



SHANGDONG CHENMING PAPER HOLDINGS LIMITED

THE 2016 ANNUAL REPORT

February 2017

I Important Notice, Table of Contents and Definitions

The board of directors (the “Board”), the supervisory committee (the “Supervisory Committee”) and the directors (the “Directors”), supervisors (the “Supervisors”) and senior management (the “Senior Management”) of the Company hereby warrant the truthfulness, accuracy and completeness of the contents of the annual report, guarantee that there are no false representations, misleading statements or material omissions contained in this Report, and are jointly and severally responsible for the liabilities of the Company.

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

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

The Company is exposed to various risk factors such as macro-economic fluctuation, adjustment of state policy and competition in the industry. Investor should be aware of investment risks. For further details, please refer to the risk factors likely to be faced and the measures to be taken to address them as set out in the outlook on the future development of the Company in Discussion and Analysis of Operations.

The proposed profit distribution plan of the Company was considered and passed by the Board:

The audited consolidated net profit attributable to shareholders of the Company for 2016 prepared in accordance with Accounting Standards for Business Enterprises by the Company amounted to RMB2,063,986,822.25. When deducting the interest for perpetual bonds of RMB153,140,000 for 2016, the distributable profit realised for 2016 amounted to RMB1,910,846,822.25.

In accordance with the Prospectus of Non-public Issuance of Preference Shares, shareholders of preference shares may jointly participate in the distribution of the 50% retained earnings realised for the year of issuance with ordinary shareholders. The basis for the distribution is calculated as follows: (the number of months for the period from the next month after the month of issuance to the end of the reporting period/12) \times the retained earnings realised for the year \times 50%, and the basis for the distribution is $9/12 \times 19.11 \times 50\% = \text{RMB}717$ million.

Based on the total ordinary share capital of 1,936,405,467 shares as at the end of 2016 and the 387,263,339 simulated shares converted from the preference shares as at the end of 2016 on a conversion ratio of 1 share valued at RMB5.81, a cash dividend of RMB6 (tax inclusive) per ten shares or RMB1,161,843,280.20 will be distributed to ordinary shareholders, and a cash dividend of RMB3.08 (tax inclusive) per ten shares or a variable cash dividend of RMB119,277,108.41 will be distributed to holders of preference shares. No bonus shares (tax inclusive) will be issued and the share capital will not increase with the funds transferred from the reserves.

I Important Notice, Table of Contents and Definitions

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I Important Notice, Table of Contents and Definitions

Definitions

Item		Definition
Company, Group, Chenming Group or Chenming Paper	means	Shandong Chenming Paper Holdings Limited and its subsidiaries
Parent Company or Shouguang Headquarters	means	Shandong Chenming Paper Holdings Limited
Chenming Holdings	means	Shouguang Chenming Holdings Company Limited
Shenzhen Stock Exchange	means	Shenzhen Stock Exchange
Stock Exchange	means	The Stock Exchange of Hong Kong
CSRC	means	China Securities Regulatory Commission
Shandong CSRC	means	Shandong branch of China Securities Regulatory Commission
Zhanjiang Chenming	means	Zhanjiang Chenming Pulp & Paper Co., Ltd.
Jiangxi Chenming	means	Jiangxi Chenming Paper Co., Ltd.
Wuhan Chenming	means	Wuhan Chenming Hanyang Paper Holdings Co., Ltd.
Chenming (HK)	means	Chenming (HK) Limited
Haiming Mining	means	Haicheng Haiming Mining Company Limited
Jilin Chenming	means	Jilin Chenming Paper Co., Ltd.
Shouguang Meilun	means	Shouguang Meilun Paper Co., Ltd.
Chenming Sales Company	means	Shandong Chenming Paper Sales Company Limited
Finance Company	means	Shandong Chenming Group Finance Co., Ltd.
Financial Leasing Company	means	Shandong Chenming Financial Leasing Co., Ltd.
reporting period or the year	means	The period from 1 January 2016 to 31 December 2016
the beginning of the year or the period	means	1 January 2016
the end of the year or the period	means	31 December 2016
the prior year	means	The period from 1 January 2015 to 31 December 2015

II Company Profile and Key Financial Indicators

I. Company profile

Stock abbreviation	晨鳴紙業, 晨鳴B	Stock code	000488, 200488
Stock exchanges on which the shares are listed	Shenzhen Stock Exchange		
Stock abbreviation	Chenming Paper	Stock code	01812
Stock exchanges on which the shares are listed	The Stock Exchange of Hong Kong Limited		
Legal name in Chinese of the Company	山東晨鳴紙業集團股份有限公司		
Legal short name in Chinese of the Company	晨鳴紙業		
Legal name in English of the Company (if any)	SHANDONG CHENMING PAPER HOLDINGS LIMITED		
Legal short name in English of the Company (if any)	SCPH		
Legal representative of the Company	Chen Hongguo		
Registered address	No. 595 Shengcheng Road, Shouguang City, Shandong Province		
Postal code of registered address	262700		
Office address	No. 2199 Nongsheng East Road, Shouguang City, Shandong Province		
Postal code of office address	262705		
Website of the Company	http://www.chenmingpaper.com		
Email address	chenmmingpaper@163.com		

II. Contact persons and contact methods

	Secretary to the Board	Securities Affairs Representative	Hong Kong Company Secretary
Name	Xiao Peng	Yuan Xikun	Poon Shiu Cheong
Correspondence Address	No. 2199 Nongsheng East Road, Shouguang City, Shandong Province	No. 2199 Nongsheng East Road, Shouguang City, Shandong Province	22nd Floor, World Wide House, Central, Hong Kong
Telephone	(86)-0536-2158008	(86)-0536-2158008	(852)-2501 0088
Facsimile	(86)-0536-2158977	(86)-0536-2158977	(852)-2501 0028
Email address	chenmmingpaper@163.com	chenmmingpaper@163.com	kentpoon_1009@yahoo.com.hk

III. Information disclosure and places for inspection

Designated media for information disclosure	China Securities Journal, Shanghai Securities News, Securities Times, Securities Daily and Hong Kong Commercial Daily
Designated websites for the publication of the Annual Report as approved by CSRC	Domestic: http://www.cninfo.com.cn ; Overseas: http://www.hkex.com.hk
Places for inspection of the Company's Annual Report	Securities investment department of the Company

IV. Change in registration

Uniform social credit code	913700006135889860
Change of principal activities since its listing (if any)	No
Change of the controlling shareholder (if any)	No

II Company Profile and Key Financial Indicators

V. Other relevant information

CPAs engaged by the Company

Name of CPAs	Ruihua Certified Public Accountants (Special General Partnership)
CPAs' Office Address	4/F, Tower 2, No. 16 Xisihuanzhong Road, Haidian District, Beijing
Name of the Signing Certified Public Accountants	Zhao Yanmei and Wang Zongpei

Sponsors engaged by the Company to continuously perform its supervisory function during the reporting period

☒ Applicable ☐ Not applicable

Name of sponsor	Sponsor' office address	Name of the representatives of sponsor	Period under ongoing supervision
Zhongtai Securities Company Limited	Securities Tower, No. 86 Jingqi Road, Jinan, Shandong Province	Qian Wei and Zeng Liping	16 March 2016 – 22 November 2016
CSC Financial Co., Ltd.	9/F, Block B and E, Kaiheng Center, No. 2 Chaonei Avenue, Dongcheng District, Beijing	Song Shuangxi and Shen Xiqiang	23 November 2016 – 31 December 2017

Financial Advisors engaged by the Company to continuously perform its supervisory function during the reporting period

☐ Applicable ☒ Not applicable

II Company Profile and Key Financial Indicators

VI. Major accounting data and financial indicators

Retrospective adjustment to or restatement of the accounting data for prior years by the Company due to change of accounting policies and correction of accounting errors

☐ Yes ☒ No

	2016	2015	Increase/decrease for the year as compared to the prior year (%)	2014
Revenue (RMB)	22,907,118,241.84	20,241,906,131.81	13.17%	19,101,677,077.69
Net profit attributable to shareholders of the Company (RMB)	2,063,986,822.25	1,021,224,678.04	102.11%	505,204,384.73
Net profit after extraordinary gains or losses attributable to shareholders of the Company (RMB)	1,611,533,699.22	719,891,359.63	123.86%	130,445,644.83
Net cash flows from operating activities (RMB)	2,153,049,269.84	-9,721,363,524.30	122.15%	985,399,735.85
Basic earnings per share (RMB per share)	0.99	0.50	98.00%	0.26
Diluted earnings per share (RMB per share)	0.99	0.50	98.00%	0.26
Rate of return on net assets on weighted average basis	9.59%	6.73%	2.86%	3.62%

	As at the end of 2016	As at the end of 2015	Increase/decrease as at the end of the year compared to the end of the prior year (%)	As at the end of 2014
Total assets (RMB)	82,285,354,532.14	77,961,699,547.59	5.55%	56,822,026,545.21
Net assets attributable to shareholders of the Company (RMB)	22,218,808,367.43	16,871,494,584.82	31.69%	13,917,343,301.15

Explanation: Net profit attributable to shareholders of the Company does not exclude the effect of interest payment deferred and accumulated to subsequent periods for perpetual bonds under other equity instruments. When calculating financial indicators such as earnings per share and rate of return on net assets on weighted average basis, the interest for perpetual bonds from 1 January 2016 to 31 December 2016 of RMB153,140,000.00 is deducted. For details, please refer to Note XVII. 2 of section XIII of this report.

VII. Differences in accounting data under domestic and overseas accounting standards

1. Differences between the net profit and net assets disclosed in accordance with international accounting standards and China accounting standards in the financial report

☐ Applicable ☒ Not applicable

There was no difference between the net profit and net assets disclosed in accordance with international accounting standards and China accounting standards in the financial report during the reporting period.

2. Differences between the net profit and net assets disclosed in accordance with overseas accounting standards and China accounting standards in the financial report

☐ Applicable ☒ Not applicable

There was no difference between the net profit and net assets disclosed in accordance with overseas accounting standards and China accounting standards in the financial report during the reporting period.

