares	293,003,657	14.21%	—	—	—	293,003,657	14.21%
	2. Shares held by Senior Management	10,008,315	0.48%	52,300	-643,515	-591,215	9,417,100	0.46%
II.	Non-restricted shares	1,759,033,969	85.31%	-52,300	643,515	591,215	1,759,625,184	85.33%
	1. Renminbi ordinary shares	810,266,484	39.30%	-52,300	643,515	591,215	810,857,699	39.32%
	2. Domestic listed foreign shares	557,497,485	27.04%	—	—	—	557,497,485	27.04%
	3. Overseas listed foreign shares	391,270,000	18.97%	—	—	—	391,270,000	18.97%
III.	Total number of shares	2,062,045,941	100.00%	—	—	—	2,062,045,941	100.00%

Note: During the reporting period, the restricted shares held by Senior Management changed by -591,215 shares from 10,008,315 shares to 9,417,100 shares. The reasons for such change were as follows:

- (1) According to the Practice Guidance for the Management of the Company's shares held by the directors, supervisors and senior management of the listed companies of Shenzhen Stock Exchange (《深圳证券交易所上市公司董事、监事和高级管理人员所持本公司股份管理业务操作指南》), 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 restricted RMB ordinary shares (A shares) held by four Senior Management members of the Company changed to non-restricted shares and amounted to 643,515 shares.
- (2) During the reporting period, 25% of the non-restricted RMB ordinary shares (A shares) held by a former Senior Management member changed to restricted shares and amounted to 52,300 shares;

As a result, the restricted shares held by Senior Management decreased by a total of 591,215 shares as compared to the end of the prior year.

II. SHAREHOLDERS' PROFILE AS AT THE END OF THE REPORTING PERIOD

1. The top ten shareholders and the top ten shareholders of non-restricted shares

Total number of shareholders The total number of shareholders was 165,386, of which 134,960 were holders of A shares, 29,805 were holders of B shares and 621 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 (shares)	Number of restricted shares held (shares)	Number of shares pledged or locked-up
HKSCC NOMINEES LIMITED	Overseas non-state-owned legal person (foreign shareholder)	18.89%	389,532,500	0	Unknown
SHOUGUANG CHENMING HOLDINGS COMPANY LIMITED	State-owned legal person	14.21%	293,003,657	293,003,657	0
PLATINUM ASIA FUND	Overseas legal person	2.11%	43,480,377	0	Unknown
BBH BOS S/A FIDELITY FD-CHINA FOCUS FD	Overseas legal person	1.45%	29,800,890	0	Unknown
BILL & MELINDA GATES FOUNDATION TRUST	Domestic non-state-owned legal person	1.17%	24,036,202	0	Unknown
HCHK-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
Bank of Communications – Boser Emerging Growth Stock Securities Investment Fund	Domestic non-state-owned legal person	0.97%	20,000,000	0	Unknown
China Life Insurance Company Limited - Dividend - Individual Dividend @- 005L - FH002 Shenzhen	Domestic non-state-owned legal person	0.91%	18,819,737	0	Unknown
DRAGON BILLION CHINA MASTER FUND	Overseas legal person	0.67%	13,853,877	0	Unknown

II. SHAREHOLDERS' PROFILE AS AT THE END OF THE REPORTING PERIOD (continued)

1. The top ten shareholders and the top ten shareholders of non-restricted shares (continued)

Shareholding of the top ten shareholders of non-restricted shares

Name of shareholders	Number of non-restricted shares held (shares)	Classes of shares
HKSCC NOMINEES LIMITED	389,532,500	H shares
PLATINUM ASIA FUND	43,480,377	B shares
BBH BOS S/A FIDELITY FD-CHINA FOCUS FD	29,800,890	B shares
BILL & MELINDA GATES FOUNDATION TRUST	24,036,202	A shares
HTHK-MANULIFE CHINA VALUE FUND	22,892,182	B shares
MANULIFE GLOBAL FUND	20,324,321	B shares
Bank of Communications – Boseru Emerging Growth Stock Securities Investment Fund	20,000,000	A shares
China Life Insurance Company Limited - Dividend - Individual Dividend - 005L - FH002 Shenzhen	18,819,737	A shares
DRAGON BILLION CHINA MASTER FUND	13,853,877	B shares
VALUE PARTNERS CLASSIC FUND	8,143,633	B shares

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 of any other shareholders of outstanding shares as aforesaid are connected with each other.

2. Changes in the Company's controlling shareholders and beneficial controllers during the reporting period

The Company's controlling shareholders and beneficial controllers remained unchanged during the reporting period.

IV. Directors, Supervisors and Senior Management

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

Name	Position	Shares held as at the beginning of the year	Increase of shares held during the current period	Decrease of shares held during the current period	Shares held as at the end of the period (shares)	Restricted shares held	Share options held as at the end of the period	Reasons for change
Chen Hongguo	Chairman	6,334,527	0	0	6,334,527	4,750,895	0	—
Yin Tongyuan	Vice-chairman	2,423,640	0	0	2,423,640	1,817,730	0	—
Li Feng	Director, standing deputy general manager and sales controller	471,818	0	0	471,818	353,863	0	—
Geng Guanglin	Director and deputy general manager	437,433	0	0	437,433	328,075	0	—
Tan Daocheng	Director	185,700	0	0	185,700	139,275	0	—
Hou Huancai	Director	628,915	0	0	628,915	471,686	0	—
Zhou Shaohua	Director	123,007	0	0	123,007	92,255	0	—
Cui Youping	Director	0	0	0	0	0	0	—
Wang Xiaoqun	Director	0	0	0	0	0	0	—
Wang Fengrong	Director	0	0	0	0	0	0	—
Zhang Zhiyuan	Director	0	0	0	0	0	0	—
Wang Aiguo	Director	0	0	0	0	0	0	—
Zhang Hong	Director	0	0	0	0	0	0	—
Wang Yumei	Director	0	0	0	0	0	0	—
Wang Xiangfei	Director	0	0	0	0	0	0	—
Gao Junjie	Supervisor	39,606	0	0	39,606	29,704	0	—
Wang Ju	Supervisor	0	0	0	0	0	0	—
Yang Hongqin	Supervisor	0	0	0	0	0	0	—
Yin Qixiang	Supervisor	0	0	0	0	0	0	—
Guo Guangyao	Supervisor	0	0	0	0	0	0	—
Wang Baoliang	Deputy general manager	209,200	0	0	209,200	209,200	0	Shares held by former Senior Management locked up in accordance with the relevant requirements upon leaving office
Li Xueqin	Deputy general manager	429,348	0	0	429,348	322,011	0	—
Hao Yun	Deputy general manager, secretary to the Board	708,441	0	0	708,441	531,331	0	—
Wang Zaiguo	Deputy general manager	146,700	0	36,675	110,025	110,025	0	Restrictions on Shares held by Senior Management lifted
Wang Shihong	Deputy general manager	0	0	0	0	0	0	—
Zhao Liqun	Deputy general manager	0	0	0	0	0	0	—
Zhang Yanjun	Deputy general manager	102,393	0	0	102,393	76,795	0	—
Hu Changqing	Deputy general manager	1,238	0	0	1,238	0	0	—
Zhang Chunlin	Deputy general manager	245,674	0	0	245,674	184,255	0	—
Chang Liting	Deputy general manager	0	0	0	0	0	0	—
Xia Jigang	Deputy general manager	0	0	0	0	0	0	—
Li Zhenzhong	Deputy general manager	0	0	0	0	0	0	—
Wang Chunfang	Financial controller	0	0	0	0	0	0	—

II. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. On 30 March 2011, after the consideration of the fifth meeting of the sixth session of the Board, Mr. Wang Baoliang no longer was a deputy general manager of the Company due to job change. The Board appointed Mr. Chang Liting, Mr. Xia Jigang and Mr. Li Zhenzhong as deputy general managers of the Company due to job requirements.

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 31 March 2011, and the website of the Hong Kong Stock Exchange (www.hkex.com.hk) on 30 March 2011.

V. Directors' Report

I. Discussion and analysis under Accounting Standards for Business Enterprises:

The following financial data are extracted from the unaudited financial statements prepared by the Company in accordance with Accounting Standards for Business Enterprises. The following discussion and analysis shall be read in conjunction with the financial statements of the Company set out in this report and the notes thereto.

1. Operations of the Company during the reporting period

In the first half of 2011, the paper making industry saw shrinking demand due to the macro economic conditions and lower prices due to the new production capacity in operation. During the reporting period, the raw material price and the product costs became higher due to lower economic growth and China's prudent monetary policy. During the reporting period, the profitability of the principal activities of the Company became weaker as compared to the corresponding period of the prior year with lower gross profit margin of paper products as compared to the corresponding period of the prior year.

During the reporting period, the Company completed machine-made paper production of 1.6628 million tonnes with sales volume of 1.5654 million tonnes, representing a growth of -1.24% and 0.99% as compared to the corresponding period of the prior year. Revenue from operations amounted to RMB8.917 billion, up 9.06% from the corresponding period of the prior year. Operating profit amounted to RMB474 million, down 39.03% from the corresponding period of the prior year. Net profit attributable to equity holders of the Company were RMB484 million, down 20.45% from the corresponding period of the prior year mainly due to an decrease in the gross profit margin during the period as compared to the corresponding period of the prior year resulting from a rise in raw material price.

Item	Unit: RMB		
	January to June 2011	January to June 2010	Increase compared to the corresponding period of the prior year (%)
Revenue from operations	8,917,455,355.14	8,176,641,676.99	9.06%
Operating profit	473,928,647.41	777,353,073.97	-39.03%
Net profit attributable to equity holders of the Company	483,549,691.40	607,868,970.24	-20.45%

The Company operates in the paper making industry, which is a light industry, and its principal activities are the production and sale of machine-made paper and paperboard, paper making raw materials and machinery; and generation and sale of electricity and steam. During the reporting period, machine-made paper realised revenue from principal activities of RMB8,186 million, accounting for 91.80% of the total revenue from operations of the Company.

I. Discussion and analysis under Accounting Standards for Business Enterprises: (Cont'd)

2. Revenue from operations by industry and by product

Unit: RMB'0000

By industry or by product	Revenue from operations by industry			Increase/ decrease in revenue from operations compared to the corresponding period of the prior year (%)	Increase/ decrease in cost of sale compared to the corresponding period of the prior year (%)	Increase/ decrease in gross profit margin compared to the corresponding period of the prior year (percentage points)
	Revenue from operations	Cost of sales	Gross profit margin (%)			
Machine-made paper	818,616.13	678,465.96	17.12%	5.59%	11.68%	-4.52%
Electricity and steam	41,463.35	38,971.82	6.01%	135.77%	172.48%	-12.66%
Construction materials	19,470.79	14,590.67	25.06%	11.98%	1.18%	8.00%
Chemical products	3,956.74	3,213.98	18.77%	21.94%	50.46%	-15.40%
Others	8,238.53	3,033.48	63.18%	96.45%	134.21%	-5.94%
Total	891,745.54	738,275.91	17.21%	9.06%	15.42%	-4.56%

Principal activities by product						
Light weight coated paper	65,703.30	57,493.22	12.50%	-4.31%	0.18%	-3.92%
Duplex press paper	110,354.43	96,522.24	12.53%	13.19%	22.04%	-6.34%
Writing paper	14,482.32	13,201.62	8.84%	-49.21%	-44.38%	-7.92%
Copperplate paper	206,012.79	168,074.60	18.42%	-1.09%	7.26%	-6.35%
News press paper	77,357.26	67,276.20	13.03%	6.19%	6.70%	-0.42%
Paperboard	27,316.55	25,638.45	6.14%	-33.18%	-28.62%	-6.01%
White paper board	121,941.92	94,570.57	22.45%	15.69%	26.64%	-6.70%

I. Discussion and analysis under Accounting Standards for Business Enterprises: (Cont'd)

3. Breakdown of revenue from operations by geographical segment

Unit: RMB'0000

Geographical segment	Revenue from operations	Increase/ decrease in revenue from operations compared to the corresponding period of the prior year (%)
PRC	751,569.40	5.30%
United States	15,337.01	251.46%
Hong Kong	5,823.92	-42.94%
Japan	10,016.79	-10.90%
South Africa	4,168.61	-5.36%
Other overseas areas	104,829.80	42.28%
Total	891,745.54	9.06%

I. Discussion and analysis under Accounting Standards for Business Enterprises: (Cont'd)

4. Problems emerged in operations and measures to resolve them

During the reporting period, the domestic market competition became greater with lower product prices due to new production capacity of the industry in operation. The market demand did not boom due to lower economic growth and the reduced expected future demand. The profit margin of the Company reduced due to the rise in raw material price and the fall in product prices.

The above changes made things difficult for the management to make decision for product sale strategy, purchasing strategy and inventory management of the Company. The corresponding measures adopted by the Company included:

- (1) Timely adjusting its product mix and actively developing the new products with marketability in response to the change in market demand and seeking to keep the inventory level low;
- (2) Formulating market development strategies, implementing more reasonable sales and pricing strategies and thinking out the market planning, thus creating greater benefits for the Company;
- (3) Taking full advantage of the own low pulp production cost of the Company by effectively controlling the production cost with flexible corresponding measures in response to the change in pulp market price;
- (4) Strengthening the management of distributors and consolidating the distributor management system to improve the service of the distributors; and organising a major training program for the sales staff and giving the staff of the operations incentives to rapidly enhance the capabilities of the sales staff;
- (5) Implementing a product differentiation positioning strategy on new project in operation to ensure the products to rapidly gain market share upon operation..

II. Investments during the reporting period

1. Use of proceeds

The Company raised no funds and utilised no proceeds from prior periods during the reporting period.

2. Highlights of the major investments not financed by the proceeds during the reporting period

As at the end of the reporting period, the Company and its controlling subsidiaries made cumulative investment of RMB11,191 million mainly for the following five 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 ShouguangCity 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. Upon operation, the project will, to some extent, increase the percentage of high-end paper products and enhance the comprehensive competitiveness of the Company.

The project provided a new source of benefit growth upon the successful trial production in June 2011. Cumulative investment of RMB2,890 million was made as of the end of the reporting period.

(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 annual 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 civil works of the project were about 95% completed and equipment installation of the project was about 90% completed. Cumulative investment of RMB1,687 million was made as of the end of the reporting period. It was expected that the project may commence operation by August 2011.

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

Currently, the civil works of the project were about 70% completed and its masonry structure was 90% completed. Cumulative investment of RMB582 million was made as of the end of the reporting period.

II. Investments during the reporting period

2. Highlights of the major investments not financed by the proceeds during the reporting period (Cont'd)

(4) 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. 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.

Currently, the project was completed and commenced operation in June 2011. Cumulative investment of RMB160 million was made as of the end of the reporting period.

(5) 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.

Currently, the civil works of the project were about 95% completed and equipment installation of the project was about 90% completed. Cumulative investment of RMB5,876 million was made as of the end of the reporting period. It was expected that the project may commence operation by August 2011.

III. 1. Analysis of the assets and liabilities of the Company

Unit: RMB

Items	As at 30 June Reasons for 2011	As at 31 December 2010	Change (%)	change
Inventory	3,666,551,486.97	3,047,078,215.01	20.33%	(1)
Other current assets	1,342,459,344.12	658,572,125.34	103.84%	(2)
Construction in progress	10,261,432,888.00	7,871,512,563.84	30.36%	(3)
Construction materials	203,451,709.86	116,481,086.12	74.67%	(4)
Short-term borrowings	5,906,247,149.54	3,594,157,220.47	64.33%	(5)
Bills payable	1,324,707,285.74	218,757,186.75	505.56%	(6)
Advance receipts	250,933,984.66	410,243,554.75	-38.83%	(7)
Other payables	981,268,512.05	582,052,511.43	68.59%	(8)
Other current liabilities	1,909,713,509.43	3,412,493,915.88	-44.04%	(9)
Long-term borrowings	6,467,134,801.11	4,725,628,719.05	36.85%	(10)
Deferred income tax liabilities		1,340,281.66	-100.00%	(11)

Explanation on the main reasons leading to the changes:

- (1) Inventory increased by 20.33% as compared to the beginning of the year mainly due to the higher raw material costs and goods-in-stock costs resulting from the rise in raw material price.
- (2) Other current assets increased by 103.84% as compared to the beginning of the year mainly due to a significant increase in the input tax of non-credited value added tax resulting from an increase in the Group's construction in progress and a significant increase in the input tax of the equipment procurement.
- (3) Construction in progress increased by 30.36% as compared to the beginning of the year mainly due to the investments in the copperplate paper project of production capacity of 800,000 tonnes, the Zhanjiang pulp project of production capacity of 700,000 tonnes and the white coated linerboard project of production capacity of 600,000 tonnes made by the Group.
- (4) Construction materials increased by 74.67% as compared to the beginning of the year mainly due to investments in construction projects made by the Company.
- (5) Short-term borrowings increased by 64.33% as compared to the beginning of the year mainly due to an increase in short-term borrowings upon expiry of short-term debentures of RMB1.5 billion of the Company.
- (6) Bill payable increased by 505.56% as compared to the beginning of the year mainly due to increased bill payments for loans with reasonable use of financing channels by the Company.
- (7) Advance receipts decreased by 38.83% as compared to the beginning of the year mainly due to an increase in goods delivery with less advances on sales during the period.
- (8) Other payables increased by 68.59% as compared to the beginning of the year mainly due to an increase in bank balances with the holding company resulting from some project funds raised through the holding company by the Company.

III. 1. Analysis of the assets and liabilities of the Company (Cont'd)

- (9) Other current liabilities decreased by 44.04% as compared to the beginning of the year mainly due to expiry of short-term debentures of RMB1.8 billion of the Company during the period.
- (10) Long-term borrowings increased by 36.85% as compared to the beginning of the year mainly due to the increase in some long-term borrowings resulting from investments in construction projects.
- (11) Deferred income tax liabilities decreased by 100% as compared to the beginning of the year mainly due to disposal of subsidiaries during the year with deferred income tax liabilities incurred on acquisition of subsidiaries during prior years reversed.

III. 2. Analysis and explanation on major year-on-year changes in profit and loss indicators during the reporting period

Unit: RMB

Items	For the six months ended 30 June 2011	For the six months ended 30 June 2010	Change (%)	Reasons for change
Business taxes and surcharges	32,113,269.58	10,397,727.74	208.85%	(1)
Finance expenses	153,592,178.50	125,739,655.86	22.15%	(2)
Loss on impairment of assets	-21,425,466.16	20,796,487.26	-203.02%	(3)
Gain on change in fair value	3,715,429.62	8,358,094.03	-55.55%	(4)
Investment income	9,553,661.98	4,324,494.78	120.92%	(5)
Non-operating income	145,947,362.89	67,413,802.58	116.49%	(6)
Non-operating expenses	26,337,117.25	6,208,466.79	324.21%	(7)
Total profit	589,823,463.43	838,558,409.76	-29.66%	(8)
Income tax expenses	96,723,898.32	142,479,322.30	-32.11%	(8)
Net profit attributable to equity holders of the Company	483,549,691.40	607,868,970.24	-20.45%	(8)
Minority interests	13,265,303.33	88,210,117.22	-84.96%	(8)

Explanation on the main reasons leading to the changes:

- (1) Business taxes and surcharges increased by 208.85% as compared to the corresponding period of the prior year mainly due to the payment of the urban maintenance and construction tax and education surcharges by foreign-invested enterprises since December 2010.
- (2) Finance expenses increased by 22.15% as compared to the corresponding period of the prior year mainly due to an increase in interest expenses as compared to the corresponding period of the prior year resulting from interest rate changes and an increase of loans.
- (3) Loss on impairment of assets decreased by 203.02% as compared to the corresponding period of the prior year mainly because the Company made greater efforts to clear open account receivables outstanding for a long period and eliminated bad debt provisions during the period.
- (4) Gain on change in fair value decreased by 55.55% as compared to the corresponding period of the prior year mainly due to change in fair value of timber assets.
- (5) Investment income increased by 120.92% as compared to the corresponding period of the prior year mainly due to investment income on disposal of Heze Chenming Panels Co., Ltd. and Shandong Lin Dun Wood Industry Co., Ltd. during the period.
- (6) Non-operating income increased by 116.49% as compared to the corresponding period of the prior year mainly due to an increase of government grants received during the period.
- (7) Non-operating expenses increased by 324.21% as compared to the corresponding period of the prior year mainly due to an increase in the losses from debt restructuring incurred by the Company during the period.
- (8) Total profit, income tax expenses, net profit attributable to equity holders of the Company and minority interests decreased as compared to the corresponding period of the prior year mainly due to an decrease in the gross profit margin as compared to the corresponding period of the prior year resulting from a rise in raw material price.