VIII. Key Financial Indicators by Quarter

Unit: RMB

	1Q	2Q	3Q	4Q
Revenue	4,951,931,256.74	5,654,427,476.28	5,965,699,811.33	6,335,059,697.49
Net profit attributable to shareholders of the Company	402,131,344.77	537,033,525.83	614,998,648.94	509,823,302.71
Net profit after extraordinary gains or losses attributable to shareholders of the Company	292,898,560.63	448,912,523.19	522,725,460.32	346,997,155.08
Net cash flows from operating activities	-3,936,890,898.29	1,239,381,045.25	-422,581,643.26	5,273,140,766.14

Whether the above indicators or their aggregated amounts have any material difference with the respective amounts as disclosed in the quarterly report or interim report

☐ Yes ☒ No

II Company Profile and Key Financial Indicators

IX. Five-year financial summary under paragraph 19 of appendix 16 of the Hong Kong Listing Rules

Unit: RMB'0,000

		For the year ended 31 December			
	2016	2015	2014	2013	2012
Revenue	2,290,711	2,024,191	1,910,168	2,038,889	1,976,168
Profit before tax	258,317	141,017	56,101	86,629	-1,614
Tax	56,056	43,224	10,770	17,594	-6,283
Profit for the current period attributable to shareholders of the listed company	206,399	102,122	50,520	71,066	22,103
Minority interests	-4,138	-4,329	-5,190	-2,030	-17,435
Basic earnings per share (RMB/share)	0.99	0.50	0.26	0.35	0.11
Rate of return on net assets on weighted average basis (%)	9.59%	6.73%	3.62%	5.11%	1.63%

Unit: RMB'0,000

		For the year ended 31 December			
	2016	2015	2014	2013	2012
Total assets	8,228,535	7,796,170	5,682,203	4,752,188	4,772,542
Total liabilities	5,972,050	6,070,277	4,247,396	3,288,353	3,338,000
Minority interests	34,605	38,743	43,073	59,847	58,592
Equity attributable to shareholders of the listed company	2,221,881	1,687,149	1,391,734	1,403,989	1,375,950
Net current assets/(liabilities)	-1,094,182	-1,347,029	-452,549	-106,347	24,638
Total assets less current liabilities	3,557,671	2,932,756	2,872,637	2,823,321	2,775,419

II Company Profile and Key Financial Indicators

X. Items and amounts of extraordinary gains or losses

☒ Applicable ☐ Not applicable

Unit: RMB

Item	Amount for 2016	Amount for 2015	Amount for 2014	Explanation
Profit or loss from disposal of non-current assets (including write-off of provision for assets impairment)	-1,536,454.18	18,317,909.85	65,276,190.37	
Government grants (except for the government grants closely related to the normal operation of the company and granted constantly at a fixed amount or quantity in accordance with a certain standard based on state policies) accounted for in profit or loss for the current period	472,476,962.83	244,716,579.78	260,000,612.10	
Profit or loss from debt restructuring	-90,997.90	32,089,863.80	1,725,797.17	
Gain or loss on external entrusted loans	87,608,490.56	94,777,777.77	82,833,581.81	
Non-operating gains and losses other than the above items	10,022,635.89	10,274,311.04	49,781,358.66	
Gain or loss from changes in fair value of consumable biological assets subsequently measured at fair value	-20,084,425.90	-19,078,538.02	6,856,815.32	
Less: Effect of income tax	92,004,074.27	76,729,624.38	81,221,136.75	
Effect of minority interests (after tax)	3,939,014.00	3,034,961.43	10,494,478.78	
Total	452,453,123.03	301,333,318.41	374,758,739.90	—

Notes for the Company's extraordinary gain or loss items as defined in the Explanatory Announcement on Information Disclosure for Companies Offering Their Securities to the Public No.1 - Extraordinary Gains or Losses and the extraordinary gain or loss items as illustrated in the Explanatory Announcement on Information Disclosure for Companies Offering Their Securities to the Public No.1 - Extraordinary Gains or Losses defined as its recurring gain or loss items

☐ Applicable ☒ Not applicable

No extraordinary gain or loss items as defined or illustrated in the Explanatory Announcement on Information Disclosure for Companies Offering Their Securities to the Public No.1 - Extraordinary Gains or Losses were defined by the Company as its recurring gain or loss items during the reporting period.

III Chairman's Report

Dear Shareholders,

I am pleased to present to all shareholders the report of the Company for the financial year ended 31 December 2016. On behalf of the Board, I express my sincere gratitude to all shareholders for their concern and support rendered to Chenming Paper.

In 2016, China's economy grew at a slow yet stable pace with favourable momentum. The supply-side reform achieved initial results. Against the backdrop of the stable macroeconomic operation, the paper making industry where the Company operated was affected by factors including the supply-side structural reform, national environmental governance, elimination of overcapacity and increase in market demand, favouring the accelerated price increases in the paper making industry. In particular, in the second half year, there was a general increase in prices in the paper making industry in China due to the increased cost of, among other things, wood pulp, waste paper, logistics and coal, showing signs of recovery in the industry with a boom to be prolonged. On the other hand, with support from the documents in relation to the promotion of the leasing business issued by the State Council, the leasing industry continued to grow in defiance of an overall swoon with increasing downward pressure on the economic development.

In 2016, the Company aimed for "developing into an enterprise with hundreds of billions in value" by adhering to the main theme of "achieving growth amid stability" and committed itself to "team building, management enhancement, outstanding business performance and good results". The Company stuck to its diversification strategy, accelerated transformation and upgrading, and developed an industrial system that centred on pulp production, paper making and finance to achieve synergy among forestry and mining so as to boost the management quality, core competitiveness and profitability. The past year was the best year for the Company's development so far. The overall strength of the Company significantly increased while the Company enhanced its position in the industry, delivering excellent performance.

I. Results of Operations

In 2016, the Company completed the production of machine-made paper of 4.36 million tonnes with sales of 4.52 million tonnes and achieved revenue of RMB22.907 billion, a year-on-year increase of 13.17%. The Company recorded operating costs of RMB15.787 billion, a year-on-year increase of 6.93%. Total profit and net profit attributable to equity holders of the Company were RMB2,583 million and RMB2,064 million respectively, up by 83.18% and 102.11% from the prior year. The Company's total assets amounted to RMB82.285 billion. The financial segment experienced stable development across businesses with ever improving management systems and effective risk preventions.

II. Corporate Governance

During the reporting period, the Company regulated its operation under the requirements of Companies Law, Securities Law, Code of Corporate Governance for Listed Companies, Rules Governing Listing of Stocks on Shenzhen Stock Exchange, Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the related provisions of the China Securities Regulatory Commission. The Company kept on improving and optimising its legal person governance structure and regulating its operation in practice. The Board considered the state of the Company's corporate governance was substantially in compliance with the requirements and requests of the regulatory documents such as Code of Corporate Governance for Listed Companies.

During the reporting period, the Board strived to regulate the operation of the Company by improving its corporate governance. It improved corporate governance system in a timely manner and formulated and optimised management systems including the Administrative Measures of Proceeds, the amended the Implementing Rules for Audit Committee under the Board and amended Articles of Association in accordance with the regulatory requirements.

Strict enforcement of relevant internal control systems had promoted a regulated operation and healthy development of the Company, protecting the legitimate rights and interests of our investors. The overall state of corporate governance was in compliance with the requirements of the China Securities Regulatory Commission. As the Company's development strives forward, its state of regulated operation and internal control will continue to improve.

III Chairman's Report

III. Dividend Distribution

Consistent with our long-term goal of pursuing the maximisation of corporate values, the Company has always placed much emphasis on the benefits of and returns to our shareholders. The audited consolidated net profit attributable to shareholders of the Company for 2016 prepared in accordance with Accounting Standards for Business Enterprises by the Company amounted to RMB2,063,986,822.25. When deducting the interest for perpetual bonds of RMB153,140,000 for 2016, the distributable profit realised for 2016 amounted to RMB1,910,846,822.25. In accordance with the requirements of the Articles of Association and the Prospectus of Non-public Issuance of Preference Shares, the proposed profit distribution plan of the Company for 2016 is as follows:

In accordance with the Prospectus of Non-public Issuance of Preference Shares, shareholders of preference shares may jointly participate in the distribution of the 50% retained earnings realised for the year of issuance with ordinary shareholders. The basis for the distribution is calculated as follows: (the number of months for the period from the next month after the month of issuance to the end of the reporting period/12) \times the retained earnings realised for the year \times 50%, and the basis for the distribution is $9/12 \times 19.11 \times 50\% = \text{RMB}717$ million.

Based on the total ordinary share capital of 1,936,405,467 shares as at the end of 2016 and the 387,263,339 simulated shares converted from the preference shares as at the end of 2016 on a conversion ratio of 1 share valued at RMB5.81, a cash dividend of RMB6 (tax inclusive) per ten shares or RMB1,161,843,280.20 will be distributed to ordinary shareholders, and a cash dividend of RMB3.08 (tax inclusive) per ten shares or a variable cash dividend of RMB119,277,108.41 will be distributed to holders of preference shares. The retained earnings after the profit distribution will be carried forward for distribution in subsequent years.

As always, the Company will continue to stay focused on its long-term development and maximise returns for our shareholders by delivering better results.

IV. Future Development

In the light of the easing downward pressure on the national economy, improving income levels for residents and the stabilising economy as a whole, the disparity between China and developed countries will become smaller. According to the per capita consumption of paper products in developed countries, it is expected the per capita consumption of paper and paper board will continue to increase in China. Besides, under the current market conditions, elimination of obsolete production capacity in the paper making industry and increasingly stringent environmental protection policies are forcing some small and medium-sized enterprises out of the market, thus favouring industry concentration and standardised industry competition to establish a sound industry cycle. There are obvious signs for industry recovery with a boom to be prolonged.

Since the implementation of the "Thirteenth Five Year Plan", the accelerated urbanisation and industrialisation in China, the change in driver of economic growth, upgrade of traditional industries, development of emerging industries, and continuous infrastructure construction require substantial investment in fixed assets. China will become the largest leasing market in the world. According to the Research Report on Business Prospects Survey of and Investment Strategies in the China Financial Leasing Industry 2016-2021 issued by ASKCI Consulting Co. Ltd., the financial leasing industry will grow at a compound annual growth rate of over 20% in the future and it is expected that the outstanding leasing contracts of the financial leasing industry in China will amount to RMB20.79 trillion by 2021. The business prospects of the financial leasing industry in China are promising.

Looking forward, the Company will adhere to the main theme of emphasising on environmental protection, low carbon, recycling and sustainable development. Following the "Made in China 2025 Plan" and the principles of scientific development and quality and efficiency enhancement, it will comprehensively improve its quality and efficiency, management level, technology application, sense of happiness and brand image through the integration between its production and manufacture segment and financial services segment, incorporation of smart technology into its industrial activities, further reorganised methodology and restructuring so as to achieve taxable profit over RMB10 billion and develop into an integrated diversified enterprise with hundreds of billions in value during the "Thirteenth Five Year Plan" period.

Chen Hongguo

Chairman

17 February 2017

IV Business Overview

I. Principal operations of the Company during the Reporting Period

Whether the Company needs to comply with the disclosure requirements of specific industries

No

(I) Principal operations of the Company during the Reporting Period

The Company is a large and integrated modern conglomerate principally engaged in pulp production, paper making, finance and forestry businesses while also involved in mining, energy, logistics, construction materials, hotel operation and others. It is also the only listed company with A shares, B shares, H shares and preference shares in issue and the first company in the paper making industry having a finance company and a financial leasing company integrated with its industrial activities in China. The machine-made paper business and the financial leasing business are main sources of revenue and profit of the Company. In 2016, the Company completed the production of machine-made paper of 4.36 million tonnes with sales of 4.52 million tonnes. During the reporting period, there was no significant change in the principal operations of the Company.

1. Machine-made paper business

The Company is a leading player in the paper making industry in China. It has established production bases in Shandong, Guangdong, Hubei, Jiangxi and Jilin with annual pulp and paper production capacity of over 8,500,000 tonnes. It has the largest pulp paper production base in the world and dozens of pulp and paper production lines of international advanced standards. The product mix of the Company has gradually diversified into five major paper types, namely printing paper, packaging paper, office paper, industrial paper and household paper, as well as the nine major product series which focus on high and middle end products, including high-end cultural paper, coated paper, white paper board, newsprint paper, light weight coated paper, copy paper, industrial paper, special paper and household paper.

The Company has scientific research institutions including the national enterprise technology centre, the post-doctoral working station as well as state certified CNAS pulp and paper testing centre and has obtained over 150 national patents including 9 patents for invention, with 7 products selected as national new products and 29 products filling the gap in China. The Company has obtained 21 Science and Technology Progress Awards above the provincial level and undertaken five national science and technology projects and 26 provincial technological innovation projects. The brand “Chenming” is recognised as a well-known brand name in China.

2. Financial leasing business

Since the establishment of the Financial Leasing Company, it, relying on strong capital strength and talent advantages of the Company while giving full play to the advantages of internationalisation and market-oriented operation mechanisms, has been actively seeking the organic combination between industrial capital and financial capital. Externally, it provides financing and value-added service solutions to large state-owned enterprises, listed companies, government financing platforms, quality private enterprises, new and high-tech enterprises, schools and hospitals. Internally, it adapts to the trend of diversification of demands in the financial market and the development of integrated financial services within the Company to provide services for the upstream and downstream sectors of the industry chain of the paper making industry. The leasing business of the Financial Leasing Company is mainly conducted on a leaseback basis. Recently, the Financial Leasing Company has become a new source of profit growth of the Company with sound momentum for future growth.

I. Principal operations of the Company during the Reporting Period (Cont'd)

(II) General information of the industries where the Company operated in during the reporting period

1. Paper making industry

The growth of the paper making industry tends to be closely correlated to the macroeconomic growth. While there are adjustments of economic growth in China, the growth of the paper making industry is also subject to pressure for adjustments. However, in the light of the easing downward pressure on the national economy, improving income levels of residents and the stabilising economy as a whole, it is expected the per capita consumption of paper and paper board will continue to increase. Besides, under the current market conditions, as the enterprises step up efforts to eliminate obsolete production capacity and restructure their businesses, it is expected the competition in the paper making industry will be further standardised.

In 2016, China's economy grew at a slow yet stable pace with favourable momentum. The supply-side reform achieved initial results. There were more drivers for economic growth. Against the backdrop of the stable macroeconomic operation, the paper making industry where the Company operated was affected by factors including the supply-side structural reform, national environmental protection governance, elimination of overcapacity and increase in market demand, favouring the accelerated price increases in the paper making industry. In particular, in the second half year, there was a general increase in prices in the paper making industry in China due to the increased cost of, among other things, wood pulp, waste paper, logistics and coal. In the medium to long run, as the supply-side reform in China further advances, the elimination of much more obsolete production capacity in the paper making industry will accelerate, and the elimination of the production capacity of small and medium-sized enterprises will also accelerate due to the strengthened environmental governance, thus favouring industry concentration. There are obvious signs for industry recovery with a boom to be prolonged.

The Company enjoyed obvious economies of scale in the paper making industry. The output and sales revenue of the Company had been ranking high in the industry for many years, and its comprehensive economic benefits had ranked first among the peers in the industry in China for many years in a row. Its comprehensive strength had ranked among the top ten paper manufacturers in the world. Therefore, the Company enjoyed significant economies of scale in the industry and was relatively favourably positioned for its future development. In addition, as the first listed company with A shares, B shares, H shares and preference shares in issue in China, the Company had gained access to the capital market, thus providing effective support for the future project investments of the Company. The overall listing of the machine-made paper business of the Company also made the management of the Company more regulated and the operations more transparent, thus laying a solid foundation for the sustainable development of the Company.

2. Financial leasing industry

The Guiding Opinions on Accelerating the Development of Financial Leasing Industry and the Guiding Opinions on Promoting the Sound Development of Financial Leasing Industry were issued by the State Council in 2015. As the first national policy on promoting the financial leasing industry in China, the above opinions had paved the way for the development of the financial leasing industry in the future.

Under the new normal of the economic development, the financial leasing industry in China entered its golden years. According to the estimate of the China Leasing Alliance, there were over 7,000 headquarters enterprises engaging in financial leasing in China, representing a year-on-year increase of approximately 2,500, as at the end of the year. The outstanding financial leasing contracts amounted to RMB5.33 trillion, representing a year-on-year increase of 20%. According to the Research Report on Business Prospects Survey of and Investment Strategies in the China Financial Leasing Industry 2016-2021 issued by ASKCI Consulting Co., Ltd., the financial leasing industry will grow at a compound annual growth rate of over 20% in the future and it is expected that the output of the industry will amount to RMB20.79 trillion by 2021. The business prospects of the financial leasing industry in China are promising.

IV Business Overview

II. Material Changes of Major Assets

1. Material Changes of Major Assets

Major assets	Description
Equity	The Company made equity investments in Guangdong Dejun Investment Co., Ltd. during the reporting period.
Fixed Assets	The Company reclassified the high-end packaging paper project of Jiangxi Chenming and 600,000-tonne liquid packaging paper project of Zhanjiang Chenming during the reporting period.
Construction in progress	The Company reclassified the high-end packaging paper project of Jiangxi Chenming and 600,000-tonne liquid packaging paper project of Zhanjiang Chenming during the reporting period.

2. Major Assets Overseas

☐ Applicable ☒ Not applicable

III. Analysis of Core Competitiveness

Whether the Company needs to comply with the disclosure requirements of specific industries

No

The Company is a leading player in the paper making industry of China. After entrepreneurship and innovation for more than half a century, it has developed into a large and integrated modern conglomerate principally engaged in pulp production, paper making, finance and forestry businesses while also involved in mining, energy, logistics, construction materials, hotel operation and others. It is also the only listed company with A shares, B shares, H shares and preference shares in issue in China and the first company in the paper making industry having a finance company and a financial leasing company integrated with its industrial activities in China. Compared with other enterprises in the industry, the Company has the following advantages:

1. Scale advantages

After years of development, the Company, being a leading player in the paper making industry in China, has achieved annual pulp and paper production capacity of over 8.50 million tonnes and is capable to compete with international paper making enterprises in scale. The large-scale centralised production and operation model has provided the Company with obvious economic benefits. The Company also has strong market influence over raw material procurement, product pricing and industry policymaking.

2. Product advantages

While the production scale of the Company is expanding rapidly, its product mix also continues to optimise. In recent years, the Company has built production lines for cultural paper such as high-end coated paper, high-end food packaging paper and high-end white paper board. The product mix of the Company has gradually diversified into five major paper types, namely printing paper, packaging paper, office paper, industrial paper and household paper, as well as the nine major product series which focus on high and middle end products, including high-end cultural paper, coated paper, white paper board, newsprint paper, light weight coated paper, copy paper, industrial paper, specialty paper and household paper. Thus, the Company has become the enterprise that offers the widest product range in China's paper making industry. Diversification and gentrification of the product mix has not only greatly enhanced the Company's ability to withstand market risks, but also enabled the Company to maintain a relatively high profitability

III. Analysis of Core Competitiveness (*Cont'd*)

3. Advantages in technical equipment

The Company's overall technical equipment has reached the advanced international level. The major production equipment has been imported from internationally renowned manufacturers, including Valmet, Ahlstrom and Metso of Finland, Voith of Germany and TBC of the United States. The equipment such as advanced dilution headboxes, top wire formers, unirlun dryers, on-machine film coaters, non-contact hot air drying and two-sided soft and dense calender machines in the world is equipped with advanced technologies including online paper disease monitoring system, caliper control system and intelligent quality control system.

The technical equipment used by the Company generally reflects the characteristics of being technology-intensive and the integration of mechanical and electrical in the paper making industry nowadays. The degassing technology, wet end chemical technology, intelligent sheet lateral control technology, coating preparation technology, free-jet coating technology, multi-nip pressure balanced calender technology and the technical processes independently developed by the Company of the pulp systems have all reached the international advanced level.

4. Advantages in research and innovation and new product development

The Company is a high and new-technology enterprise and gives full play to its strong research capability. Supported by the national enterprise technology centre and the post-doctoral working station, the Company has established a comprehensive intellectual property system and put more and more efforts in technical innovation and scientific research and development to develop new products with high technology contents and high added value as well as proprietary technologies. Meanwhile, the technology centre of the Company has actively engaged in technical cooperation with schools, research institutions and international advanced enterprises. The Company has obtained over 150 national patents including 9 patents for invention, with 7 products selected as national new products and 29 products filling the gap in China. The Company has obtained 21 Science and Technology Progress Awards above the provincial level and undertaken five national science and technology projects and 26 provincial technological innovation projects. The brand “Chenming” is recognised as a well-known brand name in China.

5. Funding advantages

The paper making industry is a capital-intensive industry, and funding is one of the most important factors in the development of the industry. The Company has high profitability and credit status, and has maintained long-term stable cooperative relations with its bankers, which provide the Company with an unobstructed indirect financing capacity. Since its listing, the Company has maintained good operating results and a sound corporate governance structure. It has conducted several financing activities in domestic and foreign capital markets. As the funds obtained have been applied effectively with good market image, the Company has stronger abilities in direct financing in the capital market.

IV Business Overview

III. Analysis of Core Competitiveness (Cont'd)

6. Team advantages

The key management members and the core personnel of the Company remain stable. In the business development of Chenming Paper, an internal corporate culture developed by the stable core staff team favourable to the growth of the Company consolidates the management experience specific to the industry, thus resulting in a team advantage blended with management and culture. Meanwhile, the Company has attracted experienced professionals with financial, legal, financial management backgrounds through its advanced management philosophy and ample room for development. The high quality and professional team secures the sustainable development of the Company with a solid supply of talents.

7. Advantages in environmental governance capacity

In recent years, the Company and its subsidiaries have constructed the pollution treatment facilities including the alkali recovery system, middle water treatment system, white water recovery system and black liquor comprehensive utilisation system. The environmental emission indicators of the Company rank high among industry peers. Besides, the national policy of eliminating obsolete production capacity will facilitate the development of the paper making industry while the replenishment and replacement of advanced production capacity will bring new blood and momentum into the paper making industry, favouring industry concentration to establish a sound industry cycle.