III. 3. Cash flows from operating activities of the Company during the reporting period

Unit: RMB

Items	For the six months ended 30 June 2011	For the six months ended 30 June 2010	Change (%)
Net cash flows from operating activities	737,643,905.04	1,189,723,076.40	-38.00%
Net cash flows from investment activities	-2,602,316,539.31	-1,502,481,365.60	-73.20%
Net cash flows from financing activities	1,787,918,250.48	-170,160,445.16	1150.72%

Explanation on the main reasons leading to the changes:

- (1) Cash flows from operating activities decreased as compared to the corresponding period of the prior year mainly due to a significant increase in discounted outstanding bills during the period as compared to the corresponding period of the prior year.
- (2) net cash flows from investment activities decreased as compared to the corresponding period of the prior year mainly due to the increased investments in the copperplate paper project of production capacity of 800,000 tonnes, the high-end white coated linerboard project of production capacity of 600,000 tonnes and the Zhanjiang pulp project of the Company during the period.
- (3) Net cash flow from financing activities increased as compared to the corresponding period of the prior year mainly due to project investments and an increase in bank borrowings during the period.

IV. FOCUS OF WORK DURING THE SECOND HALF OF 2011

In the second half of the year, the Company will continue to stick to the tasks set at the beginning of the year. While paying attention to economic benefits, new project construction and utilisation of new production capacity, the Company will reinforce its market development, strengthen its self-innovation capability, save energy consumption and reduce emission by:

- (1) Exploring the domestic and overseas market to facilitate future development: the Company will implement proactive and reasonable marketing strategies and optimise its international marketing network by employing diversified currency settlement and various operating models; well prepare for new projects to be in operation; actively make sales planning and expand its sales channels;
- (2) Accelerating the construction of raw material bases on the basis of the forestry bases in Zhanjiang, Huizhou and Huanggang as the planned objective;
- (3) Strengthening the management of distributors, enhancing the capabilities of the sales staff and strengthening brand promotion;
- (4) Strengthening internal control and system establishment and improving corporate governance with a view to enhancing its management strength and operation quality;
- (5) Standardising the operation of its technological innovation system, optimising its innovation incentive mechanism, speeding up the research and development of the key technologies and firmly establishing its quality and brands;
- (6) Continuously taking resources saving and environmental protection as strategic objectives in the course of corporate development with a view to strengthening energy saving and emission reduction for the purpose of sustainable development.

VI. Material Matters

I. PERSONNEL INFORMATION

1. Change of personnel

Please refer to “IV. Directors, Supervisors and Senior Management”.

2. Personnel of the Company

As at 30 June 2011, the Group had 17,985 employees in aggregate, including 10,238 production staff, 866 sales staff, 2,499 technical staff, 285 financial staff, 1,398 administrative staff and 2,699 other staff. The remuneration of the employees of the Company includes their salaries, bonuses and other fringe benefits. The Company determines different rates of remuneration for different employees based on their performance, qualifications, duties and other factors in compliance with the relevant PRC laws and regulations.

II. CORPORATE GOVERNANCE STRUCTURE DURING THE REPORTING PERIOD

1. The Company’s corporate governance is generally in compliance with the relevant requirements of China Securities Regulatory Commission (CSRC)

Strictly in compliance with the requirements of the relevant laws and regulations of Companies Law (《公司法》), Securities Law (《证券法》), Code of Corporate Governance for Listed Companies (《上市公司治理准则》), Rules Governing Listing on Shenzhen Stock Exchange (《深圳证券交易所股票上市规则》) and the Articles of Association, the Company continued to optimise its legal person governance structure, and established a modern enterprise policy to regulate the operations of the Company.

The state of governance of the Company is currently in compliance with the requirements under the relevant documents of CSRC.

2. Audit committee

The Audit Committee of the Company had discussed with the management the accounting standards and practices adopted by the Company, and had also discussed and reviewed this report, including the financial statements of the Company as at 30 June 2011 prepared in accordance with Accounting Standards for Business Enterprises.

III. 2010 PROFIT DISTRIBUTION PLAN AND 2011 INTERIM PROFIT DISTRIBUTION PLAN

1. The 2010 profit distribution plan of the Company was considered and approved by the 2010 Annual General Meeting. Based on 2,062,045,941 shares in the total share capital of the Company, cash bonus of RMB 3.0 was to be paid to all shareholders for every 10 shares held (tax included, RMB2.70 for every 10 shares held was actually paid to individual shareholders, investment funds and Qualified Foreign Institutional Investors holding A shares after tax deduction; and in respect of other A share shareholders, no income tax was deducted for tax payment. RMB2.70 for every 10 shares held was actually paid to individual shareholders and non-residential enterprises holding B shares). Distribution of cash bonuses under such distribution amounted to RMB619 million (RMB618,613,782.30) (tax included).

For A Shares, the book closure date was 20 June 2011. For B Shares, the book closure date was 23 June 2011. The ex-rights date was 21 June 2011.

2. The 2011 interim profit distribution plan: no profit distribution was proposed to be implemented for the interim period of 2011 and no share capital increase by way of transfer from capital reserves would be carried out.

IV. MATERIAL ACQUISITION AND DISPOSAL OF ASSETS, ABSORPTIONS AND MERGERS OF THE COMPANY DURING THE REPORTING PERIOD

The Company had no material acquisition and disposal of assets, absorptions and mergers during the reporting period.

V. MATERIAL LITIGATION AND ARBITRATION

The Company was not subject to any material litigation or arbitration during the reporting period.

VI. UNDERTAKINGS BY HOLDERS OF NON-TRADABLE SHARES DERIVED FROM THE REFORM OF CONVERSION

1. Undertakings made during the reform of conversion and performance of such undertakings

It was undertaken that shares held by Shouguang Chenming Holdings Co., Ltd., the controlling shareholder of the Company, shall not be listed and traded within 48 months from the date of implementation of the reform of conversion. During the reporting period, Shouguang Chenming Holdings Co., Ltd. had strictly adhered to such undertakings. The undertakings of the controlling shareholder expired on 29 March 2010. The undertakings of the holders of non-tradable shares were fully fulfilled. The relevant procedure for the release from sales restriction will be processed upon confirmation from the controlling shareholder regarding such release from sales restriction.

2. During the reporting period, no shareholders holding 5% (including 5%) or above shares in the Company had made any additional undertakings on shares subject to trading moratorium.

VII. SIGNIFICANT CONTRACTS AND THEIR PERFORMANCE

The Company had not entered into any significant contracts during the reporting period.

VIII.External guarantees

During the reporting period, the Company provided no guarantee to external parties (excluding the guarantees provided to its controlling subsidiaries) and did not provide any guarantees against the rules and regulations.

As at 30 June 2011, the balance of guarantee the Company provided to its controlling subsidiaries amounted to RMB6,165.9418 million representing 46.01% of the net assets attributable to 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

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	351,956.48	Credit	15	No	No
Zhanjiang Chenming Paper Pulp Co., Ltd.	2011-03-31(2011-005)	200,000.00	—	0.00	Credit	1	The contract had not been signed	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.	2011-03-31(2011-005)	20,000.00	—	0.00	Credit	1	The contract had not been signed	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
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	2011-03-31(2011-005)	30,000.00	—	0.00	Credit	1	The contract had not been signed	No
Shouguang Meilun Paper Co., Ltd.	2010-08-25(2010-027)	79,473.00	10 September 2010	77,659.20	Credit	5	No	No
Shouguang Meilun Paper Co., Ltd.	2010-10-29(2010-034)	600,000.00	14 January 2011	26,471.60	Credit	3	No	No
Shouguang Chenming Art Paper Co., Ltd.	2011-03-31(2011-005)	10,000.00	—	0.00	Credit	1	The contract had not been signed	No

VIII.External guarantees (continued)

Unit: RMB'0000

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
Jilin Chenming Paper Co., Ltd.	2011-03-31(2011-005)	30,000.00	25 May 2011	0.00	Credit	1	No	No
Shandong Chenming Paper Group Qihe Paperboard Co., Ltd.	2011-03-31(2011-005)	20,000.00	—	0.00	Credit	1	The contract had not been signed	No
Shandong Chenming Paper Group Qihe Paperboard Co., Ltd.	2010-02-25(2010-003)	20,000.00	16 September 2010	0.00	Credit	1	No	No
Chenming (HK) Limited	2011-03-31(2011-005)	329,300.00	—	0.00	Credit	1	The contract had not been signed	No
Chenming (HK) Limited	2010-10-29(2010-034)	50,000.00	13 April 2011	50,000.00	Credit	3	No	No
Xianning Chenming Arboriculture Co., Ltd.	2011-03-31(2011-005)	10,000.00	—	0.00	Credit	1	Contract has not been signed	No
Shandong Chenming Paper Sales Company Limited	2010-10-29(2010-034)	200,000.00	25 February 2011	50,506.90	Credit	0.5	No	No
Total amount of guarantee provided for subsidiaries approved during the reporting period (B1)								649,300.00
Total amount of guarantee provided for subsidiaries during the reporting period (B2)								230,221.70
Total amount of guarantee provided for subsidiaries approved as at the end of the reporting period (B3)								2,337,393.00
Total balance of guarantee provided for subsidiaries as at the end of the reporting period (B4)								616,594.18
Total amount of guarantee provided by the Company (the sum of the above two main categories)								
Total amount of guarantee approved during the reporting period (A1+B1)								649,300.00
Total amount of guarantee provided during the reporting period (A2+B2)								230,221.70
Total amount of guarantee approved as at the end of the reporting period (A3+B3)								2,337,393.00
Total balance of guarantee provided as at the end of the reporting period (A4+B4)								616,594.18
Total amount of guarantee provided (A4+B4) as a percentage of the net assets of the Company								46.01%
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)								214,637.70
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)								214,637.70
Explanation on possible joint obligation on outstanding guarantees provided								Nil

IX. OTHER MATERIAL MATTERS AND EXPLANATION AND ANALYSIS ON THEIR IMPACTS AND SOLUTIONS

1. During the reporting period, the Company did not invest in any securities, and the Company did not hold any equity interests in other listed companies, unlisted financial institutions or prospective listed companies.
2. During the reporting period, except for provision of entrusted loans to controlling subsidiaries of the Company (for details, please refer to the financial statements and Note 8 thereto prepared in accordance with Accounting Standards for Business Enterprises), the Company did not appoint any person to manage the Company's funds during the reporting period or in the preceding reporting period which had been carried over to this reporting period. Also, there was no significant custody, subcontracting or lease of the assets between the Company and other companies during the reporting period or in the preceding reporting period which had been carried over to this reporting period.
3. Independent opinion from Independent Directors of the Company concerning utilisation of funds by related parties and external guarantees.

After inspection, there was no utilisation of funds of the Company by controlling shareholders and other related parties during the reporting period, except for connected transactions between the Company and its controlling subsidiaries and the investees of the Company (for details, please refer to the financial statements and Note 8 thereto prepared in accordance with Accounting Standards for Business Enterprises). The connected transactions were true and accurate to represent the ordinary connected transactions of the Company, which complied with the principle of fair and reasonable, and related requirements of the Companies Law and the Articles of Association. The prices of the transactions were true and fair and do not impair the interests of the Company and other shareholders, especially the interest of minority shareholders, and non-related shareholders.

Upon inspection, except for the guarantees provided to controlling subsidiaries during the reporting period (for details, please refer to the financial statements and Note 8 thereto prepared in accordance with Accounting Standards for Business Enterprises), the Company had provided RMB0 of external guarantee for the period of and accrued up to 30 June 2011. The Company strictly followed the relevant requirements of Notice on Regulation of External Guarantee Provided by Listed Companies (Zheng Jian Fa [2005] No.120) 《关于规范上市公司对外担保行为的通知》（证监发）[2005]120号, 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 the ordinary production and operation and reasonable utilisation of the funds of the Company. The decision procedures were legal and without prejudice to the interests of the Company and the shareholders of the Company (especially minority shareholders).

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
7 January 2011	Zhanjiang, Guangdong	On-site research investigation	Qilu Securities	Matters including recent development of the industry and development trend in the future, production and operation of the Company, as well as strategic development
12 January 2011	Shouguang, Shandong	On-site research investigation	China International Capital Corporation Limited, PICC Asset Management Company Limited, 尚心投资管理有限公司	
12 January 2011	Shouguang, Shandong	On-site research investigation	Polaris International Securities Investment Trust Co., Ltd.	
27 January 2011	Shouguang, Shandong	On-site research investigation	First Shanghai Securities Limited of Hong Kong	
17 February 2011	Shouguang, Shandong	On-site research investigation	Sinolink Securities Co., Ltd. and E Fund Management Co., Ltd.	
24 February 2011	Shouguang, Shandong	On-site research investigation	Huatai Securities, Guodu Securities, Chongyang Investment, Fortune Securities, Capital Synergy Invest Management Co., Ltd.	
4 May 2011	Shouguang, Shandong	On-site research investigation	Guotai Junan Securities, China Asset Management Co., Ltd., Union Life Insurance Co., Ltd.	
5 May 2011	Shouguang, Shandong	On-site research investigation	Huatai United Securities, HuaAn Fund Management Co., Ltd.	
9 May 2011	Shouguang, Shandong	On-site research investigation	英国保诚基金	
10 May 2011	Shouguang, Shandong	On-site research investigation	Fubon Financial of Taiwan	
11 May 2011	Shouguang, Shandong	On-site research investigation	Tebon Securities Co., Ltd. of Shanghai	
20 May 2011	Shouguang, Shandong	On-site research investigation	Everbright Securities, First-trust Fund Management Co., Ltd.	
30 June 2011	Shouguang, Shandong	On-site research investigation	Zeal Asset Management Limited	

XI. Index of Information Disclosure in the First Half of 2011

Date of announcement	Subject matter	Media for publication
25 January 2011	Announcement on the Results Express for 2010	B009 of China Securities Journal, D5 of Securities Times, A18 of Hong Kong Commercial Daily http://www.cninfo.com.cn
19 March 2011	Indicative announcement in respect of receiving incentive funds from the government	B012 of China Securities Journal, A15 of Hong Kong Commercial Daily http://www.cninfo.com.cn
19 March 2011	Announcement in respect of H shares	http://www.cninfo.com.cn
31 March 2011	2010 annual report	B139 of China Securities Journal, A14 of Hong Kong Commercial Daily http://www.cninfo.com.cn
31 March 2011	Self assessment report on internal control	B139 of China Securities Journal, A14 of Hong Kong Commercial Daily http://www.cninfo.com.cn
31 March 2011	2010 social responsibility report	B139 of China Securities Journal, A14 of Hong Kong Commercial Daily http://www.cninfo.com.cn
31 March 2011	Special audit report on the use of funds of listed companies by related parties of the Company	B139 of China Securities Journal, A14 of Hong Kong Commercial Daily http://www.cninfo.com.cn
31 March 2011	Announcement on the resolutions of the fifth meeting of the sixth session of the Supervisory Committee	B139 of China Securities Journal, A14 of Hong Kong Commercial Daily http://www.cninfo.com.cn
31 March 2011	Notice of 2010 Annual General Meeting	B139 of China Securities Journal, A14 of Hong Kong Commercial Daily http://www.cninfo.com.cn
31 March 2011	Announcement on the resolutions of the fifth meeting of the sixth session of the Board of Directors	B139 of China Securities Journal, A14 of Hong Kong Commercial Daily http://www.cninfo.com.cn
31 March 2011	2010 auditors' report	B139 of China Securities Journal, A14 of Hong Kong Commercial Daily http://www.cninfo.com.cn
31 March 2011	2010 annual report summary	B139 of China Securities Journal, A14 of Hong Kong Commercial Daily http://www.cninfo.com.cn

XI. Index of information disclosure in the first half of 2011 (continued)

Date of announcement	Subject matter	Media for publication
31 March 2011	Code of conduct for major shareholders and beneficial controller and information enquiry system (March 2011)	B139 of China Securities Journal, A14 of Hong Kong Commercial Daily http://www.cninfo.com.cn
31 March 2011	Internal control on derivatives investments and information disclosure system	B139 of China Securities Journal, A14 of Hong Kong Commercial Daily http://www.cninfo.com.cn
31 March 2011	Announcement on lock-up of LIBOR on Zhanjiang Chenming US dollar loans	B139 of China Securities Journal, A14 of Hong Kong Commercial Daily http://www.cninfo.com.cn
31 March 2011	Announcement on handling settlement of forward foreign exchange + NDF portfolio operations	B139 of China Securities Journal, A14 of Hong Kong Commercial Daily http://www.cninfo.com.cn
31 March 2011	Announcement in respect of provision of guarantee for the general banking facilities being applied by controlling subsidiaries	B139 of China Securities Journal, A14 of Hong Kong Commercial Daily http://www.cninfo.com.cn
31 March 2011	Special report on internal control	B139 of China Securities Journal, A14 of Hong Kong Commercial Daily http://www.cninfo.com.cn
31 March 2011	Assurance annual report on the use and deposit of capitals raised by the company	B139 of China Securities Journal, A14 of Hong Kong Commercial Daily http://www.cninfo.com.cn
31 March 2011	Independent opinion of independent directors on the self assessment report on internal control of the Company	B139 of China Securities Journal, A14 of Hong Kong Commercial Daily http://www.cninfo.com.cn
31 March 2011	Independent directors' report for 2010	B012 of China Securities Journal, A9 of Hong Kong Commercial Daily http://www.cninfo.com.cn
14 April 2011	Announcement in respect of H shares	http://www.cninfo.com.cn
15 April 2011	Indicative announcement on issuing notes of RMB500 million by a wholly-owned subsidiary	A11 of China Securities Journal, A32 of Hong Kong Commercial Daily http://www.cninfo.com.cn
15 April 2011	Announcement in respect of H shares	A11 of China Securities Journal, A32 of Hong Kong Commercial Daily http://www.cninfo.com.cn

XI. Index of information disclosure in the first half of 2011 (continued)

Date of announcement	Subject matter	Media for publication
28 April 2011	Independent opinion of independent directors on reappointment of the accounting firm	B117 of China Securities Journal, A26 of Hong Kong Commercial Daily http://www.cninfo.com.cn
28 April 2011	Notice in respect of the increased resolutions at the 2010 Annual General Meeting	B117 of China Securities Journal, A26 of Hong Kong Commercial Daily http://www.cninfo.com.cn
28 April 2011	Announcement on the resolutions of the sixth meeting of the sixth session of the Board of Directors	B117 of China Securities Journal, A26 of Hong Kong Commercial Daily http://www.cninfo.com.cn
28 April 2011	The full text of 2011 first quarterly report	B117 of China Securities Journal, A26 of Hong Kong Commercial Daily http://www.cninfo.com.cn
28 April 2011	The main text of 2011 first quarterly report	B117 of China Securities Journal, A26 of Hong Kong Commercial Daily http://www.cninfo.com.cn
28 April 2011	Announcement in respect of H shares	B117 of China Securities Journal, A26 of Hong Kong Commercial Daily http://www.cninfo.com.cn
19 May 2011	Legal opinion as witnessed by lawyers on the 2010 Annual General Meeting	B24 of China Securities Journal, B8 of Hong Kong Commercial Daily http://www.cninfo.com.cn
19 May 2011	Announcement on the resolution of 2010 Annual General Meeting	B24 of China Securities Journal, B8 of Hong Kong Commercial Daily http://www.cninfo.com.cn
14 June 2011	Announcement of dividend payment for 2010	B018 of China Securities Journal, A5 of Hong Kong Commercial Daily http://www.cninfo.com.cn
16 June 2011	Announcement on approval by the Issuance Audit Committee of China Securities Regulatory Commission of the application for issue of corporate bonds	http://www.cninfo.com.cn
30 June 2011	Announcement on approval by China Securities Regulatory Commission of issue of corporate bonds	http://www.cninfo.com.cn

Note: A total of 35 announcements were issued by the Company in the first half year of 2011.