V Discussion and Analysis of Operations

I. Overview

In 2016, the Company aimed for “developing into an enterprise with hundreds of billions in value” by adhering to the main theme of “achieving growth amid stability” and committed itself to “team building, management enhancement, outstanding business performance and good results”. The Company stuck to its diversification strategy, accelerated transformation and upgrading, and developed an industrial system that centred on pulp production, paper making and finance to achieve synergy among forestry and mining so as to boost the management quality, core competitiveness and profitability.

The past year was the best year for the Company’s development so far. The overall strength of Company significantly increased while the Company enhanced its position in the industry, delivering excellent performance. In 2016, the Company completed the production of machine-made paper of 4.36 million tonnes with sales of 4.52 million tonnes and achieved revenue of RMB22.907 billion, a year-on-year increase of 13.17%. The Company recorded operating costs of RMB15.787 billion, a year-on-year increase of 6.93%. Total profit and net profit attributable to equity holders of the Company were RMB2,583 million and RMB2,064 million respectively, up by 83.18% and 102.11% from the prior year. The Company’s total assets amounted to RMB82.285 billion. The financial segment experienced stable development across businesses with ever improving management systems and effective risk preventions.

(I) New era in corporate management

The Company introduced a professional management consulting company to make changes focusing on the three aspects, namely, organisation management and structural optimisation, remuneration system and performance appraisal. The Company placed emphasis on “strengthening the headquarters and consolidating secondary companies” and adjusted the organisation structure of the Group. The Company also achieved synergy among three segments, namely manufacturing, finance and supply chain trading, to expand and develop into a diversified group integrating production, financing and trading.

(II) New performance in marketing

The Company attached great importance to its employees. Human resources were actively introduced at all levels. The appraisal methodology was optimised to reward the diligent. The market-based sales work assignment toolkit was established and the product lines were segmented. A company was set up for electrostatic paper products and the development of major customers was strengthened. Management of receivables was strengthened and default in delivery was controlled strictly. Delivery and reduction in inventories were implemented.

V Discussion and Analysis of Operations

I. Overview (Cont'd)

(III) New progress in production and operation

Primary management was steadily enhanced and production and operation continued to be highly effective in strict compliance with the standard parameters and subject to the sheet break and review of operation efficiency. The Company watched the markets closely to adjust its product mix by developing high value added products such as glassine paper, wine label paper, super high-bulk white paper board and high weight duplex press paper. The Company gained efficiency through optimisation of the pulp structure, substitution of domestically produced chemicals for overseas ones, and promotion of the application of new technologies such as filler enhancers and novel retention agents.

(IV) New development in the financial segment

The Company successfully issued preference shares of RMB4.5 billion as the first Shandong-based listed company and the first company in the industry to issue preference shares. The Company secured the special funds of RMB700 million from the National Development and Reform Commission and China Development Bank at a return rate of 1.2% per annum to reduce its finance expenses, which was a precedent in the paper making industry. The invoicing system of the Finance Company was approved to be online to increase the business of the rediscounting channel of People's Bank of China. The Finance Company developed all lines of business.

(V) New momentum gained from corporate development

Progress of new projects accelerated: Zhanjiang Chenming's liquid packaging paper project commenced operation smoothly in October 2016. Haiming Mining's magnesite mining project entered the peak time of shaft construction and equipment installation. Huanggang Chenming's forestry pulp integration project commenced the construction of pulp manufacturing facilities, piers and staff quarters. Shouguang Chenming's chemical pulp project made progress on schedule. The above projects played a very important role in reinforcing the subsequent corporate development and facilitating the fulfilment of corporate strategic objectives.

(VI) New benefits from procurement

Procurement to reduce costs with benefits at source paid off. The Company cooperated with quality and major suppliers to reduce overall procurement costs. The measures such as overseas financing, adjusted and centralised payment procedures and boosted sales volume of trading increased benefits by reducing the capital appropriated for inventories. The electronic commodity exchange for pulp and paper was approved as a trading platform for the integrated pulp and paper supply chain system, which became a new source of profit growth.

II. Analysis of principal operations

1. Overview

Please see “I. Overview” under “Discussion and Analysis of Operations” for relevant information.

2. Revenue and cost

(1) Components of revenue

	Unit: RMB				
	2016		2015		Increase/decrease
	Amount	% of revenue	Amount	% of revenue	(%)
Total revenue	22,907,118,241.84	100%	20,241,906,131.81	100%	13.17%
By industry					
Machine-made paper	19,536,639,601.47	85.29%	18,072,997,652.53	89.29%	8.10%
Financial leasing	2,339,925,682.07	10.21%	1,084,860,187.11	5.36%	115.69%
Electricity and steam	338,702,429.21	1.48%	437,772,691.42	2.16%	-22.63%
Construction materials	227,629,265.80	0.99%	223,266,272.44	1.10%	1.95%
Chemicals	129,003,963.48	0.56%	124,008,406.45	0.61%	4.03%
Hotel	26,677,286.19	0.12%	27,136,077.49	0.13%	-1.69%
Others	308,540,013.62	1.35%	271,864,844.37	1.34%	13.49%
By product					
Duplex press paper	4,966,155,905.70	21.68%	4,460,441,279.15	22.04%	11.34%
Coated paper	4,428,162,301.09	19.33%	4,365,890,220.92	21.57%	1.43%
White paper board	2,815,701,912.71	12.29%	1,915,153,293.25	9.46%	47.02%
Electrostatic paper	2,107,489,078.57	9.20%	1,580,897,670.32	7.81%	33.31%
Anti-sticking raw paper	1,009,523,792.88	4.41%	897,236,148.18	4.43%	12.51%
Newsprint paper	996,218,028.98	4.35%	970,297,912.12	4.79%	2.67%
Household paper	659,518,362.24	2.88%	670,406,337.06	3.31%	-1.62%
Light weight paper	463,577,121.66	2.02%	612,237,436.63	3.02%	-24.28%
Writing paper	274,469,632.58	1.20%	289,489,121.26	1.43%	-5.19%
Other machine-made paper	1,815,823,465.06	7.93%	2,310,948,233.64	11.42%	-21.43%
Financial leasing	2,339,925,682.07	10.21%	1,084,860,187.11	5.36%	115.69%
Electricity and steam	338,702,429.21	1.48%	437,772,691.42	2.16%	-22.63%
Construction materials	227,629,265.80	0.99%	223,266,272.44	1.10%	1.95%
Chemicals	129,003,963.48	0.56%	124,008,406.45	0.61%	4.03%
Hotel	26,677,286.19	0.12%	27,136,077.49	0.13%	-1.69%
Others	308,540,013.62	1.35%	271,864,844.37	1.34%	13.49%
By geographical segment					
Mainland China	19,628,612,055.93	85.69%	16,431,182,080.91	81.17%	19.46%
Other countries and regions	3,278,506,185.91	14.31%	3,810,724,050.90	18.83%	-13.97%

V Discussion and Analysis of Operations

II. Analysis of principal operations (Cont'd)

2. Revenue and cost (Cont'd)

(2) Industries, products or regions accounting for over 10% of revenue or operating profit of the Company

☒ Applicable ☐ Not applicable

Whether the Company needs to comply with the disclosure requirements of specific industries

No

Unit: RMB

	Revenue	Operating costs	Gross profit margin	Increase/decrease of revenue as compared to the corresponding period of the prior year	Increase/decrease of operating costs as compared to the corresponding period of the prior year	Increase/decrease of gross profit margin as compared to the corresponding period of the prior year
By industry						
Machine-made paper	19,536,639,601.47	14,893,061,575.87	23.77%	8.10%	6.87%	0.87%
Financial leasing	2,339,925,682.07	219,444,595.95	90.62%	115.69%	71.75%	2.40%
By product						
Duplex press paper	4,966,155,905.70	3,719,642,641.60	25.10%	11.34%	10.71%	0.43%
Coated paper	4,428,162,301.09	3,287,988,564.78	25.75%	1.43%	0.91%	0.38%
White paper board	2,815,701,912.71	2,127,180,790.00	24.45%	47.02%	45.33%	0.88%
Financial leasing	2,339,925,682.07	219,444,595.95	90.62%	115.69%	71.75%	2.40%
By geographical segment						
Mainland China	16,258,133,415.56	12,009,467,873.60	26.13%	13.99%	7.21%	4.68%
Other countries and regions	3,278,506,185.91	2,883,593,702.27	12.05%	-13.97%	5.50%	-16.23%

Under the circumstances that the statistics specification for the Company's principal operations data experienced adjustment in the reporting period, the principal operations data upon adjustment of the statistics specification at the end of the reporting period in the latest year

☒ Applicable ☐ Not applicable

(3) Whether revenue from sales in kind is higher than revenue from services

☒ Yes ☐ No

By industry	Item	Unit	2016	2015	Increase/decrease (%)
Machine-made paper	Sales	'0,000 tonnes	452	415	8.92%
	Production output	'0,000 tonnes	436	418	4.31%
	Inventories	'0,000 tonnes	33	49	-32.65%

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

☒ Applicable ☐ Not applicable

The inventories of machine-made paper decreased by 32.65% as compared to the corresponding period of the prior year mainly due to the increase in sales as a result of market recovery and increase in price.

V Discussion and Analysis of Operations

II. Analysis of principal operations (Cont'd)

2. Revenue and cost (Cont'd)

(4) Performance of material sales contracts of the Company during the reporting period

☐ Applicable ☒ Not applicable

(5) Composition of operating costs

By industry

Unit: RMB

By industry	Item	2016		2015		Increase/decrease (%)
		Amount	% of operating costs	Amount	% of operating costs	
Machine-made paper	Raw materials	8,974,526,123.35	60.26%	8,201,192,813.92	58.85%	9.43%
	Depreciation	768,639,922.25	5.16%	717,089,611.94	5.15%	7.19%
	Labour costs	186,978,418.54	1.26%	155,963,303.02	1.12%	19.89%
	Energy and power	1,526,753,692.29	10.25%	1,431,585,168.47	10.27%	6.65%
	Chemicals	2,014,239,925.46	13.52%	2,239,539,323.75	16.07%	-10.06%
	Other production costs	1,421,923,493.98	9.55%	1,189,915,009.44	8.54%	19.50%
	Subtotal	14,893,061,575.87	100.00%	13,935,285,230.54	100.00%	6.87%
Power and steam	Raw materials	161,521,323.47	75.37%	212,564,419.12	76.48%	-24.01%
	Depreciation	19,858,908.35	9.27%	26,248,475.37	9.44%	-24.34%
	Labour costs	7,643,082.12	3.57%	9,007,758.17	3.24%	-15.15%
	Energy and power	2,769,566.68	1.29%	6,764,518.93	2.43%	-59.06%
	Chemicals	697,230.84	0.33%	3,670,407.74	1.32%	-81.00%
	Other production costs	21,811,402.07	10.18%	19,675,742.40	7.08%	10.85%
	Subtotal	214,301,513.53	100.00%	277,931,321.73	100.00%	-22.89%
Construction materials	Raw materials	116,872,767.63	67.09%	130,797,042.19	74.04%	-10.65%
	Depreciation	4,589,639.45	2.63%	4,696,431.30	2.66%	-2.27%
	Labour costs	11,218,728.30	6.44%	7,362,629.26	4.17%	52.37%
	Energy and power	22,500,486.99	12.92%	21,178,593.05	11.99%	6.24%
	Other production costs	19,011,859.48	10.91%	12,628,034.78	7.15%	50.55%
	Subtotal	174,193,481.85	100.00%	176,662,730.59	100.00%	-1.40%

V Discussion and Analysis of Operations

II. Analysis of principal operations (Cont'd)

2. Revenue and cost (Cont'd)

(6) Change of scope of consolidation during the reporting period

☒ Yes ☐ No

1. Newly established subsidiaries

Name	Time of incorporation	Scope of business	Registered capita (RMB'0,000)	Shareholding
Qingdao Chenming Nonghai Financial Leasing Co., Ltd.	2016.07	Financial leasing, operating leasing, purchase of assets for leasing, etc.	500,000.00	100%
Jilin Chenming Logistics Co., Ltd.	2016.08	Road transportation of general cargo; transportation for containers; road transportation agency; consultation on cargo transportation; warehousing, loading and unloading services, etc.	500.00	100%
Jiangxi Chenming Logistics Co., Ltd.	2016.09	Road transportation of general cargo; transportation for containers; road transportation agency; consultation on cargo transportation; warehousing, loading and unloading services, etc.	500.00	100%

2. Disposal of subsidiaries

Name	Consideration of disposal of equity interest (RMB'0,000)	Shareholding of disposal of equity interest (%)	Nature of disposal of equity interest	Time of loss of control	Basis for time	Difference between consideration and share of net assets of relevant subsidiary as per consolidated financial statements (RMB)
Shouguang Chenming Jiatai Property Management Co., Ltd.	100.00	100.00	Transfer	2016.12	Equity transfer agreement and consideration received	1203.18

V Discussion and Analysis of Operations

II. Analysis of principal operations (Cont'd)

2. Revenue and cost (Cont'd)

- (7) Significant change in or adjustment of the businesses, products or services of the Company during the reporting period

☐ Applicable ☒ Not applicable

- (8) Sales to major customers and major suppliers

Sales to major customers of the Company

Total sales to top 5 customers (RMB)	1,366,256,966.82
Total sales to top 5 customers as a percentage of the total sales for the year	5.96%
Sales to top 5 customers who are related parties as a percentage of the total sales for the year	1.06%

Information on top 5 customers of the Company

No.	Name of customer	Sales (RMB)	As a percentage of the total sales for the year (%)
1	XIAMEN ITG GROUP CORP., LTD	334,802,947.45	1.46%
2	SHANGHAI YAOJI PLAYING CARD CO., LTD.	309,184,951.64	1.35%
3	DELI GROUP CO., LTD.	263,198,484.86	1.15%
4	ANHUI TIME SOURCE CORPORATION	242,616,643.35	1.06%
5	VITAL SOLUTIONS PTE LTD	216,453,939.52	0.94%
Total	—	1,366,256,966.82	5.96%

Major suppliers of the Company

Total purchases from top 5 suppliers (RMB)	3,174,029,707.71
Total purchases from top 5 suppliers as a percentage of the total purchases for the year	20.11%
Total purchases from top 5 suppliers who are related parties as a percentage of the total purchases for the year	0.00%

Information on top 5 suppliers of the Company

No.	Name of supplier	Purchases (RMB)	As a percentage of the total purchases for the year (%)
1	GUANGDONG LEPENG TRADING CO., LTD	789,805,758.56	5.00%
2	ITOCHU HONGKONG LTD	787,631,291.55	4.99%
3	ZHANJIANG MINGLI TRADING CO., LTD	768,404,800.30	4.87%
4	JIANGXI COAL SALES CO., LTD.	416,884,759.82	2.64%
5	SHANDONG HEXIN CHEMICAL GROUP CO., LTD.	411,303,097.47	2.61%
Total	—	3,174,029,707.70	20.11%

V Discussion and Analysis of Operations

II. Analysis of principal operations (Cont'd)

3. Expenses

Unit: RMB

	2016	2015	Increase/ decrease (%)	Reasons for material changes
Selling and distribution expenses	1,166,484,567.20	1,190,961,739.99	-2.06%	Mainly due to strengthened management and strict expense control.
General and administrative expenses	1,441,458,586.06	1,384,652,496.82	4.10%	Mainly due to increase in research and development expenditure.
Finance expenses	1,818,564,890.78	1,669,400,051.76	8.94%	Mainly due to increase in interest expenses.
Taxes and surcharges	251,439,236.50	133,046,735.23	88.99%	Mainly due to the reclassification of taxes originally included in administrative expenses.
Loss on impairment of assets	413,711,106.31	60,968,344.72	578.57%	Mainly due to the provision of impairment for the idle fixed assets of Fuyu Chenming and Jiangxi Chenming.

II. Analysis of principal operations (Cont'd)

4. Research and development expenditure

√ Applicable □ Not applicable

The Company had been watching closely the changes in economic situation and market development in China since 2016. Driven by customers' demand and targeting at enhancing economic benefits, the Company strived to conduct R&D on product differentiation and refining. The Company also promoted structural adjustments in products and eliminated obsolete production capacity while developing new products with high technology contents and high economic benefits. For example, six projects such as "technical development of special cardboard for pharmaceutical packaging", "technical development of special raw paper for babies", "technical development of high-bulk matte coated paper" and "technical development of high-end wet curtain raw paper, were listed into the technological innovative project plans of Shandong Province for 2016. Meanwhile, the Company completed the development of high value-added products such as high-end glassine paper, wine label paper, super high-bulk white paper board, high weight duplex press paper or their upgrades, thereby making significant improvement in product quality, enhancing market competitiveness and raising economic benefits.

Research and development expenditure

	2016	2015	Percentage change
R&D headcount	1,161	1,108	4.78%
Ratio of R&D personnel	8.94%	9.32%	-0.38%
R&D expenditure (RMB)	735,689,011.01	649,368,119.76	13.29%
R&D expenditure to revenue	3.21%	3.21%	0
Capitalised R&D expenditure (RMB)	0.00	0.00	0
Capitalised R&D expenditure to R&D expenditure	0.00%	0.00%	0

Reasons for significant change in total R&D expenditure to revenue

☐ Applicable ☒ Not applicable

Reasons and basis for significant change in R&D capitalisation ratio

☐ Applicable ☒ Not applicable

V Discussion and Analysis of Operations

II. Analysis of principal operations (Cont'd)

5. Cash flows

Unit: RMB

Item	2016	2015	Increase/ decrease (%)
Subtotal of cash inflows from operating activities	23,640,327,789.01	20,059,101,045.18	17.85%
Subtotal of cash outflows from operating activities	21,487,278,519.17	29,780,464,569.48	-27.85%
Net cash flows from operating activities	2,153,049,269.84	-9,721,363,524.30	122.15%
Subtotal of cash inflows from investing activities	660,100,177.22	641,826,148.96	2.85%
Subtotal of cash outflows from investing activities	4,327,554,352.96	4,102,411,633.83	5.49%
Net cash flows from investing activities	-3,667,454,175.74	-3,460,585,484.87	-5.98%
Subtotal of cash inflows from financing activities	59,667,079,610.56	42,750,073,812.63	39.57%
Subtotal of cash outflows from financing activities	58,037,514,000.21	28,686,399,578.97	102.32%
Net cash flows from financing activities	1,629,565,610.35	14,063,674,233.66	-88.41%
Net increase in cash and cash equivalents	91,753,551.86	912,010,632.46	-89.94%

Explanation on main effects of material changes

☒ Applicable ☐ Not applicable

- (1) Net cash flows from operating activities increased by 122.15% as compared to the corresponding period of the prior year mainly due to the increased sales of machine-made paper with higher revenue, and the decreased external investment of the financial leasing business.
- (2) Net cash flows from financing activities decreased by 88.41% as compared to the corresponding period of the prior year mainly due to the increase in repayment for the corporate bonds, privately placed bonds and short-term commercial paper due.

Explanation on main reasons leading to the material difference between net cash flows from operating activities during the reporting period and net profit for the year

☐ Applicable ☒ Not applicable

III. Analysis of non-principal operations

☐ Applicable ☒ Not applicable

V Discussion and Analysis of Operations

IV. Assets and liabilities

1. Material changes of asset items

Unit: RMB

	As at the end of 2016		As at the end of 2015		Percentage change	Description of major changes
	Amount	As a percentage of total assets	Amount	As a percentage of total assets		
Monetary funds	10,109,930,319.49	12.29%	8,984,326,016.01	11.52%	0.77%	Mainly due to the increase of the sales revenue.
Accounts receivable	3,974,065,104.15	4.83%	3,951,287,979.32	5.07%	-0.24%	-
Inventories	4,862,668,746.90	5.91%	5,210,917,891.42	6.68%	-0.77%	-
Investment property	14,258,675.83	0.02%	15,996,931.87	0.02%	0.00%	-
Long-term equity investments	67,251,992.88	0.08%	70,492,256.38	0.09%	-0.01%	-
Fixed assets	28,811,555,365.39	35.01%	24,169,725,529.18	31.00%	4.01%	Mainly due to the reclassification of the high-end packaging paper project of Jiangxi Chenming and 600,000-tonne liquid packaging paper project in Zhanjiang.
Construction in progress	4,115,194,870.23	5.00%	5,829,619,258.48	7.48%	-2.48%	Mainly due to the reclassification of the high-end packaging paper project of Jiangxi Chenming and 600,000-tonne liquid packaging paper project in Zhanjiang.
Short-term borrowings	27,875,506,988.53	33.88%	24,755,535,672.86	31.75%	2.13%	Mainly due to the greater demand for short-term working capital as a result of the increase of the production scale of the Company.
Long-term borrowings	6,935,598,781.23	8.43%	5,169,381,063.83	6.63%	1.80%	Mainly due to the increase of long-term borrowings as a result of the increased investment in the projects of the Company.
Available-for-sale financial assets	1,945,000,000.00	2.36%	109,000,000.00	0.14%	2.22%	Mainly due to the additional investment of RMB1.85 billion in Guangdong Dejun Investment Co., Ltd.
Accounts payable	3,724,266,382.06	4.53%	2,942,337,386.57	3.77%	0.76%	Mainly due to the increase in the amounts payable for projects.