VII. Unaudited Financial Statements and Notes thereto Prepared in Accordance with Accounting Standards for Business Enterprises

Consolidated Balance Sheet

As at 30 June 2011

Prepared by: Shandong Chenming Paper Holdings Limited Unit: RMB

Items	Notes	Closing Balance	Opening balance
CURRENT ASSETS:			
Monetary funds	VII.1	2,092,372,229.62	1,951,854,940.72
Held-for-trading financial assets			
Bills receivable	VII.2	2,907,199,130.35	2,762,389,909.89
Accounts receivable	VII.3	2,470,687,488.76	2,122,578,824.27
Prepayments	VII.5	990,222,160.27	924,354,545.55
Interest receivable			
Dividend receivable			
Other receivables	VII.4	120,648,508.43	117,634,380.52
Inventory	VII.6	3,666,551,486.97	3,047,078,215.01
Current assets due within one year	VII.7	5,471,558.96	
Other current assets	VII.8	1,342,459,344.12	658,572,125.34
Total current assets		13,595,611,907.48	11,584,462,941.30
NON-CURRENT ASSETS:			
Available-for-sale financial assets			
Held-to-maturity investments			
Long-term receivables			
Long-term equity investments	VII.9	63,446,430.50	67,201,931.89
Investment properties	VII.10	23,819,084.05	24,688,212.07
Fixed assets	VII.11	12,755,665,301.97	12,882,358,381.56
Construction in progress	VII.12	10,261,432,888.00	7,871,512,563.84
Construction materials	VII.13	203,451,709.86	116,481,086.12
Disposal of fixed assets			
Consumable biological assets	VII.14	854,627,460.54	726,742,568.44
Oil and gas assets			
Intangible assets	VII.15	1,418,157,494.90	1,459,453,227.94
Development expenditure			
Goodwill	VII.16	20,283,787.17	20,283,787.17
Long-term prepaid expenses	VII.17	182,267,638.76	176,436,950.42
Deferred income tax assets	VII.18	158,395,800.20	147,510,479.23
Other non-current assets			
Total non-current assets		25,941,547,595.95	23,492,669,188.68
TOTAL ASSETS		39,537,159,503.43	35,077,132,129.98

Items	Notes	Closing Balance	Opening balance
CURRENT LIABILITIES:			
Short-term borrowings	VII.21	5,906,247,149.54	3,594,157,220.47
Held-for-trading financial liabilities			
Bills payable	VII.22	1,324,707,285.74	218,757,186.75
Accounts payable	VII.23	3,021,214,487.89	2,708,064,676.44
Advance receipts	VII.24	250,933,984.66	410,243,554.75
Staff remuneration payables	VII.25	136,242,342.77	169,426,660.41
Taxes payable	VII.26	121,533,605.16	134,029,387.82
Interest payable			
Dividend payable	VII.27	106,831,703.46	
Other payables	VII.28	981,268,512.05	582,052,511.43
Non-current liabilities due within one year	VII.29	1,270,588,281.77	1,432,841,463.15
Other current liabilities	VII.30	1,909,713,509.43	3,412,493,915.88
Total current liabilities		15,029,280,862.47	12,662,066,577.10
NON-CURRENT LIABILITIES:			
Long-term borrowings	VII.31	6,467,134,801.11	4,725,628,719.05
Bonds payable	VII.32	490,204,131.56	
Long-term payables			
Special accounts payable			
Estimated liabilities			
Deferred income tax liabilities	VII.18		1,340,281.66
Other non-current liabilities	VII.30	2,432,132,832.15	2,427,897,545.67
Total non-current liabilities		9,389,471,764.82	7,154,866,546.38
TOTAL LIABILITIES		24,418,752,627.29	19,816,933,123.48
OWNERS' EQUITY (OR SHAREHOLDERS' EQUITY):			
Paid-up capital (or share capital)	VII.33	2,062,045,941.00	2,062,045,941.00
Capital reserves	VII.34	6,093,493,004.71	6,093,493,004.71
Less: Treasury shares			
Special reserves			
Surplus reserves	VII.35	1,046,510,680.99	1,046,510,680.99
General risk provisions			
Retained profit	VII.36	4,198,667,857.06	4,333,731,947.96
Foreign currency translation differences		-273,656.42	4,219.88
Total equity attributable to equity holders of the company		13,400,443,827.34	13,535,785,794.54
Minority interests		1,717,963,048.80	1,724,413,211.96
Total owners' equity		15,118,406,876.14	15,260,199,006.50
TOTAL LIABILITIES AND OWNERS' EQUITY		39,537,159,503.43	35,077,132,129.98

Consolidated Income Statement

January to June 2011

Prepared by: Shandong Chenming Paper Holdings Limited Unit: RMB

Items	Notes	Amounts for the current period	Amounts for the prior period
I. Total operating revenue		8,917,455,355.14	8,176,641,676.99
Including: Operating revenue	VII.37	8,917,455,355.14	8,176,641,676.99
II. Total operating costs		8,456,795,799.33	7,411,971,191.83
Including: Operating costs	VII.37	7,382,759,124.49	6,396,400,180.14
Business taxes and surcharges	VII.38	32,113,269.58	10,397,727.74
Selling and distribution expenses	VII.39	438,518,128.62	441,501,879.97
General and administrative expenses	VII.40	471,238,564.30	417,135,260.86
Finance expenses	VII.41	153,592,178.50	125,739,655.86
Loss on impairment of assets	VII.44	-21,425,466.16	20,796,487.26
Add: Gain on change in fair value (“-” denotes loss)	VII.42	3,715,429.62	8,358,094.03
Investment income (“-” denotes loss)	VII.43	9,553,661.98	4,324,494.78
Including: Investment income from associates and joint ventures		-3,755,501.39	4,324,494.78
III. Operating profit (“-” denotes loss)		473,928,647.41	777,353,073.97
Add: Non-operating income	VII.45	145,947,362.89	67,413,802.58
Less: Non-operating expenses	VII.46	26,337,117.25	6,208,466.79
Including: Loss on disposal of non-current assets		923,387.79	3,130,585.22
IV. Total profit (“-” denotes total loss)		593,538,893.05	838,558,409.76
Less: Income tax expenses	VII.47	96,723,898.32	142,479,322.30
V. Net profit (“-” denotes net loss)		496,814,994.73	696,079,087.46
Net profit attributable to equity holders of the Company		483,549,691.40	607,868,970.24
Minority interests		13,265,303.33	88,210,117.22
VI. Earnings per share:			
(I) Basic earnings per share	VII.48	0.23	0.29
(II) Diluted earnings per share	VII.48		
VII. Other comprehensive income	VII.49	-277,876.30	-124,067.32
VIII. Total comprehensive income		496,537,118.43	695,955,020.14
Total comprehensive income attributable to equity holders of the Company		483,271,815.10	607,744,902.92
Total comprehensive income attributable to minority interests		13,265,303.33	88,210,117.22

Consolidated Cash Flows Statements

January to June 2011

Prepared by: Shandong Chenming Paper Holdings Limited Unit: RMB

Items	Notes	Amounts for the current period	Amounts for the prior period
I. Cash flows from operating activities:			
Cash received from sales of goods and rendering of services		7,854,858,051.86	8,396,743,627.10
Tax rebates received		15,888,429.59	9,564,967.88
Cash received relating to other operating activities	VII.50	895,946,310.86	149,110,831.59
Subtotal of cash inflows from operating activities		8,766,692,792.31	8,555,419,426.57
Cash paid for goods and services		5,917,115,598.43	5,928,577,889.61
Cash paid to and for employees		426,234,308.06	398,614,872.25
Payments of taxes and surcharges		846,940,819.17	704,611,703.50
Cash paid relating to other operating activities	VII.50	838,758,161.61	333,891,884.81
Subtotal of cash outflows from operating activities		8,029,048,887.27	7,365,696,350.17
Net cash flows from operating activities		737,643,905.04	1,189,723,076.40
II. Cash flows from investing activities:			
Cash received from investments			
Cash received from investment income			
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		21,052,642.46	20,129,176.66
Net cash received from disposal of subsidiaries and other business units		3,467,152.31	
Cash received relating to other investing activities	VII.50	5,834,492.06	
Subtotal of cash inflows from investing activities		30,354,286.83	20,129,176.66
Cash paid for purchase of fixed assets, intangible assets and other long-term assets		2,632,670,826.14	1,521,600,542.26
Cash paid on investments			1,010,000.00
Net cash paid for acquisition of subsidiaries and other business units			
Cash paid relating to other investing activities	VII.50		
Subtotal of cash outflows from investing activities		2,632,670,826.14	1,522,610,542.26
Net cash flows from investing activities		-2,602,316,539.31	-1,502,481,365.60

Items	Notes	Amounts for the current period	Amounts for the prior period
III. Cash flows from financing activities:			
Cash received from capital contribution			
Including: Cash received from minority			
interest contribution to subsidiaries			
Cash received from borrowings		7,669,027,263.45	2,475,825,316.09
Cash received from bond issue			
Cash received relating to other financing activities		491,750,000.00	2,899,268,303.74
Subtotal of cash inflows from financing activities		8,160,777,263.45	5,375,093,619.83
Cash repayments of amounts borrowed		3,811,506,924.57	4,713,400,265.77
Cash paid for dividend and profit			
distribution or interest payment		780,814,563.65	831,853,799.22
Cash paid relating to other financing activities		1,780,537,524.75	
Subtotal of cash outflows from financing activities		6,372,859,012.97	5,545,254,064.99
Net cash flows from financing activities		1,787,918,250.48	-170,160,445.16
IV. Effect of foreign exchange rate changes on cash and cash equivalents		-13,615,852.06	-11,859,439.78
V. Net increase in cash and cash equivalents		-90,370,235.85	-494,778,174.14
Add: Balance of cash and cash equivalents			
as at the beginning of the period		1,855,235,979.80	2,367,334,202.50
VI. Balance of cash and cash equivalents as at the end of the period		1,764,865,743.95	1,872,556,028.36

Consolidated Statement of Changes in Owners' Equity

January to June 2011

Prepared by:
Shandong Chenming
Paper Holdings Limited

Unit: RMB

Items	Amounts for the current period										Amounts for the prior year									
	Equity attributable to equity holders of the Company										Equity attributable to equity holders of the Company									
	Paid-up capital (or share capital)	Capital reserves	Treasury Shares	Less: Special reserves	Surplus reserves	General risk provisions	Retained profit	Others	Minority interests	Total owners' equity	Paid-up capital (or share capital)	Capital reserves	Treasury Shares	Less: Special reserves	Surplus reserves	General risk provisions	Retained profit	Others	Minority interests	Total owners' equity
I. Balance as at the end of the prior year	2,062,045,941.00	6,093,493,004.71			1,046,510,680.99	4,333,731,947.96	4,219.88	1,724,413,211.96	15,260,199,006.50	2,062,045,941.00	6,093,493,004.71			906,929,047.49	3,928,586,297.55	859,233.72	1,745,156,500.47	14,737,060,822.15		
Add: Accounting policy change																				
Corrections of prior period errors																				
Others																				
II. Balance as at the beginning of the year	2,062,045,941.00	6,093,493,004.71			1,046,510,680.99	4,333,731,947.96	4,219.88	1,724,413,211.96	15,260,199,006.50	2,062,045,941.00	6,093,493,004.71			906,929,047.49	3,928,586,297.55	859,233.72	1,745,156,500.47	14,737,060,822.15		
III. Changes in the year (* denotes decrease)																				
(I) Net profit						-135,064,090.90	-277,876.30	-6,450,163.16	-141,792,130.36		9,202.79			139,581,633.50	405,145,690.41	-855,013.84	-20,743,288.51	523,138,184.35		
(II) Other comprehensive income						483,549,691.40			496,814,994.73						1,163,341,066.21		138,317,062.86	1,301,658,119.07		
Sub-total of (I) and (II) above						348,485,600.50	-277,876.30	-6,450,163.16	-94,977,135.63		9,202.79			139,581,633.50	405,145,690.41	-855,013.84	-20,743,288.51	523,138,184.35		
(III) Capital paid in and reduced by owners									4,270,551.95	4,270,551.95			9,202.79					-19,202.79	-10,000.00	
1. Capital paid in by owners																				
2. Amounts of share-based payments recognised in owners' equity																				
3. Others									4,270,551.95	4,270,551.95			9,202.79					-19,202.79	-10,000.00	
(IV) Profit distribution						-618,613,782.30		-23,986,018.44	-642,599,800.74					139,581,633.50	-758,195,415.80		-159,041,138.58	-777,654,920.88		
1. Transfer to surplus reserves														139,581,633.50	-139,581,633.50					
2. Transfer to general risk provision																				
3. Distribution to owners (shareholders)						-618,613,782.30		-23,986,018.44	-642,599,800.74						-618,613,782.30		-159,041,138.58	-777,654,920.88		
4. Others																				
(V) Transfer within owners' equity																				
1. Transfer from capital reserves to capital (or share capital)																				
2. Transfer from surplus reserves to capital (or share capital)																				
3. Transfer from surplus reserves to make up for losses																				
4. Others																				
(VI) Special reserves																				
1. Appropriated in the period																				
2. Used in the period																				
(VII) Others																				
1. Others																				
IV. Balance as at the end of the period	2,062,045,941.00	6,093,493,004.71			1,046,510,680.99	4,198,667,857.06	-273,656.42	1,717,963,048.80	15,118,406,876.14	2,062,045,941.00	6,093,493,004.71			1,046,510,680.99	4,333,731,947.96	4,219.88	1,724,413,211.96	15,260,199,006.50		

Balance Sheet

As at 30 June 2011

Prepared by: Shandong Chenming Paper Holdings Limited Unit: RMB

Items	Notes	Closing Balance	Opening balance
CURRENT ASSETS:			
Monetary funds		813,573,061.88	704,109,173.25
Held-for-trading financial assets			
Bills receivable		1,522,839,996.01	1,527,349,378.06
Accounts receivable	XIII.1	1,222,422,596.56	1,621,939,553.18
Prepayments		891,174,260.22	919,638,465.71
Interest receivable			
Dividend receivable			25,500,000.00
Other receivables	XIII.2	4,818,831,211.21	4,773,074,610.91
Inventory		1,060,082,416.36	798,447,611.57
Non-current assets due within one year		1,504,190,971.94	1,799,625,759.18
Other current assets		56,722,886.43	
Total current assets		11,889,837,400.61	12,169,684,551.86
NON-CURRENT ASSETS:			
Available-for-sale financial assets			
Entrusted loans		500,000,000.00	500,000,000.00
Long-term receivables			
Long-term equity investments	XIII.3	7,673,994,193.38	5,957,887,739.77
Investment properties		23,819,084.05	24,688,212.07
Fixed assets		4,881,835,825.32	5,162,505,904.23
Construction in progress		873,449,445.99	377,881,973.00
Construction materials		19,564,335.23	18,789,838.50
Disposal of fixed assets			
Productive biological assets			
Oil and gas assets			
Intangible assets		325,814,026.25	329,934,823.01
Development expenditure			
Goodwill			
Long-term prepaid expenses			
Deferred income tax assets		48,153,700.80	60,305,230.74
Other non-current assets			
Total non-current assets		14,346,630,611.02	12,431,993,721.32
TOTAL ASSETS		26,236,468,011.63	24,601,678,273.18

Items	Notes	Closing Balance	Opening balance
CURRENT LIABILITIES:			
Short-term loans		3,938,230,655.64	2,177,183,475.78
Held-for-trading financial liabilities			
Bills payable		1,228,453,083.63	124,145,654.66
Accounts payable		1,087,586,803.03	995,425,830.59
Advance receipt		277,247,264.77	284,808,123.90
Staff remuneration payables		86,134,229.11	106,040,498.15
Taxes payable		13,457,947.58	36,899,207.08
Interest payable			
Dividend payable		106,831,703.46	
Other payables		247,273,946.64	248,170,250.32
Non-current liabilities due within one year		1,153,012,000.00	1,360,951,000.00
Other current liabilities		1,899,376,705.05	3,405,958,538.39
Total current liabilities		10,037,604,338.91	8,739,582,578.87
NON-CURRENT LIABILITIES:			
Long-term borrowings		1,307,817,635.94	852,222,735.94
Bonds payable			
Long-term payables			
Special accounts payable			
Estimated liabilities			
Deferred income tax liabilities			
Other non-current liabilities		2,311,802,882.44	2,309,355,287.42
Total non-current liabilities		3,619,620,518.38	3,161,578,023.36
TOTAL LIABILITIES		13,657,224,857.29	11,901,160,602.23
OWNERS' EQUITY (OR SHAREHOLDERS' EQUITY):			
Paid-up capital (or share capital)		2,062,045,941.00	2,062,045,941.00
Capital reserves		6,184,215,988.77	6,184,215,988.77
Less: Treasury shares			
Special reserves			
Surplus reserves		1,034,321,099.08	1,034,321,099.08
General risk provisions			
Retained profit		3,298,660,125.49	3,419,934,642.10
Total owners' equity (shareholders' equity)		12,579,243,154.34	12,700,517,670.95
TOTAL LIABILITIES AND OWNERS' EQUITY (SHAREHOLDERS' EQUITY)		26,236,468,011.63	24,601,678,273.18

Income Statement

January to June 2011

Prepared by: Shandong Chenming Paper Holdings Limited Unit: RMB

Items	Notes	Amounts for the current period	Amounts for the prior period
I. Operating revenue	XIII.4	4,110,859,712.15	7,103,442,044.05
Less: Cost of operations	XIII.4	3,325,675,097.46	6,017,146,134.97
Business tax and surcharges		13,912,091.01	1,746,468.34
Selling and distribution expenses		135,529,408.44	229,508,020.80
General and administrative expenses		211,532,488.08	210,426,747.56
Finance expenses		125,413,016.82	111,970,947.81
Loss on impairment of assets		-38,465,504.04	34,949,608.75
Add: Gain on change in fair value (“-” denotes loss)			3,870,000.00
Investment income (“-” denotes loss)	XIII.5	140,407,977.15	249,697,380.90
Including: Investment income from associates and joint ventures		-3,755,501.39	4,324,494.78
II. Operating profit (“-” denotes loss)		477,671,091.53	751,261,496.72
Add: Non-operating income		100,848,267.10	32,258,682.65
Less: Non-operating expenses		22,727,730.47	3,993,753.67
Including: Loss on disposal of non-current assets		443,271.23	1,904,148.67
III. Total profit (“-” denotes total loss)		555,791,628.16	779,526,425.70
Less: Income tax expenses		58,452,362.47	96,332,012.49
IV. Net profit (“-” denotes net loss)		497,339,265.69	683,194,413.21
V. Other comprehensive income			
VI. Total comprehensive income		497,339,265.69	683,194,413.21

Cash Flows Statements

January to June 2011

Prepared by: Shandong Chenming Paper Holdings Limited Unit: RMB

Items	Notes	Amounts for the current period	Amounts for the prior period
I. Cash flows from operating activities:			
Cash received from sales of goods and rendering of services		3,651,680,690.25	6,528,632,656.16
Tax rebates received			
Cash received relating to other operating activities		127,620,327.96	46,562,110.75
Subtotal of cash inflows from operating activities		3,779,301,018.21	6,575,194,766.91
Cash paid for goods and services		1,804,333,442.64	4,554,172,766.62
Cash paid to and for employees		152,867,010.05	130,147,836.04
Payments of taxes and surcharges		391,818,527.42	446,152,782.46
Cash paid relating to other operating activities		-452,537,261.41	1,480,177,671.73
Subtotal of cash outflows from operating activities		1,896,481,718.70	6,610,651,056.85
Net cash flows from operating activities		1,882,819,299.51	-35,456,289.94
II. Cash flows from investing activities:			
Cash received from investments		240,022,705.39	296,000,000.00
Cash received from investment income		176,215,492.04	182,607,069.44
Disposal of fixed assets, intangible assets and other long-term assets		59,083.56	18,977,755.80
Cash received relating to other investing activities			
Subtotal of cash inflows from investing activities		416,297,280.99	497,584,825.24
Cash paid for purchase of fixed assets, intangible assets and other long-term assets		276,561,700.64	30,295,440.54
Cash paid on investments		1,719,533,425.00	535,000,000.00
Cash paid relating to other investing activities			
Subtotal of cash outflows from investing activities		1,996,095,125.64	565,295,440.54
Net cash flows from investing activities		-1,579,797,844.65	-67,710,615.30

Items	Notes	Amounts for the current period	Amounts for the prior period
III. Cash flows from financing activities:			
Cash received from capital contribution			
Cash received from borrowings		4,197,471,624.39	1,447,618,522.84
Cash received from bond issue			
Cash received relating to other financing activities			2,875,273,211.00
Subtotal of cash inflows from financing activities		4,197,471,624.39	4,322,891,733.84
Cash repayments of amounts borrowed		2,188,125,261.03	4,068,972,362.27
Cash paid for dividend and profit distribution or interest payment		652,004,766.37	696,143,228.07
Cash paid relating to other financing activities		1,708,401,563.04	
Subtotal of cash outflows from financing activities		4,548,531,590.44	4,765,115,590.34
Net cash flows from financing activities		-351,059,966.05	-442,223,856.50
IV. Effect of foreign exchange rate changes on cash and cash equivalents		-1,249,163.22	-10,495,000.04
V. Net increase in cash and cash equivalents		-49,287,674.41	-555,885,761.78
Add: Balance of cash and cash equivalents as at the beginning of the period		662,209,607.29	1,586,045,998.83
VI. Cash and cash equivalents as at the end of the period		612,921,932.88	1,030,160,237.05

Statement of Changes in Owners' Equity

January to June 2011

Prepared by:
Shandong Chenming
Paper Holdings Limited

Unit: RMB

Items	Amounts for the current period								Amounts for the prior year							
	Paid-up capital (or share capital)	Capital reserves	Less: Treasury Shares	Special reserves	Surplus reserves	General risk provisions	Retained profit	Total owners' equity	Paid-up capital (or share capital)	Capital reserves	Less: Treasury Shares	Special reserves	Surplus reserves	General risk provisions	Retained profit	Total owners' equity
I. Balance as at the end of the prior year	2,062,045,941.00	6,184,215,988.77			1,034,321,099.08		3,419,934,642.10	12,700,517,670.95	2,062,045,941.00	6,184,215,988.77				894,739,465.58	2,782,313,722.90	11,923,315,118.25
Add: Accounting policy change																
Corrections of prior period errors																
Others																
II. Balance as at the beginning of the year	2,062,045,941.00	6,184,215,988.77			1,034,321,099.08		3,419,934,642.10	12,700,517,670.95	2,062,045,941.00	6,184,215,988.77				894,739,465.58	2,782,313,722.90	11,923,315,118.25
III. Changes in the year ("-" denotes decrease)																
(I) Net profit							-121,274,516.61	-121,274,516.61						139,581,633.50	637,620,919.20	777,202,552.70
(II) Other comprehensive income							497,339,265.69	497,339,265.69							1,395,816,335.00	1,395,816,335.00
Sub-total of (I) and (II) above							497,339,265.69	497,339,265.69							1,395,816,335.00	1,395,816,335.00
(III) Capital paid in and reduced by owners																
1. Capital paid in by owners																
2. Amounts of share-based payments recognised in owners' equity																
3. Others																
(IV) Profit distribution							-618,613,782.30	-618,613,782.30						139,581,633.50	-758,195,415.80	-618,613,782.30
1. Transfer to surplus reserves														139,581,633.50	-139,581,633.50	
2. Transfer to general risk provision																
3. Distribution to owners (shareholders)							-618,613,782.30	-618,613,782.30							-618,613,782.30	-618,613,782.30
4. Others																
(V) Transfer within owners' equity																
1. Transfer from capital reserves to capital (or share capital)																
2. Transfer from surplus reserves to capital (or share capital)																
3. Transfer from surplus reserves to make up for losses																
4. Others																
(VI) Special reserves																
1. Appropriated in the period																
2. Used in the period																
(VII) Others																
1. Others																
IV. Balance as at the end of the period	2,062,045,941.00	6,184,215,988.77			1,034,321,099.08		3,298,660,125.49	12,579,243,154.34	2,062,045,941.00	6,184,215,988.77				1,034,321,099.08	3,419,934,642.10	12,700,517,670.95

Notes to the financial statements from January to June 2011

(All amounts in RMB unless otherwise specified)

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 National Council for Social Security Fund (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 25 August 2011.