V Discussion and Analysis of Operations

IV. Assets and liabilities (Cont'd)

2. Assets and liabilities measured at fair value

☒ Applicable ☐ Not applicable

Unit: RMB

Item	Opening balance	Profit or loss from change in fair value during the period	Cumulative fair value change charged to equity	Impairment provided during the period	Purchases during the period	Disposal during the period	Closing balance
Financial assets							
Consumable biological assets	1,509,964,711.87	-20,084,425.90	120,474,840.64		229,064,141.88	85,430,433.57	1,633,513,994.28
Total	1,509,964,711.87	-20,084,425.90	120,474,840.64		229,064,141.88	85,430,433.57	1,633,513,994.28
Financial liabilities	0.00						0.00

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

☐ Yes ☒ No

3. Restriction on asset rights as at the end of the reporting period

Item	Carrying amount as at the end of the year	Reasons for such restriction
Monetary funds	8,130,069,273.87	As deposits for bank acceptance bills, letters of credit and bank borrowings, and deposit reserves
Bills receivable	637,871,869.25	As collateral for short-term borrowings, bills payable, letters of guarantee and letters of credit
Fixed assets	4,597,554,400.35	As collateral for bank borrowings and long-term payables
Intangible assets	432,328,638.94	As collateral for bank borrowings and long-term payables
Total	13,797,824,182.41	

V. Analysis of Investments

1. Overview

☒ Applicable ☐ Not applicable

Investments during the reporting period (RMB)	Investments during the corresponding period of prior year (RMB)	Change
4,603,144,781.24	4,664,143,400.00	-1.31%

V Discussion and Analysis of Operations

V. Analysis of Investments (Cont'd)

2. Material equity investments during the reporting period

√ Applicable □ Not applicable

Unit: RMB

Name of investees	Principal activities	Form of investment	Investment amount	Shareholding	Source of fund	Partner(s)	Period of investment	Product type	Progress as at the date of balance sheet	Estimated return	Profit or loss from investment for the reporting period	Lawsuit is involved or not	Date of disclosure (if any)	Disclosure index (if any)
Qingdao Chenming Nonghai Financial Leasing Co., Ltd.	Financial leasing business (excluding financial leasing) and operating leasing business, etc.	Newly established	1,392,144,781.24	100.00%	Self-owned funds	Not applicable	22 July 2016 - 21 July 2046	Financial leasing business	Completed	Not applicable	11,405,095.03	No	31 March 2016	http://www.cninfo.com.cn/
Shandong Chenming Group Finance Co., Ltd.	Business as permitted by the China Banking Regulatory Commission pursuant to relevant laws, administrative regulations and other regulations.	Capital increase	1,000,000,000.00	100.00%	Self-owned funds	Not applicable	Long term	Corporate financial business	Completed	Not applicable	104,001,738.03	No	14 September 2016	http://www.cninfo.com.cn/
Guangdong Dejun Investment Co., Ltd.	House leasing, sales of: chemical materials (excluding dangerous chemicals), metallic materials, building materials, paper-making materials and paper, cement, steel and mineral products (excluding tungsten, tin and stibium), electronic appliances and components, mechanical equipment, electronic products, hardware products, labour insurance products, agricultural by-products; and export and import of goods and technology.	Capital increase	1,850,000,000.00	50.00%	Self-owned funds	Shanghai Zhongheng Enterprise Development (Group) Co., Ltd.	Long term	Project investment	Completed	Not applicable	0.00	No	28 December 2016	http://www.cninfo.com.cn/
Shanghai Hengzheng Venture Capital Investment Center (Limited Partnership)	Investment management, venture capital investment, industrial investment, asset management, investment consultation and commercial information consultation.	Newly established	6,000,000.00	11.43%	Self-owned funds	Shanghai Hengying Cisheng Asset Management Co., Ltd.; Li Yuan, Wu Sisi, etc.	24 February 2016 - 23 February 2036	Investment management	Completed	Not applicable	0.00	No	19 December 2016	http://www.cninfo.com.cn/
Shandong Chenming Paper Sales Company Limited	Sale of machine-made paper, paperboard, paper-making materials and accessories and paper machinery.	Capital increase	350,000,000.00	100.00%	Self-owned funds	Not applicable	17 March 2010 to 10 March 2040	Paper product trading	Completed	Not applicable	5,703,360.87	No	Not applicable	Not applicable

V Discussion and Analysis of Operations

V. Analysis of Investments (Cont'd)

2. Material equity investments during the reporting period (Cont'd)

Name of investees	Principal activities	Form of investment	Investment amount	Shareholding	Source of fund	Partner(s)	Period of investment	Product type	Progress as at the date of balance sheet	Estimated return	Profit or loss from investment for the reporting period	Lawsuit is involved or not	Date of disclosure (if any)	Disclosure index (if any)
Jiangxi Chenming Logistics Co., Ltd.	Road transportation of general cargo; transportation for containers; road transportation agency; consultation on cargo transportation; warehousing, loading and unloading services, etc.	Newly established		100.00%	Self-owned funds	Not applicable	Long term	Logistics	Capital contribution to be made	Not applicable	-41,544.31	No	Not applicable	Not applicable
Jilin Chenming Logistics Co., Ltd.	Road transportation of general cargo; transportation for containers; road transportation agency; consultation on cargo transportation; warehousing, loading and unloading services, etc.	Newly established	5,000,000.00	100.00%	Self-owned funds	Not applicable	Long term	Logistics	Completed	Not applicable	60,579.45	No	Not applicable	Not applicable
Total	-	-	4,603,144,781.24	-	-	-	-	-	-	Not applicable	121,129,229.07	-	-	-

V Discussion and Analysis of Operations

V. Analysis of Investments (Cont'd)

3. Material non-equity investments during the reporting period

☒ Applicable ☐ Not applicable

Unit: RMB

Project name	Form of investment	Fixed assets investment or not	Industry in which the investment project operates	Investment amount during the reporting period	Accumulated actual amount invested as of the end of reporting period	Source of fund	Progress	Estimated return	Accumulated realised return as of the end of the reporting period	Reasons for failure in meeting scheduled progress and estimated return	Date of disclosure (if any)	Disclosure index (if any)
Forestry paper integration project of Huanggang Chenming	Self-constructed	Yes	Pulp production	1,486,551,177.12	2,147,036,838.90	Self-raised and borrowings	41.57%	The expected net profit of the forest base will amount to RMB102 million and the expected average total profit per annum of the industrial project will amount to RMB350 million.	0	Not yet completed	2 August 2013	http://www.cninfo.com.cn/
600,000 tonne liquid packaging paper	Self-constructed	Yes	Paper making	1,959,980,125.78	4,549,537,022.09	Self-raised and borrowings	100.00%	The expected profit realised for the year will amount to RMB340 million.	0	Asset reclassification during the reporting period without profit contribution	19 December 2015	http://www.cninfo.com.cn/
Magnesite mining	Self-constructed	Yes	Mining	216,089,605.96	758,224,355.23	Self-raised and borrowings	99.00%	The expected average total profit per annum RMB184 million	0	Not yet completed	25 October 2012	http://www.cninfo.com.cn/
Integrated terminal project of H uanggang Chenming	Self-constructed	Yes	Terminal	62,908,602.53	62,908,602.53	Self-raised and borrowings	17.92%	To ensure the normal production and operation of Huanggang Chenming and reduce the transportation costs of the Company.	0	Not yet completed	19 December 2015	http://www.cninfo.com.cn/
Total	-	-	-	3,725,529,511.39	7,517,706,818.75	-	-	-	-	-	-	-

4. Financial asset investment

(1) Security investments

☐ Applicable ☒ Not applicable

The Company did not have any security investments during the reporting period.

(2) Derivatives investments

☐ Applicable ☒ Not applicable

The Company did not have any derivative investments during the reporting period.

V Discussion and Analysis of Operations

V. Analysis of Investments (Cont'd)

5. Use of proceeds

√ Applicable ☐ Not applicable

(1) General use of proceeds

√ Applicable ☐ Not applicable

Unit: RMB'0,000

Year	Fund-raising method	Total amount of proceeds	Total amount of utilised proceeds during the current period	Total amount of accumulated utilised proceeds	Total amount of proceeds with change in use during the reporting period	Total amount of accumulated proceeds with change in use	Proportion of total amount of accumulated proceeds with change in use	Total amount of unutilised proceeds	Use and status of unutilised proceeds	Total amount of idle proceeds for over 2 years
2016	Non-public issuance of preference shares	450,000	447,750	447,750	0	0	0.00%	0	Not applicable	0
Total	—	450,000	447,750	447,750	0	0	0.00%	0	—	0

Description of the general use of proceeds

On 17 September 2015, the Company received the Approval of the Non-Public Issuance of Preference Shares of Shandong Chenming Paper Holdings Limited (Zheng Jian Xu Ke [2015] No. 2130) from the China Securities Regulatory Commission.

- On 17 March 2016, the gross proceeds from the non-public issuance of preference shares amounted to RMB2,250 million and the proceeds from the same net of paid issuance expenses of RMB11.25 million amounted to RMB2,238.75 million, which was deposited to the designated account for the proceeds of such issuance. At the tenth extraordinary meeting of the seventh session of the Board held on 24 March 2016, the Resolution on Replacement of Self-raised Funds Invested in Advance to Projects Financed by Proceeds with Proceeds from Issue of Preference Shares approving the replacement of self-raised funds invested in advance to projects financed by proceeds with RMB2,238.75 million from the proceeds of initial non-public issue of preference shares was passed.
- On 17 August 2016, the gross proceeds from the non-public issuance of preference shares amounted to RMB1,000 million and the proceeds from the same net of paid issuance expenses of RMB5 million amounted to RMB995 million, which was deposited to the designated account for the proceeds of such issuance.
- On 22 September 2016, the gross proceeds from the non-public issuance of preference shares amounted to RMB1,250 million and the proceeds from the same net of paid issuance expenses of RMB6.25 million amounted to RMB1,243.75 million, which was deposited to the designated account for the proceeds of such issuance. At the third extraordinary meeting of the eighth session of the Board held on 23 September 2016, the Resolution on Replacement of Self-raised Funds Invested in Advance to Projects Financed by Proceeds with Proceeds from Issue of the Third Tranche of Preference Shares approving the replacement of self-raised funds invested in advance to projects financed by proceeds with RMB761.25 million from the proceeds of initial non-public issue of the third tranche of preference shares was passed.