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 15 February 2006 and 38 specific accounting standards, the subsequently promulgated application guidelines of the Accounting Standards for Business Enterprises, interpretations and other related rules of the Accounting Standards for Business Enterprises (hereinafter referred to as “ASBEs”), and the disclosure requirements of the “Regulation on the Preparation of Information Disclosures of Companies Issuing Public Shares, No. 15: General Requirements for Financial Reports” (revised in 2010) of China Securities Regulatory Commission.

The Group’s financial statements have been prepared on an accrual basis in accordance with the ASBEs. Except for certain financial instruments 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 30 June 2011 and relevant information such as the operating results and cash flows of the Company and the Group of 2011. 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.

(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.

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

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

(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.

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.

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

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

(2) Basis for preparation of the consolidated financial statements

Subsidiaries are consolidated from the date on which the Group obtains net assets and the effective control of decision making of production and operation and are deconsolidated from the date that such control ceases. For disposal of subsidiaries, the operating results and cash flows of such subsidiaries before the date of disposal are properly included into the consolidated income statement and consolidated cash flows 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 flows 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 flows statements. The comparative amounts presented in the consolidated financial statements are also adjusted accordingly.

The financial statements of the subsidiaries are adjusted in accordance with the accounting policies and accounting period of the Company in the preparation of the consolidated financial statements, where the accounting policies and the accounting periods are inconsistent between the Company and the subsidiaries. For subsidiaries acquired from business combination not under common 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.

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

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.

(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 flows 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 flows 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

(I) 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.

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

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

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

7. Financial instruments (Cont'd)

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

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.

(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.

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

7. Financial instruments (Cont'd)

(3) Impairment of financial assets (Cont'd)

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.

(4) Recognition and measurement of transfers of financial asset

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

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

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

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

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

7. Financial instruments (Cont'd)

(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.

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.

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

7. Financial instruments (Cont'd)

(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.

(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: " a serious financial difficulty occurs to the debtor; † the debtor breaches any of the contractual stipulations (such as he fails to pay or delays the payment of interests or the principal); ¬ the debtor will probably go bankrupt or carry out other financial reorganisations; Ø 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)

(2) Measurement 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:

<u>Items</u>	<u>Basis for determining portfolio</u>
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 determining 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:

<u>Items</u>	<u>Basis of provision</u>
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

<u>Age</u>	<u>Ratio of accounts receivable provision (%)</u>	<u>Ratio of other accounts receivable provision (%)</u>
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)

(2) Measurement 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.

(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.

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

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.

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.

(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.

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

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.

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".

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

12. Fixed assets (Cont'd)

(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.

(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.

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.

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

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.

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.

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

16. Intangible assets (Cont'd)

(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;
- 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.

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

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.

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.

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

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.

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.

(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.

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

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.

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.

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

28. Critical accounting judgements and estimates

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

At the balance sheet date, the critical areas where Group needs to make judgements, 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 judgement 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 judgements and estimates required for inventory impairment on the basis of definite evidence, purpose of holding the inventories and other factors, the difference between the actual outcome and original estimate will affect the carrying amount of inventories and provision and reversal of bad debts of inventories allowance during the estimate revision period.

(3) Subsequent measurement of biological assets

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

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

28. Critical accounting judgements and estimates (Cont'd)

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

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

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

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

In projecting the present value of the future cash flows, critical judgements 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 judgements 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	Tax Rate
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%

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 (《中华人民共和国企业所得税法》) dated 16 March 2007, the Company is recognised as a high or new technology enterprise which needs the major support of the state as approved by State Taxation Administration of Shouguang, Shandong. An enterprise income tax rate of 15% is applicable to the Company since 1 January 2009 for three years. The sales branches of the Company were still subject to an enterprise income tax rate of 25%.

Shandong Chenming Xinli Power Co., Ltd. (山东晨鸣新力热电有限公司), 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" (《中华人民共和国外商投资企业和外国企业所得税法实施细则》) 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 (《国务院关于扩大外商投资企业从事能源交通基础设施项目税收优惠规定使用范围的通知》) (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 (《国家税务总局关于山东晨鸣新力热电有限公司适用企业所得税率问题的批复》), 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 (《国务院关于实施企业所得税过渡优惠政策的通知》), the subsidiary was subject to the income tax rate of 24% in 2011.

Wuhan Chenming Hanyang Paper Holdings Co., Ltd. (武汉晨鸣汉阳纸业股份有限公司) 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 (《国务院关于实施企业所得税过渡优惠政策的通知》), the subsidiary was subject to the income tax rate of 24% in 2011.

V. Taxation (Cont'd)

2. Tax Incentives and Approvals (Cont'd)

Enterprise Income Tax (Cont'd)

Jiangxi Chenming Paper Co., Ltd. (江西晨鸣纸业有限责任公司), 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 (《国务院关于实施企业所得税过渡优惠政策的通知》), the subsidiary was subject to the income tax of 12.5% in 2011.

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 2011 was 16.5%.

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

Value-added Tax ("VAT") incentives

Pursuant to the requirements of the "Provisional Regulations on Value-added Tax of the People's Republic of China" (《中华人民共和国增值税暂行条例》) and "Detailed Rules for the Implementation of the Provisional Regulations on Value-added Tax of the People's Republic of China" (《中华人民共和国增值税暂行条例实施细则》), 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 (《国家税务总局对部分资源综合利用产品免征增值税的通知》), 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. (武汉晨建新型墙体材料有限公司), 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 2011.

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" (《财政部、国家税务总局关于对部分资源综合利用产品免征增值税问题的通知》) and the relevant requirements of Cai Shui [2001] Document No. 72, Shandong Chenming Panels Co., Ltd. (山东晨鸣板材有限责任公司), Qihe Chenming Panels Co., Ltd. (齐河晨鸣板材有限公司), Juancheng Chenming Panels Co., Ltd (鄄城晨鸣板材有限公司) and Heze Chenming Panels Co., Ltd., (菏泽晨鸣板材有限责任公司) all being subsidiaries of the Company and produce products that applied integrated use of resources, are subject to an immediate VAT refund policy.

VI. Business Combination and Consolidated Financial Statements

1. Overview of Subsidiaries

(1) Subsidiaries acquired through establishment or investment

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
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	Sino-foreign joint venture	Wuhan City	Manufacture of paper	21,136	Manufacture and sales of paper products, the materials of manufacture of paper and machinery	Tan Daocheng	27189235-4	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 Huancai	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	孫洪吉	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, pulp and machine-made paper	桑景高	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	USD172.00 million	Production and processing, etc. of machine-made paper, paperboard, paper panel, paper products and paper-making raw materials	Geng Guanglin	74426460-7	69,755	—	51	51	Yes	83,277.28	—	—
Shouguang Chenming Tianyuan Arboriculture Co., Ltd.	Limited liability company	Shouguang, Shandong	Arboriculture	1,059	Development, nurture of fast growth poplar, forest, vegetable and fruit	李德江	73925671-7	720	—	68	68	Yes	-80.26	—	—
Hailaer Chenming Paper Co., Ltd.	Limited liability company	Hailaer City	Manufacture of paper	1,600	Sales and processing; sales of machine-made paper and pulp paper	高子偉	70130836-6	1,200	—	75	75	Yes	3,201.80	—	—
Chibi Chenming Paper Co., Ltd.	Limited liability company	Chibi, Hubei	Manufacture of paper	17,742	Production, processing and sales of pulp and paper products; land transport	陳建明	42203935-3	2,627	—	51	51	Yes	20,448.55	—	—
Wuhan Chenming Qianeng Electric Power Co., Ltd.	Limited liability company	Wuhan City	Electricity	8,824	Generation and sales of electricity and steam	胡建國	72579372-2	4,500	—	51	51	Yes	8,081.09	—	—

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

1. Overview of 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
Wuhan Chenjian 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	呂學峰	74475404-0	510	—	51	51	Yes	2,744.12	—	—
Shandong Chenming Xinli Power Co., Ltd.	Sino-foreign joint venture	Shouguang, Shandong	Electricity	USD11.80 million	Generation and sales of electricity and steam	孫洪吉	72073121-5	4,982	—	51	51	Yes	9,000.93	—	—
Shouguang Chenming 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 Chenming 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 fortified wooden floorboard	劉樹森	73816170-8	3,000	—	100	100	Yes	1,692.07	—	—
Shouguang Chenming Floor Board Co., Ltd.	Limited liability company	Shouguang, Shandong	Production and sales of floor board	50	Production, processing and sales of fortified wooden floorboard and impregnated paper	劉樹森	76366212-5	50	—	100	100	Yes	111.55	—	—
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	劉樹森	76001404-2	4,082	—	100	100	Yes	—	—	—
Yangjiang Chenming Arboriculture Co., Ltd.	Limited liability company	Yangjiang, Guangdong	Arboriculture	100	Plantation and development of forest, and technology consultation of forestry	Yin Tongyuan	78487434-6	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 Zaiguo	78298807-5	100	—	100	100	Yes	—	—	—

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

1. Overview of 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
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	Zhang Chunlin	78298556-0	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 particle board and melamine impregnated paper	劉樹森	77872455-X	1,500	—	100	100	Yes	—	—	—
Shandong Grand View Hotel 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 Chenming Paper Pulp Co., Ltd.	Limited liability company	Zhanjiang, Guangdong	Arboriculture	250,000	Improvement of plant fodtering, tree planting and soil, research of forestry, manufacture, production, processing and sales of paper pulp etc.	Yin Tongyuan	77527884-1	80,000	—	100	100	Yes	—	—	—
Chenming (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	3734927300011080	78	—	100	100	Yes	—	—	—
Shouguang Chenming Modern Logistic Co., Ltd.	Limited liability company	Shouguang, Shandong	Transportation	1,000	Transportation of goods	Chen Hongguo	66015223-7	1,000	—	100	100	Yes	—	—	—
Shouguang Chenming 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	5,355.60	—	—
Qihe Chenming Waste Collection Co., Ltd.	Limited liability company	Qihe, Shandong	Purchase and sales of waste and old material	50	Purchase and sales of wastes and old materials	汪興龍	75825591-2	50	—	100	100	Yes	—	—	—

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

1. Overview of 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
Jilin Chenming 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	77872731-5	100	—	100	100	Yes	—	—	
Jilin Chenming 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	—	—	
Nanchang Chenming Arboriculture 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	66204306-9	1,000	—	100	100	Yes	693.25	—	
Fuyu Chenming Paper Co., Ltd.	Limited liability company	Fuyu County, Qiqihar City	Manufacture of paper	20,800	Production and sales of machine-made paper and paperboard	劉春山	66389298-6	20,800	—	100	100	Yes	—	—	
Huanggang Chenming Arboriculture Co., Ltd.	Limited liability company	Huanggang City, Hubei	Arboriculture	1,000	Plantation, processing and sales of forests	Wang Zaiguo	67036898-X	1,000	—	100	100	Yes	—	—	
Huanggang Chenming 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	—	—	
Xianning Chenming Arboriculture Co., Ltd.	Limited liability company	Xianning, Hubei	Arboriculture	1,000	Plantation, processing and sales of forests	Wang Zaiguo	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 and declaration	150	Business agency of professional customs declaration and inspection declaration	Chen Hongguo	69689781-2	150	—	100	100	Yes	—	—	
Wuhan Chenming 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	69534385-0	2,000	—	100	100	Yes	924.37	—	
Shandong Chenming 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. Overview of Subsidiaries (Cont'd)

(2) Subsidiaries acquired from business combination not 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	Setting off of the loss attributable to the minority shareholders of the subsidiaries in the current period from the owner's equity of the Company exceeds the minority shareholders' portion of the opening balance of owners' equity of the subsidiary
Shouguang City Run Sheng Wasted Paper Recycle Co., Ltd.	Limited liability company	Shouguang, Shandong	Purchase and sales of waste and old materials	100	Purchase and sales of waste and obsolete materials	Chen Honguo	77316557-9	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	Liu Chunshan	76243145-6	—		100	100	Yes	—	—	—
Shouguang Hongyi Decorative Packaging Co., Ltd.	Limited liability company	Shouguang, Shandong	Packaging	155	Processing and sales of packaging Products, indoor and outdoor decorations	Ding Buxun	78077560-7	170		100	100	Yes	—	—	—
Shouguang Wei Yuan Logistics Company Limited	Limited liability company	Shouguang, Shandong	Transportation	393	Transportation of goods, maintenance of vehicles, storage and loading of goods, international freight agency service	Hao Limin	78079463-X	400		100	100	Yes	—	—	—
Shouguang Xinyuan Coal Co., Ltd.	Limited liability company	Shouguang, Shandong	Coal	300	Retail of coal, gasoline, construction materials and plumbing parts	Hao Limin	86570424-2	200		100	100	Yes	—	—	—

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

1. Overview of Subsidiaries *(Cont'd)*

(2) Subsidiaries acquired from business combination not under common control *(Cont'd)*

Subsidiaries disposed during the reporting period:

Heze Chenming Panels Co., Ltd.

The equity transfer of Heze Chenming Panels Co., Ltd. was completed on 1 April 2011. For details of specific equity transfer and the operating results from the beginning of the year to the date of equity transfer of the company, please see Note VII.52.

Shandong Lin Dun Wood Industry Co., Ltd.

The equity transfer of Shandong Lin Dun Wood Industry Co., Ltd. was completed on 1 April 2011. For details of specific equity transfer and the operating results from the beginning of the year to the date of equity transfer of the company, please see Note VII.52.

(3) 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 31 December 2011 and 30 June 2011 respectively, and the “prior period” and “current period” refer to the period from January to June 2010 and the period from January to June 2011 respectively.

1. Monetary funds

Items	Closing balance			Opening balance		
	Foreign currency amounts	Exchange Rate	Amount in RMB	Exchange Rate	Amount in RMB	Foreign currency amounts
Treasury cash:						
– RMB	—	—	1,325,420.30	—	—	1,100,197.18
– USD	30,000.00	6.4716	194,148.00	20,000.00	6.6227	132,454.00
Cash in Bank:						
– RMB	—	—	1,075,269,034.76	—	—	1,546,974,335.41
– USD	105,675,339.81	6.4716	683,888,529.86	45,958,441.92	6.6227	304,368,975.24
– HKD	147,138.32	0.8316	122,363.17	759,304.73	0.8509	646,115.18
– EURO	434,372.50	9.3612	4,066,247.86	228,683.68	8.8065	2,013,902.79
Other monetary funds:						
– RMB	—	—	326,708,251.04	—	—	95,802,510.63
– USD	123,327.09	6.4716	798,123.60	123,264.82	6.6227	816,345.94
– EURO	11.86	9.3612	111.03	11.85	8.8065	104.35
Total			2,092,372,229.62			1,951,854,940.72

Note: As at 30 June 2011, the Group’s restricted monetary funds was RMB327,506,485.67 (31 December 2010: RMB96,618,960.62), 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. Bills receivable

(1) Classification of bills receivable

Category	Closing balance	Opening balance
Bank acceptance	2,907,199,130.35	2,762,389,909.89
Commercial acceptance	—	—
Total	2,907,199,130.35	2,762,389,909.89

Note: (1) As at 30 June 2011, notes with a carrying value of RMB1,975,688,923.44 (31 December 2010: RMB1,583,925,454.80) was discounted for short-term borrowings. The Group did not cease to recognise discounted bills.

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

1. Monetary funds (Cont'd)

(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	2011-5-24	2011-11-24	12,141,000.00	Yes	
Customer II	2011-3-6	2011-9-6	12,000,000.00	Yes	
Customer III	2011-4-28	2011-10-28	8,500,000.00	Yes	
Customer IV	2011-04-07	2011-10-07	7,000,000.00	No	
Customer V	2011-4-29	2011-10-27	6,489,415.80	Yes	
Total			46,130,415.80		

3. Accounts receivable

(1) The breakdown of accounts receivable according to classification is as follows

Category	Closing balance		Bad debt provision	
	Book balance Amount	Ratio (%)	Amount	Ratio (%)
Single item with significant accounts receivable provided as single bad debt	2,453,014,160.61	90.53	197,611,888.88	8.06
Accounts receivable provided as bad debt by category				
Accounts receivable aged within two years (including two years)	204,011,464.11	7.53	10,375,630.09	5.09
Accounts receivable aged over two years	37,272,172.88	1.37	30,864,632.36	82.81
Sub-total	241,283,636.99	8.90	41,240,262.45	17.09
Single item without significant accounts receivable yet provided as single bad debt	15,401,059.97	0.57	159,217.48	1.03
Total	2,709,698,857.57	100.00	239,011,368.81	8.82

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

3. 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 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

(2) Accounts receivable stated according to aging

Items	Closing balance		Bad debt	
	Amount	Ratio (%)	Amount	Ratio (%)
Within 1 year	2,559,620,795.96	94.45	112,605,374.91	47.12
1 to 2 years	67,074,449.73	2.48	49,643,439.17	20.77
2 to 3 years	7,801,321.43	0.29	1,560,264.28	0.65
Over 3 years	75,202,290.45	2.78	75,202,290.45	31.46
Total	2,709,698,857.57	100.00	239,011,368.81	100.00

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

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

3. 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(%)	Reasons
Good payments	2,453,014,160.61	197,611,888.88	8.06	Provision according to aging
Total	2,453,014,160.61	197,611,888.88	8.06	

(2) Single item without significant accounts receivable yet provided as single bad debt

Accounts receivable	Book balance	Percentage of provision(%)	Bad debt provision	Reasons for provision
Good payments	15,401,059.97	1.03	159,217.48	Some of good payments mainly settled by letter of credit were unrecoverable upon individual recognition.
Total	15,401,059.97	1.03	159,217.48	

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

3. 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	Reasons for write-off	Whether arising from connected transaction
隆信印刷厂(Longxin Printing Company)	Good payments	22,647.24	Smaller amount aged over 5 year, recovery cost could not be covered by proceedings or field recovery	No
武汉科文文化纸品有限公司(Wuhan Kewen Culture Paper Co., Ltd.)	Good payments	22,165.00	Smaller amount aged over 5 year, recovery cost could not be covered by proceedings or field recovery	No
无锡市张泾复印纸厂(Wuxi Zhangjing Copy Paper Company)	Good payments	11,171.20	Smaller amount aged over 5 year, recovery cost could not be covered by proceedings or field recovery	No
武汉南方复印纸制造有限公司(Wuhan Nanfang Copy Paper Manufacturing Co., Ltd.)	Good payments	71,793.29	Business license revoked, amount aged over 5 years	No
Total		127,776.73		

(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.

(6) Top 5 accounts receivable are as follows

Name	Relationship with the Group	Amount	Aging	Percentage of the total balance of accounts receivable (%)
丹東五興化織紡織(集團)有限公司 佛山市順德區星辰紙業有限公司	Non-related party	72,236,412.66	Within 1 year	2.67
湖北知音印務有限公司	Non-related party	47,706,660.23	4 to 5 years	1.76
廣州兆峰紙業有限公司	Non-related party	36,370,966.95	Within 1 year	1.34
武漢晚報社	Non-related party	31,901,446.14	Within 1 year	1.18
		29,467,439.12	Within 1 year	1.09
Total		217,682,925.10		8.03

(7) Overview of accounts receivable 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)

3. Accounts receivable (Cont'd)

(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	34,696,450.84	6.4716	224,541,551.23	49,294,334.22	6.6227	326,461,587.20

4. Other receivables

(1) The breakdown of other receivables according to classification is as follows

Category	Book balance		Bad debt provisions	
	Amount	Ratio (%)	Amount	Ratio (%)
Single item with significant other receivables provided as single bad debt	118,757,952.92	62.58	31,591,075.95	26.60
Other receivables provided as bad debt by category				
Other receivables aged within two years (including two years)	16,058,519.46	8.46	1,238,483.11	7.71
Other receivables aged over two years	47,325,770.16	24.94	36,076,534.23	76.23
Sub-total	63,384,289.62	33.4	37,315,017.34	58.87
Single item without significant other receivables yet provided as single bad debt	7,626,627.79	4.02	214,268.61	2.81
Total	189,768,870.33	100.00	69,120,361.90	36.42

Category	Book balance		Bad debt provisions	
	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

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

4. Other receivables (Cont'd)

(2) Other receivables stated according to aging

Items	Closing balance		Bad debt provisions	
	Amount	Ratio (%)	Amount	Ratio (%)
Within 1 year	99,550,825.57	52.46	25,688,640.13	37.17
1 to 2 years	7,479,247.49	3.94	730,743.12	1.06
2 to 3 years	49,474,573.02	26.07	9,436,754.40	13.65
Over 3 years	33,264,224.25	17.53	33,264,224.25	48.12
Total	189,768,870.33	100.00	69,120,361.90	100.00

Items	Opening balance		Bad debt provisions	
	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

(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	118,757,952.92	23,769,394.62	20.01	Mainly amounts aged over two years
Total	118,757,952.92	23,769,394.62	20.01	

(2) 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	7,626,627.79	2.81	214,268.62	Estimated to be unrecoverable due to the passage of a prolonged time
Total	7,626,627.79	2.81	214,268.62	

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

4. Other receivables (Cont'd)

(4) Actual write-off of accounts receivable during the reporting period

Name	Nature of amounts receivable	Amount of write-off	Reasons for write-off	Whether arising from connected transactions
赤壁市市造纸总厂 (Chibi City Paper Making Plant)	Borrowings	11,712,750.00	Business license revoked in December 2007 No for over 3 years	No
赤壁市市造纸总厂 (Chibi City Paper Making Plant)	Advanced electricity cost	650,957.38	Business license revoked in December 2007 No for over 3 years	No
赤壁市市造纸总厂 (Chibi City Paper Making Plant)	Paper cost	780,819.50	Business license revoked in December 2007 No for over 3 years	No
赤壁市市造纸总厂 (Chibi City Paper Making Plant)	Material cost	245,399.19	Business license revoked in December 2007 No for over 3 years	No
Total		13,389,926.07		

- (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.

(6) Top 5 other receivables are as follows

Name	Relationship with the Group	Amount	Aging	Percentage of the total balance of other receivables (%)
瑞典傑維公司	Non-related party	22,909,924.97	2 to 3 years	12.07
濰坊海關	Non-related party	21,518,713.21	Within 1 year	11.34
壽光市人民法院	Non-related party	9,401,784.78	Within 1 year, 1 to 2 years, 2 to 3 years	4.95
南昌晨建新型牆體材料有限責任公司	Non-related party	3,721,142.77	Within 1 year	1.96
芬蘭奧斯龍公司	Non-related party	2,820,742.72	Within 1 year	1.49
Total		60,372,308.45		31.81

(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)

5. Prepayments

(1) Prepayments stated according to aging

Aging	Closing balance		Opening balance	
	Amount	Ratio (%)	Amount	Ratio (%)
Within 1 year	781,452,691.92	78.92	618,529,456.56	66.91
1 to 2 years	208,769,468.35	21.08	305,825,088.99	33.09
Total	990,222,160.27	100	924,354,545.55	100

(2) Top 5 prepayments are set out as follows

Name	Relationship with the Group	Amount	Year of prepayment	Reason of outstanding
壽光蔡倫申興精細化工有限公司	Non-related party	219,141,462.90	Within 1 year	Prepaid the good payments according to the agreed contract
黃岡市轄區各村	Non-related party	85,057,088.41	1 to 2 years	Prepaid the good payments according to the agreed contract
壽光德聖造紙業化工有限公司	Non-related party	34,623,960.69	Within 1 year, 1 to 2 years	Prepaid the good payments according to the agreed contract
南昌柏宇實業有限公司	Non-related party	14,348,554.54	Within 1 year	Prepaid the good payments according to the agreed contract
佛山電德里茨技術有限公司	Non-related party	13,465,198.95	Within 1 year, 1 to 2 years	Prepaid the good payments according to the agreed contract
Total		366,636,265.49		

(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.

(4) Other advances denominated in foreign currency stated in original currency and exchange rate are as follows

Items	Closing balance			Opening balance		
	Amount in foreign currency	Exchange rate	Translated into RMB	Amount in foreign currency	Exchange rate	Translated into RMB
USD	53,422,582.87	6.4716	345,729,587.31	58,981,185.01	6.6227	390,614,694.00
EURO	4,826,375.61	9.3612	45,180,667.34	4,878,217.69	8.8065	42,960,024.10

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

6. Inventory

(1) Inventory categories:

Items	Book balance	Closing balance Allowance for inventories	Carrying amount
Raw materials	1,968,844,573.06	552,446.69	1,968,292,126.37
Goods-in stock	172,965,283.84		172,965,283.84
Goods delivered	5,953,280.96		5,953,280.96
Work-in-progress	1,519,374,801.07	34,005.27	1,519,340,795.80
Total	3,667,137,938.93	586,451.96	3,666,551,486.97

Items	Book balance	Opening balance Allowance for 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

(2) Changes in allowance for inventories

Items	Opening balance	Provision for the current period	Decrease for the current period Reversals	Write-offs	Closing balance
Raw materials	3,092,298.90			2,539,852.21	552,446.69
Work-in-progress					
Goods-in stock	4,730,113.26		3,870,510.42	825,597.57	34,005.27
Total	7,822,412.16		3,870,510.42	3,365,449.78	586,451.96

(3) Allowance for inventories and reason for reversal

Items	Basis of allowance for inventories	Reason of reversal and write-off of allowance for inventories for the current period	Percentage of the reversal and write-off in the current period to the closing balance of such inventory
Goods-in-stock		Provided impairment was reversed resulting from an improvement in the market price of a portion of the goods	0.25%

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

7. Non-current assets due within one year

Items	Closing balance	Opening balance	Note
Other non-current assets due within one year (including entrusted loans)	5,471,558.96		Entrusted loan to Lin Dun Wood Industry by Shouguang Panels
Total	5,471,558.96		

8. Other current assets

Items	Closing balance	Opening balance
Non-credited VAT proceeds	1,310,744,482.91	652,018,306.99
Prepaid enterprise income tax	31,714,861.21	6,553,818.35
Total	1,342,459,344.12	658,572,125.34

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	44,170,084.12	-3,755,501.39		40,414,582.73
Other equity investments	24,950,000.00			24,950,000.00
Less: Provision for impairment of long equity investments	1,918,152.23			1,918,152.23
Total	67,201,931.89	-3,755,501.39		63,446,430.50

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

9. Long-term equity investments (Cont'd)

(2) The details of long-term equity investments

Name of investee entity	Accounting Closing method	Initial investment	Opening balance	Opening /deduction	Additions balance
Shouguang Liben Paper Making Co., Ltd.	Equity method	19,550,000.00	16,680,630.29	-742,942.64	15,937,687.65
Arjo Wiggins Chenming Specialty Paper Co., Ltd.	Equity method	80,100,000.00	21,651,499.85	-2,960,733.52	18,690,766.33
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	4,937,953.98	-51,825.23	4,886,128.75
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		1,000,000.00
Total			69,120,084.12	-3,755,501.39	65,364,582.73

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

9. Long-term equity investments (Cont'd)

(2) The details of long-term equity 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 of shareholding percentage and voting right in the investee entity	Impairment provision	Write off provision of impairment for the current period	Cash bonuses for 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				
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		
安徽时代物资股份有限公司	10.00	10.00				
Total				1,918,152.23		

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	26.4	26.4
Arjo Wiggins Chenming Specialty Paper Co., Ltd.	Sino-foreign joint venture	Shandong	Tong Chong	Manufacture of paper	267,368,330	30	30
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.	77,298,390.63	16,928,361.68	60,370,028.95	41,865,988.01	-2,814,176.68	Associated corporation	61358854-8
Arjo Wiggins Chenming Specialty Paper Co., Ltd.	336,094,728.15	273,792,173.70	62,302,554.45	6,424,125.51	-9,869,111.72	Associated corporation	78233868-9
Jiangxi Jiangbao Media Colour Printing Co. Ltd.	39,210,770.67	16,108,507.07	23,302,263.60	5,915,745.81	-245,036.56	Associated corporation	79479506-X
Qingzhou Chenming Denaturation Amylum Co., Ltd.						Associated corporation	16937769-8

(4) 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 Denaturation Amylum Co., Ltd.	900,000.00			900,000.00
Shandong Paper Making & Printing Enterprises Corporation	200,000.00			200,000.00
Jinan Shangyou Commercial Company Limited	350,000.00			350,000.00
Shanghai Forest & Paper E-Commerce Co., Ltd	468,152.23			468,152.23
Total	1,918,152.23			1,918,152.23

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

10. Investment Properties

(1) The details of investment properties

Items	Opening balance	Increase for the current period	Decrease for the current period	Closing balance
Investment property adopting cost method for subsequent measurement	24,688,212.07		869,128.02	23,819,084.05
Less: Provision for impairment of long investment property	—		—	—
Total	24,688,212.07		869,128.02	23,819,084.05

(2) Investment properties measured at cost

Items	Opening balance	Increase for the current period	Decrease for the current period	Closing balance
I. Total original value	38,291,395.70			38,291,395.70
Buildings	38,291,395.70			38,291,395.70
II. Accumulated depreciation and accumulated amortisation in total	13,603,183.63	869,128.02		14,472,311.65
Buildings	13,603,183.63	869,128.02		14,472,311.65
III. Impairment provision in total Buildings				
IV. Total carrying amount	24,688,212.07			23,819,084.05
Buildings	24,688,212.07			23,819,084.05

Note: Depreciation for the current period amounted to RMB869,128.02.

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

11. Fixed Assets

(1) Overview of fixed assets

Items	Opening balance	Additions for the current period	Deductions for the current period	Closing balance
I. Total original carrying amount:	20,401,326,599.38	530,904,774.89	193,049,724.52	20,739,181,649.75
Of which: Buildings	3,489,121,797.39	79,098,767.43	44,893,123.26	3,523,327,441.56
Machinery and equipment	16,187,336,880.50	425,417,289.81	140,002,614.46	16,472,751,555.85
Electronic equipment and others	550,925,327.25	4,515,637.51	4,378,478.24	551,062,486.52
Vehicles	173,942,594.24	21,873,080.14	3,775,508.56	192,040,165.82
II. Accumulated depreciation		Provision for the current period		
Total accumulated depreciation:	7,490,186,114.37	582,233,501.25	105,147,107.55	7,967,272,508.06
Of which: Buildings	776,138,764.87	58,871,262.67	13,448,077.90	821,561,949.64
Machinery and equipment	6,325,073,882.19	493,934,160.50	85,182,892.93	6,733,825,149.76
Electronic equipment and others	309,393,625.93	21,745,475.36	3,235,804.99	327,903,296.29
Vehicles	79,579,841.38	7,682,602.72	3,280,331.73	83,982,112.37
III. Net carrying amount	12,911,140,485.01			12,771,909,141.69
Of which: Buildings	2,712,983,032.52			2,701,765,491.92
Machinery and equipment	9,862,262,998.31			9,738,926,406.09
Electronic equipment and others	241,531,701.32			223,159,190.23
Vehicles	94,362,752.86			108,058,053.45
IV. Total impairment provision	28,782,103.45		12,538,263.73	16,243,839.72
Of which: Buildings				
Machinery and equipment	28,782,103.45		12,538,263.73	16,243,839.72
Electronic equipment and others				
Vehicles				
V. Net carrying amount	12,882,358,381.56			12,755,665,301.97
Of which: Buildings	2,712,983,032.52			2,701,765,491.92
Machinery and equipment	9,833,480,894.86			9,722,682,566.37
Electronic equipment and others	241,531,701.32			223,159,190.23
Vehicles	94,362,752.86			108,058,053.45

Note: (1) Depreciation for the current period amounted to RMB 582,233,501.25. RMB 454,255,600.90 was transferred from construction in progress to the original value of fixed assets for the current period.

(2) The reduction of impairment provision for fixed assets of the Company during the period was mainly because Heze Chenming Panels Co., Ltd. was not accounted for on a consolidated basis during the period.

(2) Details of restricted fixed assets

As at 30 June 2011, the titles of buildings and equipment with a carrying value of approximately RMB992,121,278.50 in an original value of RMB1,352,124,400.00 (31 December 2010: carrying amount of RMB1,022,544,077.50, original value of RMB1,352,124,400.00) and land use rights within intangible assets with a carrying value of RMB70,607,865.32 (31 December 2010: RMB71,448,435.14) was restricted as the collaterals for a long-term borrowings of RMB103,160,365.17 (31 December 2010: RMB127,175,683.11) and long-term borrowings due within 1 year of RMB48,600,447.57 (31 December 2010: RMB71,890,463.15).

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

11. Fixed Assets (Cont'd)

(3) Temporary unused fixed assets

Items	Original carrying value	Accumulated depreciation	Impairment provision	Carrying value	Remarks
Buildings	670,752.14	88,459.71		582,292.43	Suspension
Machinery and equipment	12,380,330.34	3,515,703.40		8,864,626.94	Suspension, Improvement
Electrical machinery and others	724,269.87	469,239.76		255,030.11	Suspension
Total	13,775,352.35	4,073,402.87		9,701,949.48	

(4) Fixed assets without property right certificates

Items	Reasons for not yet obtaining property right certificates	Estimated time for obtaining property right certificates	Carrying amount
Wuhan project	Self construction	Being applied	41,834,301.65
Jilin project	Self construction in plant	Being applied	192,114,764.50
Meilun Household Paper manufacturing plant property right certificate	Application after completion of all Meilun items	End of 2012	56,648,547.24
Property right certificate (Yanbian)	Assets being acquired	2011	33,240,500.00
Pulp sheet manufacturing plant (Jiangxi)	Not yet decided	2012	17,105,609.19
Total			340,943,722.58

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 (Meilun Paper)	2,726,053,918.22		2,726,053,918.22	2,277,312,260.67		2,277,312,260.67
The household paper project of annual production capacity of 98,000 tonnes (Meilun Paper)	76,630,987.95		76,630,987.95	407,103,435.25		407,103,435.25
Huanggang forestry pulp integration project (Huanggang)	31,387,537.56		31,387,537.56	30,383,565.19		30,383,565.19
4400 paper machine technological improvement (Qihe)	70,603,563.75		70,603,563.75	61,850,381.70		61,850,381.70
Pulping production plant oxygen delignification improvement (Qihe)	11,857,058.25		11,857,058.25	11,613,569.78		11,613,569.78
Desulphurisation of 130 tonnes and 75 tonnes boiler (Qianneng)	10,003,778.11		10,003,778.11	10,513,384.07		10,513,384.07
Intermediate water advance treatment (Jilin)	34,579,408.12		34,579,408.12	34,341,668.12		34,341,668.12
Second plant paper machine improvement (Jilin)	28,382,917.43		28,382,917.43	45,216,980.09		45,216,980.09
Power plant phase III expansion and improvement (the Company)	174,529,800.00		174,529,800.00	234,299,205.48		234,299,205.48
Data improvement of construction in progress (the Company)	93,492,271.05		93,492,271.05	42,830,017.64		42,830,017.64
Reclamation of recyclable water (electricity and steam)	23,763,672.41		23,763,672.41	20,129,045.13		20,129,045.13
700,000 tonnes paper pulp and 450,000 tonnes cultural paper	5,410,217,506.45		5,410,217,506.45	4,092,344,011.00		4,092,344,011.00
Mihe River view wetland (Grand View Hotel)	69,931,335.34		69,931,335.34	33,615,119.48		33,615,119.48
600,000 tonnes white linerboard (Meilun Paper)	582,119,206.02		582,119,206.02	247,563,122.64		247,563,122.64
Other projects of construction in progress	917,879,927.34		917,879,927.34	322,396,797.60		322,396,797.60
Total	10,261,432,888.00		10,261,432,888.00	7,871,512,563.84		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

Project name	(RMB in 100 million)	Opening balance	Additions for the current period	Transfer to fixed asset for the current period	Other deductions	Closing balance
The high-end coated paper project of an annual production capacity of 800,000 tonnes (Meilun Paper)	52	2,277,312,260.67	448,741,657.55			2,726,053,918.22
98,000-tonne household paper project (Meilun Paper)	5	407,103,435.25	43,777,050.22	374,249,497.52		76,630,987.95
Huanggang forestry pulp integration project (Huanggang)	0.5	30,383,565.19	1,003,972.37			31,387,537.56
4400 paper machine technological improvement (Qihe)	0.32	61,850,381.70	8,753,182.05			70,603,563.75
Pulping production plant oxygen delignification improvement (Qihe)		11,613,569.78	243,488.47			11,857,058.25
Desulphurisation of 130 tonnes and 75 tonnes boilers (Qianneng)	0.15	10,513,384.07			509,605.96	10,003,778.11
Intermediate water advance treatment (Jilin)		34,341,668.12	237,740.00			34,579,408.12
Second plant paper machine improvement (Jilin)		45,216,980.09			16,834,062.66	28,382,917.43
Power plant phase III expansion and improvement (the Company)	4.5	234,299,205.48	96,713,184.95			331,012,390.43
Data improvement of construction in progress (the Company)		42,830,017.64	52,968,589.54		2,306,336.13	93,492,271.05
Reclamation of recyclable water (electricity and steam)	0.389	20,129,045.13	3,634,627.28			23,763,672.41
700,000 tonnes paper pulp and 450,000 tonnes cultural paper	94	4,092,344,011.00	1,317,873,495.45			5,410,217,506.45
Mihe River view wetland (Grand View Hotel)	0.6	33,615,119.48	40,809,195.86	4,492,980.00		69,931,335.34
600,000 tonnes of white linerboard (Meilun Paper)	26	247,563,122.64	334,556,083.38			582,119,206.02
Other projects of construction in progress		322,396,797.60	521,733,715.36	75,513,123.38	7,220,052.67	761,397,336.91
Total		7,871,512,563.84	2,871,045,982.48	454,255,600.90	26,870,057.42	10,261,432,888.00

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

12 Construction in progress (Cont'd)

(3) Impairment provision of constructions in progress

Project name	Accumulated capitalised interest Sources amount	Of which: capitalised interest current period	Investment to amount for the costs (%)	budgeted progress	Construction of Fund
Electric power project (Fuyu)	1,081,896.44	812,920.93		95%	Entrusted loan
Pulp dissolving project (Fuyu)	173,886.39	159,233.07	86.51%	Completed	Entrusted loan
Oxidation pond wetland project (Fuyu)	25,355.95	25,355.95		90%	Entrusted loan
Meilun project	181,596,108.63	94,566,627.10			External borrowings and entrusted loan
Recycable water project (Xinli Power)	947,124.77	626,592.14	61.09%	99%	External borrowings and entrusted loan
1 million mu pulp raw materials base construction project (Huanggang)	19,677,555.02	4,778,900.36	62.78%	63%	External borrowings and entrusted loan
Zhanjiang 700,000 tonnes paper pulp and 450,000 tonnes cultural paper	61,830,741.77	43,513,302.40	57.56%	55%	External borrowings and entrusted loan
Total	265,332,668.97	144,482,931.95			

For the six months ended 30 June 2011, no carrying amounts were higher than the recoverable amounts for constructions in progress of the Company.

13. Project materials

Items	Opening balance	Additions for the current period	Deduction for the current period	Closing balance
Special equipment	93,745,274.76	532,582,821.07	441,535,248.33	184,792,847.50
Special materials	22,735,811.36	25,127,116.05	29,204,065.05	18,658,862.36
Total	116,481,086.12	557,709,937.12	470,739,313.38	203,451,709.86

14. Consumable biological assets

Measured at fair value

Items	Opening balance	Additions for the current period	Deduction for the current period	Closing balance
Timber	726,742,568.44	258,882,113.15	130,997,221.05	854,627,460.54
Total	726,742,568.44	258,882,113.15	130,997,221.05	854,627,460.54

Consumable biological assets are measured at fair value. The fair value of timber increased by RMB16,691,448.62 due to acquisition, increased by RMB220,211,509.78 due to breeding, increased by RMB6,243,559.94 due to amortisation of land use rights, increased by RMB8,341,286.19 due to capitalisation of external borrowing interests, increased by RMB3,678,879.00 due to capitalisation of internal borrowing interests, increased by RMB3,715,429.62 due to change of fair value, and decreased by RMB130,997,221.05 due to disposal.