V. Analysis of Investments (Cont'd)

5. Use of proceeds (Cont'd)

(2) Commitment of proceeds

√ Applicable □ Not applicable

Unit: RMB'0,000

[illegible]

V Discussion and Analysis of Operations

V. Analysis of Investments (Cont'd)

5. Use of proceeds (Cont'd)

(2) Commitment of proceeds (Cont'd)

Committed investment project and excess proceeds	Change in project (including partial change)	Total committed investment of proceeds	Total investment after adjustment (1)	Invested amount during the reporting period	Accumulated invested amount as at the end of the period (2)	Investment progress as at the end of the Period (3)=(2)/(1)	Expect date of operation of the project	Return realised during the reporting period	Expected return being achieved or not	Significant change in project
Pre-investment and swap of investment project of proceeds	Applicable									
	(1)	At the tenth extraordinary meeting of the seventh session of the Board held on 24 March 2016, the Resolution on Replacement of Self-raised Funds Invested in Advance to Projects Financed by Proceeds with Proceeds from Issue of Preference Shares approving the replacement of self-raised funds invested in advance to projects financed by proceeds with RMB2,238.75 million from the proceeds of initial non-public issue of preference shares was passed. Please refer to the relevant announcement dated 25 March 2016 published on www.cninfo.com.cn.								
	(2)	At the third extraordinary meeting of the eighth session of the Board held on 23 September 2016, the Resolution on Replacement of Self-raised Funds Invested in Advance to Projects Financed by Proceeds with Proceeds from Issue of the Third Tranche of Preference Shares approving the replacement of self-raised funds invested in advance to projects financed by proceeds with RMB761.25 million from the proceeds of initial non-public issue of the third tranche of preference shares was passed. Please refer to the relevant announcement dated 24 September 2016 published on www.cninfo.com.cn.								
Temporary replenishment of liquidity by idle proceeds	Not applicable									
Balance and reason for proceeds arising from project implementation	Not applicable									
Use and direction of unused proceeds	Not applicable									
Use of proceeds and problems disclosed or other issues	Not applicable									

(3) Change in use of proceeds

☐ Applicable ☒ Not applicable

The Company did not have any change in use of proceeds during the reporting period.

V Discussion and Analysis of Operations

VI. Disposal of material assets and equity interest

1. Disposal of material assets

☐ Applicable ☒ Not applicable

The Company did not have any disposal of material assets during the reporting period.

2. Disposal of material equity interest

☒ Applicable ☐ Not applicable

Counterparty(ies)	Equity interest disposed of	Disposal date	Transaction consideration (RMB'0,000)	Net profit contribution to the Company from the beginning of the period up to the disposal date (RMB'0,000)	Effect of disposal on the Company	Ratio of the net profit contribution to the Company of disposal of equity interest over total net profit (%)	Pricing basis of disposal of equity interest	Related party transaction or not	Relationship with counterparty(ies)	Relevant equity interest fully transferred or not	Carried out on schedule or not, if not, the reasons and measures taken by the Company	Disclosure date	Disclosure index
Shouguang Yucheng Trading Co.,Ltd.	100% equity interest in Shouguang Chenming Jialai Property Management Co., Ltd.	30 December 2016	100	-0.04	No effect	0	Transfer based on net assets	No	Not applicable	Yes	Not applicable	Not applicable	Not applicable

V Discussion and Analysis of Operations

VII. Analysis of major subsidiaries and investees

√ Applicable ☐ Not applicable

Major subsidiary and investees accounting for over 10% of the net profit of the Company

Unit: RMB

Name of company	Type of company	Principal activities	Registered capital	Total assets	Net assets	Revenue	Operating profit	Net profit
Zhanjiang Chenming Pulp & Paper Co., Ltd.	Subsidiary	Production and sale of pulp, duplex press paper, Electrostatic paper	3,550,000,000.00	19,547,470,205.55	4,059,577,379.49	4,962,723,381.93	555,568,627.61	567,190,267.33
Shandong Chenming Financial Leasing Co., Ltd.	Subsidiary	Paper product trading and financial leasing	5,872,000,000.00	26,077,801,815.27	7,493,294,936.26	2,558,763,185.27	998,037,881.50	918,516,201.38
Shouguang Meilun Paper Co., Ltd.	Subsidiary	Production and sale of coated paper and household paper	3,000,000,000.00	10,061,260,332.41	4,591,070,219.26	5,194,516,832.03	465,089,491.56	353,189,186.48
Fuyu Chenming Paper Co., Ltd.	Subsidiary	Production and sale of flat sheet	208,000,000.00	178,742,720.05	-217,437,397.40	26,917,408.94	-217,554,999.67	-216,371,879.34

Acquisition and disposal of subsidiaries during the reporting period

√ Applicable ☐ Not applicable

Name of companies	Methods to acquire and dispose of subsidiaries during the reporting period	Impact on overall production and operation and results
Shouguang Chenming Jiatai Property Management Co., Ltd.	Equity transfer	No effect on overall production and operation and results.
Jilin Chenming Logistics Co., Ltd.	New establishment	Net profit for 2016 was RMB60,600.
Jiangxi Chenming Logistics Co., Ltd.	New establishment	Net profit for 2016 was -RMB41,500.
Qingdao Chenming Nonghai Financial Leasing Co., Ltd.	New establishment	Net profit for 2016 was RMB11.4051 million.

Particulars of major subsidiaries and investees

- (1) Zhanjiang Chenming's major products, including high-end duplex press paper and electrostatic paper, had lower costs, high gross profit margin and better returns.
- (2) Financial Leasing Company made steady progress and delivered better profit.
- (3) With the higher gross profit margin from its major product, coated paper, and the gains from sale of electricity, Shouguang Meilun recorded better profit.
- (4) Fuyu Chenming suspended its production and made impairment provision for its fixed assets and construction in progress.

V Discussion and Analysis of Operations

VIII. Structured entities controlled by the Company

☐ Applicable ☒ Not applicable

IX. Outlook on the future development of the Company

(I) Competition overview and development trend of the industry

Paper making industry

The growth of the paper making industry tends to be closely correlated to the macroeconomic growth. While there are adjustments of economic growth in China, the growth of paper making industry is also subject to pressure for adjustments. However, in the light of the easing downward pressure on the national economy, improving income levels of residents and the stabilising economy as a whole, it is expected the per capita consumption of paper and paper board will continue to increase. Besides, under the current market conditions, elimination of obsolete production capacity in the paper making industry and increasingly stringent environmental protection policies are forcing some small and medium-sized enterprises out of the market, thus favouring industry concentration and standardised industry competition to establish a sound industry cycle. There are obvious signs for industry recovery with a boom to be prolonged.

Financial leasing industry

As the financial reforms advance further, the integration of industrial capital and financial capital gradually accelerate in China. The financial leasing industry as a favoured supplementary corporate financing channel and an effective tool to use assets at hand embraces continuously mounting market demand. Since the implementation of the “Thirteenth Five Year Plan”, the accelerated urbanisation and industrialisation in China, the change in driver of economic growth, upgrade of traditional industries, development of emerging industries, and continuous infrastructure construction require substantial investment in fixed assets. China will become the largest leasing market in the world. According to the Research Report on Business Prospects Survey of and Investment Strategies in the China Financial Leasing Industry 2016-2021 issued by ASKCI Consulting Co. LTD, the financial leasing industry will grow at a compound annual growth rate of over 20% in the future and it is expected that the outstanding leasing contracts of the financial leasing industry in China will amount to RMB20.79 trillion by 2021.

In view of the establishment and optimisation of trading rules, accounting standards, industry regulation and tax policies for the financial leasing industry, the financial leasing in China has been evolving into modern leasing at high speed. In the future, the size of the financial leasing business in China will expand significantly. Financial leasing will become an important alternative of financing for enterprises, especially small and medium-sized enterprises. The business prospects of the financial leasing industry in China are promising.

(II) Development strategy

Looking forward, Chenming Group will adhere to the principal of emphasising on environmental protection, low carbon, recycling and sustainable development. Following the “Made in China 2025 Plan” and the principles of scientific development and quality and efficiency enhancement, it will comprehensively improve its quality and efficiency, management level, technology application, sense of happiness and brand image through the integration between its production and manufacture segment and financial services segment, incorporation of smart technology into its industrial activities, reorganised methodology and restructuring so as to expand and improve itself and strive to achieve taxable profit over RMB10 billion and develop into an integrated diversified enterprise with hundreds of billions in value during the “Thirteenth Five Year Plan” period.

V Discussion and Analysis of Operations

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

(III) Operation plans for 2017

In the year 2017, the main goal of the Company is adherence to the main theme of achieving growth amid stability and the guiding principal of work of “team building, management enhancement, outstanding business performance and good results”. A new management philosophy will be firmly established and consistently practised. The Company will commit itself to, among other things, operating steadily, boosting growth, adjusting the structure, preventing risks and benefiting the employees. The major measures are as follows:

1. Determined to upgrade corporate management

The Company will enhance its corporate management level with the help of external experts. The Company commits itself to performing its tasks up to standard and on schedule in strict compliance with the plans as formulated by the management consulting companies and the information technology companies. The Company will work together with external experts to learn their advanced philosophies and methods.

The Company will focus on team building to enhance its comprehensive management capability. The hierarchical management will improve to make the management at each hierarchy level function and to establish cadres with designated duties and full of energy. Staff teams will excel themselves during skill training. Hierarchical training will be given in terms of, among other things, ideology, morals, business skills, theory and knowledge.

2. Determined to strengthen market-oriented operations in terms of operations management

The Company will strengthen its market-oriented operations. It will increase the selling prices in a timely manner based on the actual market conditions, and increase its revenue through the measures such adjustment to the product structure, investment in products of higher returns, investment in markets of close proximity and turning inefficient entities around. The Company will control the appropriation of funds through the measures such as increase in prepayments, sales on contract with customers, and bartering, thus enhancing the quality of operations.

The Company will commit itself to working together with the management consulting companies and the information technology companies. The Company will enhance its sales management level by well defining job duties based on the sales structure, formulating standard procedures, and paying attention to key points through full mechanical operation.

The Company will make every effort to recover the amount past due with a view to the collection of all past due accounts. The Company will improve the quality of collateral security to prevent risks.

V Discussion and Analysis of Operations

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

(III) Operation plans for 2017 (Cont'd)

3. Determined to promote innovation with higher efficiency in terms of production management

The Company will focus on the improvement of management level for production and operation while ensuring stable operation and put more efforts into efficiency utilisation, research and development innovation as well as environmental protection and safety. The Company will motivate the employees through appraisals at levels and attach great importance to training programmes for staff at entry level. The Company will cooperate with information technology companies to facilitate early warning and examination through mechanical operation during production. The Company will introduce high-end technicians to improve the research and development capabilities of the teams. The Company will encourage technology innovation and apply for 20 national patents. The Company will adjust the product mix and focus on the research and development as well as marketing of unbleached household paper, anti-counterfeiting white paper board, cigarette card board and other high value-added products. The Company will introduce new types of raw materials and promote the application of technologies including paper surface enhancement. The Company will be strict with product quality and work on increases in prices and benefits in sales. The Company will implement safety standardisation management and pay attention to environmental protection in accordance with national standards and requirements. The Company will set up and closely monitor the safety factors for internal control indicators so as to ensure standardised emission.