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:	1,599,493,963.68	381,958.30	27,222,227.35	1,572,653,694.63
Land use rights	1,584,208,340.63		27,192,047.35	1,557,016,293.28
Software	15,285,623.05	381,958.30	30,180.00	15,637,401.35
II. Total accumulated amortisation	140,040,735.74	17,102,238.25	2,646,774.26	154,496,199.73
Land use rights	131,276,521.30	16,303,168.37	2,616,594.26	144,963,095.41
Software	8,764,214.44	799,069.88	30,180.00	9,533,104.32
III. Total impairment provision				
Land use rights				
Software				
IV. Total carrying amount	1,459,453,227.94			1,418,157,494.90
Land use rights	1,452,931,819.33			1,412,053,197.87
Software	6,521,408.61			6,104,297.03

Notes: ① The amortisation amount was RMB17,102,238.25 during the current period.

② Intangible assets -for the pledge of land use rights, please see Note VII. 11. (2).

③ As at 30 June 2011, the carrying amount of land use right of land use right certificates not yet obtained was RMB157,210,933.62.

16. Goodwill

Name of investee units or matters generating goodwill	Opening balance	Additions for the current period	Deductions for the current period	Closing balance	Impairment provision at the end of the 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	—

17. Long-term prepaid expenses

Items	Opening balance	Additions for the current period	Amortisation for the current period	Other deductions	Closing balance	Reasons for other deductions
Transforming expense on leased assets	20,634,556.14	2,324,200.00	1,902,443.37		21,056,312.77	
Woodland expenses	152,748,747.82	15,284,456.79	6,821,878.62		161,211,325.99	
Others	3,053,646.46		3,053,646.46			
Total	176,436,950.42	17,608,656.79	11,777,968.45	72,369,454.82	182,267,638.76	

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	71,424,560.02	316,272,181.02	74,965,397.98	338,243,809.22
Elimination of unrealised profit arising from intra-group	26,143,279.51	104,573,118.04	15,789,316.34	63,157,265.36
Prepaid salaries of senior management	9,923,617.46	60,629,489.93	14,321,072.45	91,406,128.57
Unpaid payables	11,347,991.41	59,421,960.97	11,347,991.44	59,934,063.55
Deferred income	21,100,723.01	94,593,081.35	21,067,365.45	96,948,558.78
Preliminary expenses				
Decrease in fair value of consumable biological assets				
Deductible losses	18,455,628.79	75,305,188.56	10,019,335.57	40,077,342.27
Changes in fair value				
Total	158,395,800.20	710,795,019.87	147,510,479.23	689,767,167.75

(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
Change in fair value of biological assets				
			1,340,281.66	5,361,126.68

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

19. Provision for impairment of assets

Items	Opening balance	Provision for the current period	Decrease for the current period		Closing balance
			Reversals	Write-offs	
I. Provisions for bad debts	340,175,404.36	38,083,680.89	55,638,636.63	14,488,717.91	308,131,730.71
II. Provisions for inventory impairment	7,822,412.16		3,870,510.42	3,365,449.78	586,451.96
III. Impairment provisions for long-term equity investments	1,918,152.23				1,918,152.23
IV. Impairment provisions for fixed assets	28,782,103.45			12,538,263.73	16,243,839.72
Total	378,698,072.20	38,083,680.89	59,509,147.05	30,392,431.42	326,880,174.62

20 Assets with limited ownership or use rights

Items	Closing balance	Reasons of limitations
Sub-total of assets used for providing guarantees:	1,062,729,143.82	
Machinery and equipment (Jiangxi)	992,121,278.50	As collaterals for bank borrowings
Land use rights (Jiangxi)	70,607,865.32	As collaterals for bank borrowings
Other monetary funds	327,506,485.67	Deposits
Total	1,390,235,629.49	

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

21. Short-term borrowings

Items	Closing balance	Opening balance
Secured borrowings	196,537,177.75	20,561,496.69
Guarantee loans	569,785,000.00	187,493,632.08
Credit loans	3,164,236,048.35	1,802,176,636.90
Discounted bills	1,975,688,923.44	1,583,925,454.80
Total	5,906,247,149.54	3,594,157,220.47

- 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 guaranteee;
- (3) Discounted loans are the loans obtained from financial institutions with pledged bank acceptance.

22. Bills payable

Type	Closing balance	Opening balance
Bank acceptance	1,324,707,285.74	213,607,186.75
Commercial acceptance		5,150,000.00
Total	1,324,707,285.74	218,757,186.75

23. Accounts payable

- (1) Breakdown of accounts payable:

Items	Closing balance	Opening balance
Within 1 year	2,798,179,591.22	2,516,618,611.43
1-2 years	102,431,702.37	71,824,074.09
2-3 years	55,884,237.14	64,607,259.87
Over 3 years	64,718,957.16	55,014,731.05
Total	3,021,214,487.89	2,708,064,676.44

- (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	64,753,658.89	Temporary outstanding	No
Customer II	42,190,421.30	Temporary outstanding	No
Customer III	37,387,286.09	Temporary outstanding	No
Customer IV	35,773,489.73	Temporary outstanding	No
Customer V	34,504,792.92	Temporary outstanding	No
Total	214,609,648.93		

- (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	406,374,284.40	6.4716	2,629,891,818.91	99,658,689.98	6.6227	660,009,606.14
EURO	2,857,928.02	9.3612	26,753,635.78	7,753.51	8.8065	68,281.29
GBP	28,943.33	10.3986	300,970.11			
Total	409,261,155.75		2,656,946,424.80			660,077,887.43

24. Advance receipts

- (1) Breakdown of advance receipts

Items	Closing balance	Opening balance
Within 1 year	240,832,302.29	400,171,708.36
1-2 years	10,101,682.37	10,071,846.39
Total	250,933,984.66	410,243,554.75

- (2) As at 30 June 2011, 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 million) aged over one year

Name of creditors	Amount	Reasons of not being carried forward
Customer I	2,582,510.00	No delivery requirement from the counterparty
Total	2,582,510.00	

25. Staff remuneration payables

Items	Opening Closing balance	Increase for the period	Decrease for the period	Decrease for balance
I. Salaries, bonuses, allowance and subsidies	106,164,937.66	314,909,013.27	352,509,330.60	68,564,620.33
II. Staff welfare	692,139.40	27,440,074.15	27,839,338.37	292,875.18
III. Social insurance premiums	15,521,936.46	70,583,931.54	65,315,074.03	20,790,793.97
Of which:				
1. Medical insurance premium	10,127,697.04	11,557,472.21	11,014,035.66	10,671,133.59
2. Pension insurance premium	3,409,664.85	52,907,336.11	47,570,494.01	8,746,506.95
3. Unemployment insurance premium	157,215.80	4,004,662.00	4,486,467.63	-324,589.83
4. Work-related injury insurance premium	48,528.38	1,472,433.7	1,422,408.91	98,553.17
5. Maternity insurance premium	1,778,830.39	642,027.52	821,667.82	1,599,190.09
IV. Housing provident funds	6,160,147.64	24,458,583.52	24,176,384.57	6,442,346.59
V. Union operation costs and employee education costs	22,024,200.53	5,602,558.03	6,566,371.12	21,060,387.44
VI. Non-monetary welfare		143,197.20	143,197.20	
VII. Lay off welfare				
VIII. Cash-settled share-based payment				
IX. Others	18,863,298.72	689,775.41	461,754.87	19,091,319.26
Total	169,426,660.41	443,827,133.12	477,011,450.76	136,242,342.77

26. Taxes payables

Items	Closing balance	Opening balance
Enterprise income tax	60,097,990.60	63,216,459.39
Value added tax	27,145,159.08	22,409,317.62
Business tax	4,341,025.94	4,809,383.74
Land use tax	9,445,567.81	13,840,227.24
Property tax	3,641,681.93	5,578,174.83
Urban maintenance and construction tax	4,472,701.30	5,088,049.71
Educational surcharges and others	4,778,809.17	6,402,114.55
Individual income tax	5,879,901.81	10,532,914.69
Stamp duty	1,730,767.52	2,152,746.05
Total	121,533,605.16	134,029,387.82

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

27. Dividend payable

Name	Closing balance	Opening balance
Legal person shares	106,831,703.46	
Total	106,831,703.46	

28. Other payables

(1) Breakdown of other payables

Items	Closing balance	Opening balance
Within 1 year	860,591,192.28	467,607,969.48
1-2 years	33,674,750.64	38,962,690.39
2-3 years	15,184,255.76	51,434,377.75
Over 3 years	71,818,313.37	24,047,473.81
Total	981,268,512.05	582,052,511.43

(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	11,475,826.89	Temporary outstanding	No
Customer II	8,800,000.00	Temporary outstanding	No
Customer III	3,454,087.82	Temporary outstanding	No
Customer IV	3,400,000.00	Temporary outstanding	No
Customer V	2,760,000.00	Temporary outstanding	No
Total	29,889,914.71		

(4) Explanation on the significant other payables (the top five)

Name of creditors	Outstanding balance	Nature or details
Customer I	315,719,000.00	Temporary outstanding
Customer II	200,000,000.00	Temporary outstanding
Customer III	17,325,900.00	Temporary outstanding
Customer IV	10,000,000.00	Temporary outstanding
Customer V	10,000,000.00	Temporary outstanding
Total	553,044,900.00	

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)	1,270,588,281.77	1,432,841,463.15
Total	1,270,588,281.77	1,432,841,463.15

(1) Breakdown of long-term borrowings due within one year

Items	Closing balance	Opening balance
Secured borrowings	48,600,447.57	71,890,463.15
Guarantee loans	70,000,000.00	
Credit loans	1,151,987,834.20	1,360,951,000.00
Total	1,270,588,281.77	1,432,841,463.15

(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	5.49	RMB		400,000,000.00
Bank II	20091020	20111019	1.42	USD	30,000,000.00	194,148,000.00
Bank III	20090617	20120615	4.86	RMB		170,000,000.00
Bank IV	20091109	20111108	1.46	USD	25,000,000.00	161,790,000.00
Bank V	20081223	20111122	5.49	RMB		100,000,000.00
Total						1,025,938,000.00

Borrowing units	Starting date	Expiry date	Interest rate(%)	Currency	Opening balance	
					Foreign currency	Functional currency
Bank I	20081223	20111222	4.86	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

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

30. Other current liabilities/other non-current liabilities

(1) Other current liabilities

Items	Closing balance	Opening balance
Deferred income	8,532,613.51	7,609,415.89
Medium-term debentures interests	54,628,395.90	46,115,333.31
Short-term debentures payable	1,846,552,500.02	3,358,769,166.68
Total	1,909,713,509.43	3,412,493,915.88

(2) Other non-current liabilities

Items	Closing balance	Opening balance
Deferred income	143,210,886.45	142,414,214.19
Medium-term debentures	2,288,921,945.70	2,285,483,331.48
Total	2,432,132,832.15	2,427,897,545.67

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	—	—
Special subsidy funds for environmental protection	50,685,186.10	49,868,423.92
Project fund for National technological support scheme	4,533,975.00	4,660,575.00
Special subsidy fund for Songhuajiang environmental protection project	24,508,333.11	23,060,833.12
Modification of alkaline recycling system	5,866,666.61	5,350,416.65
Atmospheric pollution prevention and treatment subsidy fund	500,001.00	993,785.71
Sewage treatment and water conservation reconfiguration project	21,526,071.35	21,892,797.56
Financial grants for technological modification project	2,008,928.67	2,164,285.79
Zhejiang pulp project and construction project of eucalyptus forest	40,992,000.00	40,992,000.00
Others	1,122,338.12	1,040,512.33
Total	151,743,499.96	150,023,630.08

Deferred income of RMB4,751,612.49 was received in the current period. Deferred income recognised through profit or loss was RMB3,031,742.61 for the current period.

- (2) Principal payments of short-term debentures were RMB1,800,000,000.00. Accrued interest was RMB46,552,500.02.
- (3) Principal payments of medium-term notes were RMB 2,300,000,000.00. Interest due within one year was RMB51,478,916.63. Handling charges not fully amortised under the effective interest method were RMB11,078,054.30.
- (4) Interest due within one year of bonds payable was RMB3,149,479.28.

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	151,760,812.74	199,066,146.26
Guarantee loans	5,126,156,800.00	3,746,230,300.00
Credit loans	2,459,805,470.14	2,213,173,735.94
Less: Long-term borrowings due within one year (Note VII.31)	1,270,588,281.77	1,432,841,463.15
Total	6,467,134,801.11	4,725,628,719.05

Note: For the category and amount of secured assets under secured borrowings, please see Note VII.11 and VII.15. Guarantee loans were granted by financial institutions to subsidiaries of the Company and were guaranteed by the Company.

(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	1.49	USD	378,000,000.00	2,446,264,800.00
Bank II	20080325	20230324	6.12	RMB		1,073,300,000.00
Bank III	20100910	20130910	Floating	USD	80,000,000.00	517,728,000.00
Bank IV	20091210	20121210	4.86	RMB	450,000,000.00	450,000,000.00
Bank V	20090928	20120927	4.29	RMB		280,000,000.00
Total						4,767,292,800.00

Borrowing units	Starting date	Expiry date	Interest rate(%)	Currency	Opening 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	3.6	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

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

32. Bonds payable

Items	Closing balance	Opening balance
RMB debentures	490,204,131.56	
Total	490,204,131.56	

Note: On 13 April 2011, Chenming (HK) Limited, a subsidiary of the Company, issued RMB debentures of RMB500,000,000.00, with an annual interest rate of 2.95%. The debentures interests will be paid on a half-yearly basis.

33. Share capital

Items	Opening balance		Change for the period (Increase/decrease)				Closing balance		
	Amounts	Percentage	New issue	Bonus shares	Shares transfer from reserve	Others	Sub-total	Amounts	Percentage
I. Restricted shares									
1. State-owned legal person shares	293,003,657	14.21						293,003,657	14.21
2. Other domestic shares	10,008,315	0.48				-591,215	-591,215	9,417,100	0.46
Total number of restricted shares	303,011,972	14.69				-591,215	-591,215	302,420,757	14.67
II. Non-restricted shares									
1. RMB ordinary shares	810,266,484	39.3				591,215	591,215	810,857,699	39.32
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	1,759,033,969	85.31						1,759,033,969	85.33
III. Total shares	2,062,045,941	100						2,062,045,941	100

34. Capital reserves

Items	Opening balance	Increase for the current period	Decrease for the current period	Closing balance
Capital premium	5,391,471,967.47			5,391,471,967.47
Of which: Capital contribution from investors	3,373,256,665.49			3,373,256,665.49
Exercise of conversion rights in convertible bonds of the Company	2,018,215,301.98			2,018,215,301.98
Acquisition of minority interests	9,202.79			9,202.79
Other capital reserves	702,011,834.45			702,011,834.45
Of which: transfer from capital reserves under the original system	702,011,834.45			702,011,834.45
Total	6,093,493,004.71			6,093,493,004.71

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

35. Surplus reserve

Items	Opening balance	Increase for the current period	Decrease for the current period	Closing balance
Statutory surplus reserves	1,046,510,680.99			1,046,510,680.99
Total	1,046,510,680.99			1,046,510,680.99

36. 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	4,333,731,947.96	3,928,586,297.55	
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	4,333,731,947.96	3,928,586,297.55	
Add : Net profit of the current period attributable to equity holders of the Company	483,549,691.40	1,163,341,066.21	
Less : Withdrawn statutory surplus reserves		139,581,633.50	10% of new profit of the Company
Ordinary shares dividend payable	618,613,782.30	618,613,782.30	
Retained profit as at the end of the period	4,198,667,857.06	4,333,731,947.96	

(2) Information on the breakdown of profit distribution

According to the profit distribution plan for 2010 approved by 2010 Annual General Meeting of the Company on 18 May 2011, 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.

37. 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	8,867,913,416.05	8,163,269,791.82
Other operating revenue	49,541,939.09	13,371,885.17
Total operating revenue	8,917,455,355.14	8,176,641,676.99
Operating costs from principal operations	7,365,184,950.61	6,394,221,973.32
Other operating costs	17,574,173.88	2,178,206.82
Total operating costs	7,382,759,124.49	6,396,400,180.14

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

37. 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	8,186,161,306.83	6,784,659,561.49	7,752,518,632.68	6,074,850,432.89
II. Electricity and steam	414,633,495.26	389,718,244.42	175,867,123.49	143,026,054.52
III. Building materials	194,707,888.55	145,906,730.77	173,871,552.11	144,211,194.63
IV. Paper chemicals	39,567,408.70	32,139,830.20	32,447,409.89	21,360,557.82
V. Hotel	25,394,309.98	6,320,942.59	22,229,234.27	5,763,863.47
VI. Others	7,449,006.73	6,439,641.14	6,335,839.38	5,009,869.99
Total	8,867,913,416.05	7,365,184,950.61	8,163,269,791.82	6,394,221,973.32

(3) Principal operations - Machine-made paper (by geographical segment)

Regions	Incurred during the current period	Incurred prior period
PRC	6,784,399,992.93	6,713,574,816.48
Hong Kong	58,239,166.05	102,064,685.86
United States	153,370,094.99	43,637,929.18
Japan	100,167,928.68	112,421,707.48
South Africa	41,686,106.64	44,048,245.23
Other overseas countries and regions	1,048,298,017.54	736,771,248.46
Total	8,186,161,306.83	7,752,518,632.69

(4) The following table sets forth operating revenue from top 5 customers

Name of entity	Incurred during the current period	Percentage of total operating revenue for the current period (%)
ROCKGOLD CO., LTD	122,335,874.23	1.37
VITAL SOLUTIONS PTE CO., LTD.	115,098,896.41	1.29
丹東五興化纖紡織（集團）有限公司	94,772,507.69	1.06
上海姚記撲克股份有限公司	92,233,611.90	1.03
廣州兆峰紙業有限公司	73,120,762.18	0.82
Total	497,561,652.41	5.58

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

38. Business taxes and surcharges

Items	Incurred during the current period	Incurred during the prior period
Business taxes	4,331,266.10	4,517,393.04
Urban maintenances and construction tax	14,663,063.47	3,660,038.84
Educational surcharges	13,086,702.39	2,204,920.45
Others	32,237.62	15,375.41
Total	32,113,269.58	10,397,727.74

Note: For the calculation standard of business taxes and surcharges, please see Note V. Taxation.

39. Selling expenses

Items	Incurred during the current period	Incurred during the prior period
Wages	46,963,579.38	44,336,931.80
Depreciation expense	10,995,357.54	12,258,477.61
Material consumption expense	3,277,988.65	2,273,230.10
Office expense	2,769,186.04	2,145,929.14
Sales commission and selling expense	2,924,595.53	2,630,621.20
Transportation expense	290,211,082.20	328,348,610.17
Cargo handling charges	10,470,370.22	9,389,399.75
Rental expense	2,176,097.46	1,241,681.46
Hospitality expense	22,707,225.63	21,157,775.21
Others	46,022,645.97	17,719,223.53
Total	438,518,128.62	441,501,879.97

40. General and administrative expenses

Items	Incurred during the current period	Incurred during the prior period
Wages and surcharges	116,786,729.59	118,475,329.02
Labour insurance expense	14,751,090.91	15,088,679.56
Depreciation expense	22,440,343.75	20,286,702.29
Waste disposal expense	18,171,053.44	16,627,402.05
Hospitality expense	8,825,749.41	11,565,898.54
Amortisation of intangible assets	16,250,849.39	13,515,053.87
Technological development expense	97,977,233.41	92,980,039.10
Tax	44,155,146.13	36,085,014.19
Production interruption loss	35,343,596.09	14,095,936.32
Insurance premium	11,384,767.70	9,032,909.68
Others	85,152,004.48	69,382,296.24
Total	471,238,564.30	417,135,260.86

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

41. Finance expenses

Items	Incurred during the current period	Incurred during the prior period
Interest expenses	194,556,465.57	139,639,767.05
Less: interest income	12,589,181.23	16,988,867.25
Foreign exchange gains and losses	-50,005,047.99	-8,150,089.22
Others	21,629,942.15	11,238,845.28
Total	153,592,178.50	125,739,655.86

42. Gain on changes in fair value

Source of gain on changes in fair value	Incurred during the current period	Incurred during the prior period
Gain on changes in fair value generated from derivative financial Instruments	—	-3,130,000.00
Biological assets measured at fair value	3,715,429.62	11,488,094.03
Total	3,715,429.62	8,358,094.03

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

43. Investment income

(1) Breakdown of investment income

<u>Items</u>	<u>Incurring during the current period</u>	<u>Incurring during the prior period</u>
Gain from long-term equity investments accounted for using the equity method	-3,755,501.39	4,324,494.78
Investment gain on disposal of long-term equity investments	13,309,163.37	—
Total	9,553,661.98	4,324,494.78

(2) Gain on long-term equity investments of the Company accounted for using equity method

<u>Name of investee entity</u>	<u>Incurring during the current period</u>	<u>Incurring during the prior period</u>	<u>Reason of addition or deduction</u>
Arjo Wiggins Chenming Specialty Paper Co., Ltd	-2,960,733.52	5,016,072.32	Investment loss due to the company's loss
Jiangxi Jiangbao Media Colour Printing Co. Ltd.	-51,825.23	-138,891.88	Investment loss due to the company's loss
Shouguang Liben Paper Making Co., Ltd.	-742,942.64	-552,685.66	Investment loss due to the company's loss
Total	-3,755,501.39	4,324,494.78	

44. Loss on impairment of assets

<u>Items</u>	<u>Incurring during the current period</u>	<u>Incurring during the prior period</u>
Loss on bad debts	-17,554,955.74	23,823,361.70
Loss on allowance for inventories	-3,870,510.42	-3,026,874.44
Loss on impairment of fixed assets	—	—
Total	-21,425,466.16	20,796,487.26

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

45. Non-operating income

<u>Items</u>	<u>Incurring during the current period</u>	<u>Incurring during the prior period</u>	<u>Amount of extraordinary gains and losses recorded for the current period</u>
Total income on disposal of non-current assets	1,811,245.53	1,699,483.26	—
Of which: Income on disposal of fixed assets	1,811,245.53	1,699,483.26	—
Income from debt reconstructing	16,400.00	—	—
Government grants (For details, please see the following table: breakdown of government grants)	136,607,867.13	58,914,598.71	—
Others	7,511,850.23	6,799,720.61	—
Total	145,947,362.89	67,413,802.58	—

Of which, breakdown of government grants:

<u>Items</u>	<u>Incurring during the current period</u>	<u>Incurring during the prior period</u>	<u>Explanation</u>
Expansion grants	125,301,439.93	9,564,967.88	
Value-added tax refund	11,306,427.20	49,349,630.83	
Total	136,607,867.13	58,914,598.71	

46. Non-operating expenses

<u>Items</u>	<u>Incurring during the current period</u>	<u>Incurring during the prior period</u>	<u>Amount of extraordinary gains and losses recorded for the current period</u>
Total loss on disposal of non-current assets	923,387.79	3,130,585.22	—
Of which: Loss on disposal of fixed assets	923,387.79	3,130,585.22	—
Donation expenses	—	402,000.00	—
Penalty Expenses	340,898.19	—	—
Loss on debt restructuring	19,886,372.60	545,247.24	—
Others	5,186,458.67	2,130,634.33	—
Total	26,337,117.25	6,208,466.79	—

47. Income tax expenses

<u>Items</u>	<u>Incurring during the current period</u>	<u>Incurring during the prior period</u>
Current income tax calculated according to tax laws and relevant rules	87,178,859.01	139,896,713.79
Adjustment on deferred income tax	9,545,039.31	2,582,608.51
Total	96,723,898.32	142,479,322.30

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

48. Basic earnings per share and diluted earnings per share

The basic earnings per share is computed by dividing the net profit for the period attributable to ordinary shareholders of the Company by the number of weighted average ordinary shares in issue. The number of newly issued ordinary shares is confirmed starting from the day of consideration receivables (generally the offering date of stock) according to the specific terms in the offering agreement.

The numerator of the diluted earnings per share is the net profit for the period attributable to ordinary shareholders of the Company, which is confirmed after adjusting the following factors: (1) interests of diluted potential ordinary shares recognised as expenses for the period; (2) gains or expenses arising from the transfer of diluted potential ordinary shares; and (3) effect of income tax due to the above adjustment.

The denominator of diluted earnings per share is the sum of the followings: (1) weighted average number of ordinary shares in issue of the parent company in the basic earnings per share; and (2) average weighted number of the increased ordinary shares during the transfer of the estimated diluted potential ordinary shares to ordinary shares.

For the purpose of calculating the average weighted number of the increased ordinary shares during the transfer of the estimated diluted potential ordinary shares to ordinary shares in issue, diluted potential ordinary shares issued during the prior period were assumed to be transferred as at the beginning of the current period while diluted potential ordinary shares issued in the current period were assumed to be transferred on offering date.

(1) Basic earnings per share and diluted earnings per share over the periods

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	0.23	N/A	0.29	N/A
Net profit after deducting extraordinary gains and losses attributable to ordinary shareholders of the Company	0.19	N/A	0.28	N/A

(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	RMB	
	Incurred during the current period	Incurred during the prior period
Net profit for the period attributable to ordinary shareholders	479,834,261.78	607,868,970.24
Of which: net profit attributable to continued operations	479,834,261.78	607,868,970.24
net profit attributable to discontinued operations	—	—
Net profit after deducting extraordinary gains and losses attributable to ordinary shareholders of the Company	382,038,739.41	577,372,863.48
Of which: net profit attributable to continued operations	382,038,739.41	577,372,863.48
net profit attributable to discontinued operations	—	—

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

48. Basic 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:

<u>Items</u>	Incurring during the current period	<i>RMB</i> Incurring during the prior period
Number of outstanding ordinary as at the beginning of the period	2,062,045,941.00	2,062,045,941.00
Add: number of weighted ordinary shares issued during the period	—	—
Less: number of weighted ordinary shares repurchased during the period	—	—
Number of outstanding ordinary as at the end of the period	2,062,045,941.00	2,062,045,941.00

49. Other comprehensive income

<u>Items</u>	Incurring during the current period	Incurring during the prior period
Translation difference of financial statements denominated in foreign currency	-277,876.30	-124,067.32
Total	-277,876.30	-124,067.32

50. Notes to the cash flows statements items

- (1) Cash received relating to other operating activities

<u>Items</u>	Incurring during the current period	Incurring during the prior period
Finance support fund	196,851,782.17	49,349,630.83
Interest income	8,517,649.67	14,026,021.32
Income on default penalty and fine	29,628,772.64	81,528.20
Bank balances and other income	660,948,106.38	85,653,651.24
Total	895,946,310.86	149,110,831.59

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

50. Notes to the cash flows statements items (Cont'd)

(2) Cash paid relating to other operating activities

Items	Amounts during the current period	Amounts during the prior period
Transportation expense	210,474,448.81	183,707,949.28
Hospitality expense	17,454,701.58	8,210,460.56
Rental expense	3,571,210.44	9,408,605.94
Travel expense	9,386,730.84	11,831,101.89
Office expense	3,790,836.21	6,470,004.66
Waste disposal expense	10,565,700.55	16,627,402.05
Insurance premium	16,392,119.67	8,946,959.52
Water and electricity expense	1,140,160.86	2,929,069.19
Repair expense	5,562,621.08	6,990,804.88
Advertising expense	4,277,996.55	19,200.00
Intermediary service expense	2,580,063.32	1,960,431.35
Quality compensation	—	81,670.90
Financial institutions charge	10,870,212.86	11,055,221.89
Others	542,691,358.84	65,653,002.70
Total	838,758,161.61	333,891,884.81

(3) Cash received relating to other investing activities

Items	Incurred during the current period	Incurred during the prior period
Special subsidy funds received	5,834,492.06	—
Total	5,834,492.06	—

(4) Cash received relating to other financing activities

Items	Amounts during the current period	Amounts during the prior period
Debentures deposits	—	315,168,303.74
Short-term debentures	—	1,494,000,000.00
Medium-term notes	—	1,090,100,000.00
RMB debentures	491,750,000.00	—
Total	491,750,000.00	2,899,268,303.74

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

50. Notes to the cash flows statements items (Cont'd)

(5) Cash paid relating to other financing activities

Items	Incurred during the current period	Incurred during the prior period
Increase in restricted bank deposits during the period	230,887,524.75	—
Payments of bank balances	—	—
Cash paid in repaying bonds	1,549,650,000.00	—
Total	1,780,537,524.75	—

51. Supplementary information on cash flows statements

(1) Information on reconciliation of net profit to cash flows from operating activities

Items	Amounts during the current period	Amounts during the prior period
1. Reconciliation of net profit as cash flows from operating activities:		
Net profit	479,834,261.78	696,079,087.46
Add: Provision for impairment of assets	-21,425,466.16	20,796,487.26
Depreciation of fixed assets, consumption of oil and gas assets, depreciation of productive biological assets	582,233,501.25	580,110,471.43
Amortisation of intangible assets	17,102,238.25	26,799,157.06
Long-term prepaid expenses	11,777,968.45	5,976,761.70
Loss on disposal of fixed assets, intangible assets and other long-term assets (“-” denotes gain)	-887,857.74	1,431,101.96
Loss on retired fixed assets (“-” denotes gain)	—	—
Loss on change in fair value (“-” denotes gain)	—	3,130,000.00
Finance expenses (“-” denotes gain)	194,556,465.57	136,676,921.12
Investment loss (“-” denotes gain)	-9,553,661.98	-4,324,494.78
Decrease in deferred income tax assets (“-” denotes increase)	-10,885,320.97	-274,009.46
Increase in deferred income tax liabilities (“-” denotes decrease)	-1,340,281.66	2,856,617.97
Decrease in inventory (“-” denotes increase)	-611,684,865.07	-910,959,441.89
Decrease in Consumable biological assets (“+” denotes increase)	—	-84,916,715.22
Decrease in operating receivables (“-” denotes increase)	-692,903,938.89	306,166,511.18
Increase in operating payables (“-” denotes decrease)	800,820,862.21	410,174,620.61
Others	—	—
Net cash flows from operating activities	737,643,905.04	1,189,723,076.40

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

51. Supplementary information on cash flows statements (Cont'd)

(1) Information on reconciliation of net profit to cash flows from operating activities (Cont'd)

Items	Amounts during the current period	Amounts during the prior period
2. Major investing 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	1,764,865,743.95	1,872,556,028.36
Less: cash balance at the beginning of the period	1,855,235,979.80	2,367,334,202.50
Add: balance of cash equivalents at the end of the period	—	—
Less: balance of cash equivalents at the beginning of the period	—	—
Net increase in cash and cash equivalents	-90,370,235.85	-494,778,174.14

(2) The compositions of cash and cash equivalents

Items	Closing balance	Opening balance
I. Cash	1,764,865,743.95	1,855,235,979.80
Of which : Treasury cash	1,519,568.30	1,232,651.18
Bank deposits repayable on demand	1,763,346,175.65	1,854,003,328.62
Other monetary funds repayable on demand	—	—
II. Cash equivalents	—	—
Of which : bond investments due within 3 months	—	—
III. Balance of cash and cash equivalents at the end of period	1,764,865,743.95	1,855,235,979.80

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

52. Disposal of Subsidiaries

(1) Heze Chenming Panels Co., Ltd.

Both Shandong Chenming Panels Co., Ltd. and Shandong Chenming Power Supply Holdings Co., Ltd., subsidiaries of the Company, signed equity transfer contracts with 济宁阳光木业有限公司 (Jining Yangguang Wood Industry Co., Ltd.) respectively to transfer 34% and 33% equity interest of Heze Chenming Panels Co., Ltd. to 济宁阳光木业有限公司 (Jining Yangguang Wood Industry Co., Ltd.) at a respective transfer consideration of RMB1.

The financial results as at the date of disposal and as at the end of 2010 of the disposed subsidiary:

	31 March 2011	31 December 2010
Current assets	9,777,550.66	11,172,012.69
Fixed assets	51,953,624.92	54,706,485.01
Other assets	14,651,097.12	14,733,871.68
Total assets	76,382,272.70	80,612,369.38
Current liabilities	113,367,117.64	113,541,908.37
Long-term liabilities		
Total liabilities	113,367,117.64	113,541,908.37
Minority interests	-12,204,998.83	-10,866,747.87
Group's share of net assets	-24,779,846.11	-22,062,791.12
Gain on disposal of subsidiaries	24,779,848.11	
Total	2.00	
Consideration for disposal of subsidiaries		
Cash	2.00	
Total	2.00	
Net cash flow derived from disposal of subsidiaries		
Consideration settled in cash	2.00	
Less: Bank deposits and cash of disposed subsidiaries	5,338.30	
	-5,336.30	

Shandong Chenming Panels Co., Ltd., a subsidiary of the Company, signed an equity transfer contract with 济宁阳光木业有限公司 (Jining Yangguang Wood Industry Co., Ltd.) to transfer 67% equity interest of Shandong Lin Dun Wood Industry Co., Ltd. to 济宁阳光木业有限公司 (Jining Yangguang Wood Industry Co., Ltd.) at a transfer consideration of RMB4,500,000.

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

52. Disposal of Subsidiaries (Cont'd)

(1) Heze Chenming Panels Co., Ltd. (Cont'd)

The financial results as at the date of disposal and as at the end of 2010 of the disposed subsidiary:

	31 March 2011	31 December 2010
Current assets	22,915,179.26	28,752,909.38
Fixed assets	15,880,381.92	16,801,494.97
Other assets	5,722,556.52	1,780,000.21
Total assets	44,518,117.70	47,334,404.56
Current liabilities	20,681,274.80	27,697,586.94
Long-term liabilities		
Total liabilities	20,681,274.80	27,697,586.94
Minority interests	7,866,158.16	6,480,149.81
Group's share of net assets	15,970,684.74	13,156,667.81
Gain on disposal of subsidiaries	-11,470,684.74	
Total	4,500,000.00	
Consideration for disposal of subsidiaries		
Cash	4,500,000.00	
Total		
Net cash flow derived from disposal of subsidiaries		
Consideration settled in cash	4,500,000.00	
Less: Bank deposits and cash of disposed subsidiaries	1,027,511.39	
	3,472,488.61	

VIII. 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
Shouguang Chenming Holdings Co., Ltd	The largest shareholder	Limited liability company	Shouguang City	Chen Hongguo	Investments in papermaking, power and steam, forestry projects

Name of the parent company	Registered capital	The parent company's shareholder in the Company(%)	Voting rights of the largest shareholder in the Company (%)	Ultimate controller of the Company	Organisation code
Shouguang Chenming Holdings Co., Ltd	RMB168,542	14.21	14.21	State-owned Assets Supervision and Administration Commission of Shouguang City	78348518-9

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

For the information on the joint ventures and associates of the Company, please refer to Note VII.9 (3). 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 (%)
安徽时代物资股份有限公司 (Anhui Shidai Resources Holdings Co., Ltd.)	Sales	Market price	51,931.63			
Shouguang Liben Paper Making Co., Ltd.	Sales	Market price	3,757,178.95	0.04%	4,178,835.08	0.05%

VIII. Related party relations and transactions (Cont'd)

4. Information on related party transactions (Cont'd)

(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	Huanggang Chenming Arboriculture Co., Ltd.	50,000,000.00	2009.6.3	2012.6.2	No
The Company	Huanggang Chenming Arboriculture Co., Ltd.	20,000,000.00	2010.4.29	2013.4.28	No
The Company	Huanggang Chenning Arboriculture Co., Ltd.	30,000,000.00	2010.7.8	2013.7.7	No
The Company	Shouguang Meilun Paper Co. Ltd.	100,000,000.00	2011.01.14	2014.1.13	No
The Company	Shouguang Meilun Paper Co. Ltd.	100,000,000.00	2011.4.29	2017.8.23	No
The Company	Shouguang Meilun Paper Co. Ltd.	103,545,600.00	2010.9.10	2012.9.10	No
The Company	Shouguang Meilun Paper Co. Ltd.	103,545,600.00	2010.9.10	2013.3.10	No
The Company	Shouguang Meilun Paper Co. Ltd.	310,636,800.00	2010.9.10	2013.9.10	No
The Company	Shouguang Meilun Paper Co. Ltd.	51,772,800.00	2011.4.19	2013.4.19	No
The Company	Shouguang Meilun Paper Co. Ltd.	51,772,800.00	2011.4.19	2013.10.19	No
The Company	Shouguang Meilun Paper Co. Ltd.	155,318,400.00	2011.4.19	2014.3.19	No
The Company	Shouguang Meilun Paper Co. Ltd.	64,716,000.00	2011.1.14	2014.1.13	No

VIII. Related party relations and transactions (Cont'd)

4. Information on related party transactions (Cont'd)

(2) Guarantees provided for related parties (Cont'd)

Guarantor	Party being guaranteed	Amounts under guarantee	Starting date of guarantee	Expiry date of guarantee	Performance of guarantee is completed
The Company	Zhanjiang Chenming Paper Pulp Co., Ltd.	3,519,564,800.00	2008.03.25	2023.03.24	No
The Company	Shandong Chenming Paper Sales Company Limited	375,000,000.00	2011.3.3	2011.9.2	No
The Company	Shandong Chenming Paper Sales Company Limited	130,069,000.00	2011.4.20	2011.7.19	No
The Company	Chenming (HK) Limited	500,000,000.00	2011.4.13	2014.4.12	No

Notes: The Company provided guarantee for the issuance of notes of RMB500 million notes by Chenming (HK) Limited.

(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.	59,740.00	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	2012.01.05	Entrusted loan
Fuyu Chenming Paper Co., Ltd.	9,911.76	2009.12.16	2011.12.15	Entrusted loan
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	37,987.02	2009.12.03	2011.12.02	Entrusted loan
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	12,679.97	2009.12.14	2011.12.13	Entrusted loan
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	10,000.00	2010.08.03	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.	2,570.00	2010.12.03	2011.12.01	Entrusted loan
Qihe Chenming Panels Co., Ltd.	580.00	2010.12.03	2011.12.02	Entrusted loan

VIII. Related party relations and 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:				
安徽时代物资股份有限公司 (Anhui Shidai Resources Holdings Co., Ltd.)	287.53	14.38	1,079.13	53.96
Jiangxi Jiangbao Media Colour Printing Co. Ltd.			56.67	2.83
Total	287.53	14.38	1,135.80	56.79
Other receivables:				
Arjo Wiggins Chenming Specialty Paper Co., Ltd.	129.09	16.65	129.09	16.65
Shouguang Liben Paper Co., Ltd.	80.39	4.02		
Total	209.48	20.67	129.09	16.65
Other payables:				
Shouguang Chenming Holdings Co., Ltd.	31,571.90			
Total	31,571.90			

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.

IX. Contingent items

As at 30 June 2011, it was not necessary for the Group to disclose significant contingent items.

X. 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	3,326,360,846.51	4,634,896,079.74
Total	3,326,360,846.51	4,634,896,079.74

(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	42,440,892.55	60,189,073.16
The second year after balance sheet date	24,343,208.27	28,385,986.80
The third year after balance sheet date	23,717,696.51	28,492,058.29
In the years thereafter	849,157,737.05	938,172,599.89
Total	939,659,534.38	1,055,239,718.14

2. Performance of commitments for the prior period

As at 30 June 2011, significant commitments had been performed by the Group.

XI Events after the balance sheet date

As at the date of approval of the issue of these financial statements, it was not necessary for the Group to disclose significant events after the balance sheet date.

XII. Other important explanations

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	726,724,974.94		89,954,847.97		850,912,030.92
Total	726,724,974.94		89,954,847.97		850,912,030.92

XIII. 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 31 December 2010 and 30 June 2011 respectively and the "current period" and "prior period" refer to the period from January to June 2010 and the period from January to June 2011 respectively.

(1) Accounts receivable stated according to breakdown

Breakdown	Book balance		Closing balance	
	Amount	Ratio (%)	Amount	Ratio (%)
Single item with significant accounts receivable and bad debt provision	1,298,999,760.36	98.28	88,730,129.58	6.83
Accounts receivable with bad debt provision by group				
Accounts receivable aged within 2 years	9,612,296.22	0.73	625,600.08	6.51
Accounts receivable aged more than 2 years	12,697,371.38	0.96	9,919,299.10	78.12
Group sub-total	22,309,667.60	1.69	10,544,899.18	47.26
Single item without significant accounts receivable but with bad debt provision	388,197.36	0.03		
Total	1,321,697,625.32	100	99,275,028.76	7.51

Breakdown	Book balance		Opening balance	
	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
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
Accounts receivable aged more than 2 years	10,746,015.20	0.62	9,299,662.52	86.54
Group sub-total	86,498,885.39	4.97	13,556,372.42	15.67
Single item without significant accounts receivable but with bad debt provision	358,195.26	0.02	—	—
Total	1,739,655,418.28	100	117,715,865.10	6.77

XIII. Notes of the major financial statements' items of the company (Cont'd)

1. Accounts receivable (Cont'd)

(2) Accounts receivable stated according to aging

Items	Closing balance		Opening balance	
	Amount	Ratio (%)	Amount	Ratio (%)
Within 1 year	1,217,190,261.82	92.09	1,644,505,095.40	94.53
1 to 2 years	53,563,689.52	4.05	21,571,510.58	1.24
2 to 3 years	3,472,590.35	0.26	57,067,573.19	3.28
Over 3 years	47,471,083.63	3.6	16,511,239.11	0.95
Total	1,321,697,625.32	100	1,739,655,418.28	100

(3) Information on the provision of bad debts

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	1,298,999,760.36	88,730,129.58	6.83	aging analysis
Total	1,298,999,760.36	88,730,129.58		

(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.

(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 (%)
Shandong Chenming Paper Sales Company Limited	Related party within the scope of consolidation	686,366,200.57	Within 1 year	51.93
Shouguang Chenming Art Paper Co., Ltd.	Related party within the scope of consolidation	332,793,445.14	Within 1 year, 2 to 3 years	25.18
Shouguang Meilun Paper Co., Ltd.	Related party within the scope of consolidation	112,146,707.32	Within 1 year, years 1 to 2	8.48
Shandong Chenming Paper Group Qihe Paperboard Co., Ltd.	Related party within the scope of consolidation	15,802,299.88	Within 1 year, 2 to 3 years	1.20
Shandong Chenming Panels Co., Ltd.	Related party within the scope of consolidation	8,833,544.41	Within 1 year	0.67
Total		1,155,942,197.32		87.46

XIII. Notes of the major financial statements' items of the company (Cont'd)

1. Accounts receivable (Cont'd)

(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	686,366,200.57	51.93
Shouguang Chenming Art Paper Co., Ltd.	Subsidiary of the Company	332,793,445.14	25.18
Shouguang Meilun Paper Co., Ltd.	Subsidiary of the Company	112,146,707.32	8.49
Shandong Chenming Paper Group Qihe Paperboard Co., Ltd.	Subsidiary of the Company	15,802,299.88	1.20
Shandong Chenming Panels Co., Ltd.	Subsidiary of the Company	8,833,544.41	0.67
Fuyu Chenming Paper Co., Ltd.	Subsidiary of the Company	3,106,093.83	0.24
Jilin Chenming Paper Co., Ltd.	Subsidiary of the Company	653,983.20	0.05
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	Subsidiary of the Company	468,000.00	0.04
Shandong Grand View Hotel Co., Ltd.	Subsidiary of the Company	237,537.66	0.02
Yanbian Chenming Paper Co., Ltd.	Subsidiary of the Company	52,974.40	
Total		1,160,460,786.41	87.80

XIII. Notes of the major financial statements' items of the company (Cont'd)

2. Other receivables

(1) Other receivables stated according to breakdown

Breakdown	Book balance		Closing balance	
	Amount	Ratio (%)	Amount	Ratio (%)
Single item with significant other receivables and bad debt provision	4,837,525,417.29	99.33	20,279,010.31	0.42
Other receivables with bad debt provision by group				
Other receivables aged within 2 years	3,640,080.31	0.07	2,528,591.68	69.47
Other receivables aged more than 2 years	28,654,249.98	0.59	28,649,864.38	99.98
Group sub-total	32,294,330.29	0.66	31,178,456.06	96.54
Single item without significant other receivables but with bad debt provision	468,930.00	0.01		
Total	4,870,288,677.58	100	51,457,466.37	1.06
Breakdown	Book balance		Opening balance	
	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
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
Other receivables aged more than 2 years	15,143,251.74	0.31	8,972,454.14	59.25
Group sub-total	17,901,370.27	0.37	9,144,698.15	51.08
Single item without significant other receivables but with bad debt provision	22,867,418.63	0.47	22,407,088.63	97.99
Total	4,844,511,644.98	100	71,437,034.07	1.47

XIII. Notes of the major financial statements' items of the company (Cont'd)

2. Other receivables (Cont'd)

(2) Other receivables stated according to aging

Items	Closing balance		Bad debt balance	
	Amounts	Ratio (%)	Amounts	Ratio (%)
Within 1 year	4,468,740,271.44	91.76	24,969,296.18	48.52
1 to 2 years	266,583,103.52	5.47	674,011.18	1.31
2 to 3 years	122,913,483.50	2.52	13,762,339.89	26.75
Over 3 years	12,051,819.12	0.25	12,051,819.12	23.42
Total	4,870,288,677.58	100.00	51,457,466.37	100.00

Items	Opening 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	10.4
Total	4,844,511,644.98	100.00	71,437,034.06	100.00

(3) Information on the provision of bad debts

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	As Percentage of provision (%)	Reason
Bank balances	4,837,525,417.29	20,279,010.31	0.42	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	4,837,525,417.29	20,279,010.31	0.42	

- (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.

XIII. Notes of the major financial statements' items of the company (Cont'd)

2. Other receivables (Cont'd)

(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 (%)
Shouguang Meilun Paper Co., Ltd.	Related party within the scope of consolidation	1,769,493,677.98	Within 1 year	36.33
Zhanjiang Chenming Paper Pulp Co., Ltd.	Related party within the scope of consolidation	1,000,889,258.36	Within 1 year, 1 to 2 years	20.55
Jilin Chenming Paper Co., Ltd.	Related party within the scope of consolidation	851,039,688.41	Within 1 year	17.47
Shandong Grand View Hotel Co., Ltd.	Related party within the scope of consolidation	319,483,356.08	Within 1 year, 1-2 years, 2 to 3 years	6.56
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	Related party within the scope of consolidation	181,996,316.11	Within 1 year	3.74
Total		4,122,902,296.94		84.65

(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	1,000,889,258.36	20.55
Shouguang Meilun Paper Co. Ltd.	Related party within the scope of consolidation	1,769,493,677.98	36.33
Jilin Chenming Paper Co., Ltd.	Related party within the scope of consolidation	851,039,688.41	17.47
Shandong Grand View Hotel Co., Ltd.	Related party within the scope of consolidation	319,483,356.08	6.56
Juancheng Chenming Panels Co., Ltd.	Related party within the scope of consolidation	47,884,267.36	0.98
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	Related party within the scope of consolidation	181,996,316.11	3.74
Chibi Chenming Paper Co., Ltd.	Related party within the scope of consolidation	31,247,768.14	0.64
Heze Chenming Panels Co., Ltd.	Related party within the scope of consolidation	28,800,000.00	0.59

XIII. Notes of the major financial statements' items of the company (Cont'd)

2. Other receivables (Cont'd)

(6) Information on other receivables of the related parties (Cont'd)

Name of units	Relationship with the Company	Amounts	As a percentage of the total balance of other receivables (%)
Xianning Chenming Arboriculture Co., Ltd.	Related party within the scope of consolidation	42,594,530.00	0.87
Fuyu Chenming Paper Co., Ltd.	Related party within the scope of consolidation	36,075,791.42	0.74
Yanbian Chenming Paper Co. Ltd.	Related party within the scope of consolidation	122,845,817.74	2.52
Shandong Chenming Paper Sales Co., Ltd.	Related party within the scope of consolidation	34,814,634.35	0.71
Zhanjiang Chenming Forestry Development Co., Ltd.	Related party within the scope of consolidation	49,965,630.00	1.03
Shouguang Chenming Art Paper Co., Ltd.	Related party within the scope of consolidation	54,284,554.43	1.11
Wuhan Chenming Qianneng Electric Power Co., Ltd.	Related party within the scope of consolidation	55,624,690.00	1.14
Huanggang Chenming Paper Pulp Co., Ltd.	Related party within the scope of consolidation	17,824,200.00	0.37
Zhanjiang Chenming Forestry Development Co., Ltd.	Related party within the scope of consolidation	7,108,221.00	0.15
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
Huanggang Chenming Arboriculture Co., Ltd.	Related party within the scope of consolidation	413,009.02	0.01
Shangdong Chenming Paper Holdings Limited Hong Kong branch	Related party within the scope of consolidation	383,049.79	0.01

XIII. Notes of the major financial statements' items of the company (Cont'd)

2. Other receivables (Cont'd)

(6) Information on other receivables of the related parties (Cont'd)

Name of units	Relationship with the Company	Amounts	As a percentage of the total balance of other receivables (%)
Hailaer Chenming Paper Co., Ltd.	Related party within the scope of consolidation	87,209.88	
Qihe Chenming Salels Co., Ltd.	Related party within the scope of consolidation	14,624.00	
Chenming International Co., Ltd.	Related party within the scope of consolidation	12,820.00	
Shandong Chenming Paper Group Qihe Paperboard Co., Ltd.	Related party within the scope of consolidation	86,902,201.32	1.78
Total		4,745,277,458.31	97.43

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	5,890,685,807.88	1,719,861,955.00		7,610,547,762.88
Investment in associate enterprises	44,170,084.12	-3,755,501.39		40,414,582.73
Other equity investments	24,950,000.00			24,950,000.00
Less: impairment provision for long term equity investments	1,918,152.23			1,918,152.23
Total	5,957,887,739.77	1,716,106,453.61		7,673,994,193.38

XIII. 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	2,500,000,000.00	800,000,000.00	1,700,000,000.00	2,500,000,000.00
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

XIII. 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	1,500,000,000.00	1,500,000,000.00		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		100,000,000.00
Shouguang Liben Paper Making Co., Ltd.	Equity method	19,550,000.00	16,680,630.29	-742,942.64	15,937,687.65
Arjo Wiggins Chenming Specialty Paper Co., Ltd.	Equity method	80,100,000.00	21,651,499.85	-2,960,733.52	18,690,766.33
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	4,937,953.98	-51,825.23	4,886,128.75
美国晨鸣 (Chenming USA)	Cost method	19,861,955.00		19,861,955.00	19,861,955.00
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
安徽时代物资股份有限公司 (Anhui Shidai Resources Holdings Co., Ltd.)	Cost method	1,000,000.00	1,000,000.00		1,000,000.00
Total			5,959,805,892.00	1,716,106,453.61	7,675,912,345.61

XIII. 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				
Shandong Chenming Paper Group Qihe Paperboard Co., Ltd.	100	100				86,000,000.00
Shandong Chenming Power Supply Holdings Co., Ltd.	86.71	86.71				
Chibi Chenming Paper Co., Ltd.	51	51				
Yanbian Chenming Paper Co., Ltd.	76.75	76.75				
Hailaer Chenming Paper Co., Ltd.	75	75				
Jiangxi Chenming Paper Co., Ltd.	51	51				
Shouguang Chenming Tianyuan Arboriculture Co., Ltd.	68	68				
Jilin Chenming Paper Co., Ltd.	100	100				
Juancheng Chenming Panels Co., Ltd.	100	100				
Shandong Grand View Hotel Co., Ltd.	70	70				
Zhanjiang Chenming Paper Pulp Co., Ltd.	100	100				
Chenming (HK) Limited	100	100				
Shouguang Chenming Modern Logistic Co., Ltd.	100	100				
Shouguang Chenming Art Paper Co., Ltd.	75	75				
Fuyu Chenming Paper Co., Ltd.	100	100				
Xianning Chenming Arboriculture Co., Ltd.	100	100				
Huanggang Chenming Paper Co., Ltd.	100	100				
Huanggang Chenming Arboriculture Co., Ltd.	100	100				

XIII. 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	100				
Shouguang Shun Da Customs Declaration Co, Ltd.	100	100				
Shandong Chenming Paper Sales Company Limited	100	100				
Shouguang Liben Paper Making Co., Ltd.	26.40	26.40				
Arjo Wiggins Chenming Specialty Paper Co., Ltd.	30	30				
Qingzhou Chenming Denaturation Amylum Co., Ltd.	30	30		900,000.00		
Jiangxi Jiangbao Media Colour Printing Co. Ltd.	21.16	21.16				
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		
安徽时代物资股份有限公司 (Anhui Shidai Resources Holdings Co., Ltd.)	10.00	10.00				
Total				1,918,152.23		86,000,000.00

XIII. 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
Shanghai Forest & Paper E-Commerce Co., Ltd	468,152.23			468,152.23
Total	1,918,152.23			1,918,152.23

4. Operating Revenue and Operating Costs

(1) Operating revenue and operating costs

	Incurring during the current period	Incurring during the prior period
Operating revenue from principal operations	3,957,321,998.90	7,000,408,065.19
Revenue from other operations	153,537,713.25	103,033,978.86
Total operating revenue	4,110,859,712.15	7,103,442,044.55
Operating costs from principal operations	3,197,454,766.59	5,922,822,786.51
Costs of other operations	128,220,330.87	94,323,348.46
Total operating costs	3,325,675,097.46	6,017,146,134.97

(2) Principal operations (by industry)

Products	Incurring during the current period		Incurring during the prior period	
	Operating revenue	Operating costs	Operating revenue	Operating costs
Machine-made paper	3,536,530,874.30	2,793,416,747.88	6,835,350,658.16	5,791,160,743.06
Electricity and steam supply	420,791,124.60	404,038,018.71	165,057,407.03	131,662,043.45
Total	3,957,321,998.90	3,197,454,766.59	7,000,408,065.19	5,922,822,786.51

XIII. 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 the current period	Incurred during the prior period
Gain from long-term equity investments accounted for using the cost method	86,000,000.00	190,257,576.86
Gain from long-term equity investments accounted for using the equity method	-3,755,501.39	4,324,494.78
Investment gain on disposal of long-term equity investments		
Interest income from entrusted loans	58,163,478.54	55,115,309.26
Total	140,407,977.15	249,697,380.90

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 the current period	Incurred during the prior period
Shandong Chenming Power Supply Holdings Co., Ltd.	86,000,000.00	
Wuhan Chenming Hanyang Paper Holdings Co., Ltd		81,488,000.00
Yanbian Chenming Paper Co., Ltd		108,769,576.86
Jiangxi Chenming Paper Co., Ltd.		
Chenming (HK) Limited		
Weifang Venture Capital Co., Ltd.		
Chibi Chenming Paper Co., Ltd.		
Total	86,000,000.00	190,257,576.86

(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.	-2,960,733.52	5,016,072.32	Investee's loss for the current period
Jiangxi Jiangbao Media Colour Printing Co. Ltd.	-51,825.23	-138,891.88	Investee's loss for the current period
Shouguang Liben Paper Making Co., Ltd.	-742,942.64	-552,685.66	Investee's loss for the current period
Total	-3,755,501.39	4,324,494.78	

XIII. Notes of the major financial statements' items of the company (Cont'd)

6. Supplementary information on cash flow statements

Supplementary Information	Amounts for the current period	Amounts for the prior period
1. Reconciliation of net profits as cash flows from operating activities:		
Net profit	497,339,265.69	683,194,413.21
Add: Provision for impairment of assets		34,949,608.74
Depreciation of fixed assets, depreciation of oil and gas assets, depreciation of productive biological-assets	291,792,105.16	295,079,159.66
Amortisation of intangible assets	4,461,395.06	4,531,494.62
Long-term prepaid expenses		
Loss from disposal of fixed assets, intangible assets and other long-term assets (gain is shown as "-")		
Loss from retired fixed assets (gain is shown as "-")	—	—
Loss from change in fair value (gain is shown as "-")		1,806,497.52
Financial expenses (gain is shown as "-")		-3,870,000.00
Investment losses (gain is shown as "-")	125,413,016.82	113,757,817.65
Decrease in deferred income tax assets (increase is shown as "-")	-140,407,977.15	-249,697,380.90
Increase in deferred income tax debt (decrease is shown as "-")	-9,662,511.67	-3,347,759.23
Decrease in stock (gain is shown as "-")	-261,634,804.79	-501,388,042.11
Decrease in operating receivables (increase is shown as "-")	389,129,283.28	-393,745,054.78
Increase in operating payables (decrease is shown as "-")	986,389,527.11	-16,727,044.32
Others		
Net cash flows from operating activities	1,882,819,299.51	-35,456,289.94
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	612,921,932.88	1,030,160,237.05
Less: cash balance at the beginning of the period	662,209,607.29	1,586,045,998.83
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	-49,287,674.41	-555,885,761.78

XIV. SUPPLEMENTARY INFORMATION

1. Breakdown of extraordinary gains and losses

	Unit: RMB
Items	Amounts in the current period
Profit or loss from disposal of non-current assets	887,857.74
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)	125,301,439.93
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	-19,869,972.60
Net gains and losses from debt restructuring	
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	
Gains or losses from disposal of subsidiaries	13,309,163.37
Gains or losses from changes in fair value of biological assets adopting fair value method for follow-up measurements	3,715,429.62
Non-operating gains and losses other than the above items	1,984,493.37
Sub-total	125,328,411.43
Effect of income tax	14,096,333.51
Effect of minority interests (after tax)	9,721,125.93
Total	101,510,951.99

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).

XIV. SUPPLEMENTARY INFORMATION (Cont'd)

2. 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	3.51%	0.23	
Net profit attributable to holders of ordinary shares of the Company, after deducting extraordinary gains and losses	2.78%	0.19	

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 VII. 47 for the calculation of basic earnings per share and diluted earnings per share.

4. Explanation or irregular movements and the reasons in major items of the consolidated financial statements of the Group

(1) Balance sheet items:

- (1) The closing balance of other current assets as at 30 June 2011 amounting to RMB1,342,459,344.12 increased by 103.84% as compared with the opening balance mainly due to a significant increase in the input tax of non-credited value added tax resulting from an increase in the Group's construction in progress and a significant increase in the input tax of the equipment procurement;
- (2) The closing balance of construction in progress as at 30 June 2011 amounting to RMB10,261,432,888.00 increased by 30.36% as compared with the opening balance mainly due to the investments in the Group's major investment projects: the 800,000-tonne copperplate paper project and the 700,000-tonne pulp production line project of Shouguang Meilun Paper Co., Ltd. and Zhanjiang Chenming Paper Pulp Co., Ltd.;
- (3) The closing balance of construction materials as at 30 June 2011 amounting to RMB203,451,709.86 increased by 74.67% as compared with the opening balance mainly due to the increase in the investments in construction projects made by the Company;
- (4) The closing balance of short-term borrowings as at 30 June 2011 amounting to RMB5,906,247,149.54 increased by 64.33% as compared with the opening balance mainly due to an increase in short-term borrowings upon expiry of short-term debentures of RMB1.5 billion of the Company during the period;
- (5) The closing balance of bills payable as at 30 June 2011 amounting to RMB1,324,707,285.74 increased by 505.56% as compared with the opening balance mainly due to the increased bill payments for loans with reasonable use of financing channels by the Company;
- (6) The closing balance of advance receipts as at 30 June 2011 amounting to RMB250,933,984.66 decreased by 38.83% as compared with the opening balance mainly due to an increase in goods delivery with less advances on sales during the period;
- (7) The closing balance of other payables as at 30 June 2011 amounting to RMB981,268,512.05 increased by 68.59% as compared with the opening balance mainly due to an increase in bank balances with the holding company resulting from some project funds raised through the holding company by the Company;
- (8) The closing balance of deferred income tax liabilities as at 30 June 2011 amounting to nil decreased by 100% as compared with the opening balance mainly due to the disposal of subsidiaries during the year with deferred income tax liabilities incurred on acquisition of subsidiaries during prior years reversed;
- (9) The closing balance of long-term borrowings as at 30 June 2011 amounting to RMB6,467,134,801.11 increased by 36.85% as compared with the opening balance mainly due to the increase in some long-term borrowings resulting from investments in construction projects;

XIV.SUPPLEMENTARY INFORMATION (Cont'd)

4. Explanation or irregular movements and the reasons in major items of the consolidated financial statements of the Group (Cont'd)

(2) Income statement items:

- (1) Operating cost incurred during January to June 2011 amounting to RMB7,382,759,124.49 increased by 15.42% as compared to the corresponding period of the prior year mainly due to an increase in raw material price and labour costs in the year;
- (2) Business taxes and surcharges incurred during January to June 2011 amounting to RMB32,113,269.58 increased by 208.85% as compared to the corresponding period of the prior year mainly due to the payment of the urban maintenance and construction tax and education surcharges by foreign-invested enterprises since December 2010;
- (3) General and administrative expenses incurred during January to June 2011 amounting to RMB471,238,563.30 increased by 12.97% as compared to the corresponding period of the prior year mainly due to the increased production interruption loss resulting from the suspended production lines of certain subsidiaries for improvement;
- (4) Finance expenses incurred during January to June 2011 amounting to RMB153,592,178.50 increased by 22.15% as compared to the corresponding period of the prior year mainly due to an increase in interest expenses as compared to the corresponding period of the prior year resulting from interest rate changes and an increase of loans;
- (5) Loss on impairment of assets during January to June 2011 amounting to -RMB21,425,466.16 decreased by 203.02% as compared to the corresponding period of the prior year mainly because the Company made greater efforts to clear open account receivables outstanding for a long period and eliminated bad debt provisions during the period;
- (6) Gain on change in fair value incurred during January to June 2011 amounting to RMB3,715,429.62 decreased by 55.55% as compared to the corresponding period of the prior year mainly due to the change in fair value of timber assets;
- (7) Investment income incurred during January to June 2011 amounting to RMB9,553,661.98 increased by 120.92% as compared to the corresponding period of the prior year mainly due to the investment income on disposal of Heze Chenming Panels Co., Ltd. and Shandong Lin Dun Wood Industry Co., Ltd. during the period;
- (8) Non-operating income incurred during January to June 2011 amounting to RMB145,947,362.89 increased by 116.49% as compared to the corresponding period of the prior year mainly due to an increase of government grants received during the period;
- (9) Non-operating expense incurred during January to June 2011 amounting to RMB26,337,117.25 increased by 324.21% as compared to the corresponding period of the prior year mainly due to an increase in the losses from debt restructuring incurred by the Company during the period.

VIII. Documents Available for Inspection

- I. Accounting statements signed and stamped with seal by the legal representative, financial controller and responsible personnel of the finance department;
- II. copy of the Interim Report signed by the legal representative;
- III. originals of corporate documents publicly disclosed in newspapers designated by CSRC during the reporting period and original copies of the relevant announcements;
- IV. copy of the Interim Report filed with the Stock Exchange of Hong Kong Limited; and
- V. other relevant information.