4. Determined to maintain quality and be on track in terms of project management

The Company will make sure the phase I of Haiming mining project to commence production on schedule. The Company will also pay close attention to Huanggang Chenming's integrated forestry, pulp and paper project, Shouguang Chenming's chemical pulp project and other projects under construction to ensure such projects will proceed on schedule.

5. Determined to achieve stable growth in terms of financial capital management

The Company will regard risk management as the most important task for financial capital management. Leveraging professional teams, the Company will optimise its business risk management system and set up a customer classification evaluation system. Financing and project investment will be under centralised management of the Group so as to prevent business risk.

The Company will proceed with capital financing to reduce its gearing ratio and optimise the structure of assets and liabilities. The Company will also proceed with direct financing for the medium to long term so as to prevent liquidity risk.

The Company will enhance the incentive and appraisal mechanism for middle and senior management for the financial segment. The Company will strengthen the ideological education and comprehensive capabilities training for cadres to enhance team cohesion. By virtue of additional investment through the leasing company and expansion in the scale of cooperation with the industry peers through the Finance Company, the Company will engage in new businesses including industry chain finance to increase benefits.

V Discussion and Analysis of Operations

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

(III) Operation plans for 2017 (Cont'd)

6. Determined to grow revenue from trading in terms of supply chain management

Cooperating with management consulting companies and professional information technology companies, the Company will strive to the establishment of information platform and international tender network so as to enhance the level of information management for procurement. The Company will place great emphasis on bulk procurement of raw materials and establish strategic cooperation relationship with quality customers while putting more efforts into market analysis and improving analysis and judgement capabilities for market conditions so as to reduce procurement costs. The Company will give full play to the electronic merchandise exchange centre for pulp and paper products and establish a supply chain system integrating warehousing and logistics for pulp and paper products in China. The Company will expand sales channels in the market to improve trading volume. The Company will closely follow the coordination and payment process and further utilise acceptance payment to facilitate the cooperation with electronic commercial draft business.

7. Determined to consolidate resources in terms of logistics management

The Company will rationalise its organisation structure and introduce logistics professionals to facilitate the greater reforms of the logistics of the Group. The Company will ensure the timely completion of phase I of the Shouguang Chenming international logistics centre project and the main building of the Qingdao innovative industry park project. The Company will facilitate the establishment of logistics information platform so as to accomplish the integration between business flow, material flow and information flow. The information platform will integrate logistics resources to build an intelligent logistics system. The Company will utilise the function of supervision stations, bonded warehouses and other existing facilities to customise comprehensive logistics service programs for different corporate customers.

8. Caring for employees with more and more employee benefits

The Company will rationalise the salary increment mechanism to improve staff's income in real terms so as to make sure the salary level of its staff is relatively higher than those of its local counterparts and industry peers. Making reference to renowned enterprises, the Company will improve the living standards of staff quarters through further improvement in basic facilities and amenities. The Company will commence physical training and testing for staff to improve their physical quality. Focusing on green landscaping, the Company will build more garden-like factory areas so as to create a more pleasant working environment for employees.

(IV) Future capital requirements, source of funds and plan for use

The Company has established business segments for its core business, namely, pulp production, paper making, finance and forestry. With the further development of the existing principal businesses of the Company, the future capital requirements of the Company will be: (1) investment in the existing projects under construction and proposed new projects; (2) consistent investment in the existing production facilities because of technological transformation or production expansion; and (3) business expansion and general working capital requirements. As the demand for capital has been growing for the Company's production and operation, there is a strong need to replenish the working capital to enhance the Company's capability for sustainable operations.

In order to meet the business development requirements of the Company and further extend and expand the industry chain, the Company will establish diversified financing channels and increase the proportion of direct financing through diversified financing channels such as private placement, preference shares, corporate bonds and cross-border financing so as to improve the debt structure of the Company and provide stable financial support for the operation and development of the Company.

V Discussion and Analysis of Operations

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

(IV) Future capital requirements, source of funds and plan for use (Cont'd)

The Company will use RMB3.7 billion from private placement to reduce the cost of paper making. The investment in the 400,000-tonne chemical pulp project through private placement will improve the self-sufficiency of pulp of the Company and the raw materials structure of the paper making segment, in the expectation of reducing the production costs of paper making and enhancing profitability of paper making business. At the same time, non-public issuance of shares will optimise the debt structure and reduce financial costs as well as the gearing ratio.

Diversified financing channels to meet the Company's capital requirements: (1) The Company will reduce the financing costs and optimise the capital structure by issuing corporate bonds, medium-term notes, short-term financing, super short-term financing, perpetual bonds and other means for financing so as to provide financial support for the Company's long-term healthy development. (2) The Company will facilitate cross-border financing by making full use of the financing platform in Hong Kong market to increase its credit line. Besides, the Company will also mitigate exchange rate risk through multi-currency financing and improve the efficiency of use of capital to reduce financial costs. As at the end of 2016, the credit lines utilised by the Company amounted to RMB36.7 billion and the credit lines obtained by the Company amounted to RMB68.4 billion with a utilisation rate of 53.65%. (3) The Company will make use of the advantages of the Finance Company and the Financial Leasing Company in the financial industry to expand the financing channels for the Group, bring new momentum for business development.

(V) Risk factors likely to be faced and the measures to be taken

1. Risk on paper making industry

Policy risk

Paper making industry is a basic raw materials industry and its growth has been faster than the average growth of the national economy in recent years. However, the paper making industry's profitability is closely correlated to the economic cycle, and the industry is therefore a cyclical industry fluctuating with the national macroeconomic performance, which will further affect the profitability of the Company.

Hence, following the principles of scientific development and quality and efficiency enhancement, the Company will comprehensively improve its industrial structure and regional layout through the integration between its production and manufacture segment and financial services segment, and incorporation of smart technology into its industrial activities. The Company will emphasise on the development of leading businesses including paper making, finance and forestry so as to construct an efficient industrial system with synergies.

Market fluctuation risk

With the rapid growth of the national economy, economic globalisation and China's accession to the WTO, China's paper making industry has been facing increasingly fierce competition. Leveraging the strength and capital accumulated over the years, domestic enterprises have further expanded their sizes and improved their technological levels and product quality. Well-known paper making enterprises overseas have also directly set up production bases in China through sole proprietorship or joint ventures so as to participate in the domestic market competition by virtue of their advantages in size and technology. Besides, tariff reduction on China after accession to the WTO has also further intensified the impact on the international market.

V Discussion and Analysis of Operations

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

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

1. Risk on paper making industry (Cont'd)

Hence, the Company will strive to enhance the quality of paper products and achieve the target of establishing a layout for high-end paper industry so as to increase the proportion of high-end paper. In recent years, the Company has been expanding its business size and optimising its product mix and has set up a few production lines for high-end paper. A diversified and high-end product mix enables the Company to spread market risk and strengthen the resistance towards market volatility. Besides, as high-end products have better profit margins, the Company can increase the proportion of high-end products through consistent improvement in product mix, thereby enhancing its profitability and comprehensive competitiveness.

Risk of overcapacity and slowdown in demand

Overcapacity is a prominent problem in the paper making and paper product industry in China such that there has been fierce competition among enterprises. Since 2013, affected by slowdown in macroeconomic growth, the demand in paper making industry has been weak. At the same time, China has been encouraging energy conservation and emission reduction. The obsolete production capacity will be phased out, and thus the new projects will be on a large scale. By virtue of the economies of scale in the paper making industry, the production capacity of individual paper making projects which are under construction or planning for construction in China is large, which affects the demand and supply relationship in the whole paper making industry.

Hence, the Company will make advancements in equipment and technological level, expand its product mix, improve the grading of products and focus on the research and development of high-end products so as to improve competitiveness.

Risk of price fluctuation of raw materials

The major raw materials used by the Company are wood pulp and waste paper. The market prices of wood pulp and waste paper fluctuate significantly. The market price fluctuation of raw material has significantly affected the production costs of the Company. In addition to intensified market competition resulting from surging capacity in the industry in recent years, the increases in prices of a number of paper products were not in line with the increases in prices of raw materials. The market price fluctuation of raw materials will have an impact on the performance of the Company.

Hence, the Company will remain steadfast in the “forestry-pulp-paper integration” development path and focus on the construction of the Zhanjiang Chenming pulp project, the Huanggang Chenming pulp project and the Shouguang chemical pulp project, thereby eliminating the limitations of upstream resources on the Company’s development and enhancing the Company’s sustainable development.

V Discussion and Analysis of Operations

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

(V) Risk factors likely to be faced and the measures to be taken (*Cont'd*)

1. Risk on paper making industry (*Cont'd*)

Risk of change in environmental protection policies

China has been raising the standards for environmental protection in recent years. The new Environmental Protection Law took effect on 1 January 2015. More stringent environmental protection policies have been implemented in the paper making industry. A multi-pronged approach has been adopted to promote industrial restructuring, and the paper making industry has entered into an important transitional period of development. A higher emission standard is bound to increase the Company's environmental protection costs and a high entry standard may result in the slowdown of scale expansion.

The Company always strives to achieve harmonious development with energy conservation and emission reduction. The Company will endeavour to develop the recycling economy through waste exchange and recycling and strive to maximise its resource utilisation. Meanwhile, the Company will make greater efforts to construct environment friendly projects and strive to achieve its waste emission target.

2. Risk on financial leasing business

Policy risk

Recently, the financial leasing business is regulated by the commerce departments at different levels instead of being directly regulated by the People's Bank of China or China Banking Regulatory Commission. The financial leasing industry in China is still at the exploration stage with incomplete laws and regulations. If there is any material adjustment or change in national or local policies for the financial leasing industry, the Company's financial leasing business may be adversely affected, in turn harming the Company's profitability.

In September 2015, the General Office of the State Council promulgated the Guiding Opinions on Accelerating the Development of Financial Leasing Industry, which formulated comprehensive systematic planning on accelerating the development of the financial leasing industry. The financial leasing industry embraced a rare opportunity for leap-forward development. In February 2016, the General Office of People's Government of Shandong Province promulgated the Opinions of the General Office of People's Government of Shandong Province on Accelerating the Development of Financial Leasing Industry by Implementing Document Guo Ban Fa [2015] No. 68, formulating specific measures to refine policy measures and ensure the measures being carried out properly, which provided actual policy support for the development of the financial leasing industry in Shandong Province.

V Discussion and Analysis of Operations

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

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

2. Risk on financial leasing business (Cont'd)

Liquidity risk

In a market economy, the macroeconomic operation tends to be in cycles and the Company is inevitably affected by those cycles. At the same time, there is fierce competition in the financial industry and the interest margin is a main source of income for the financial leasing business. The market interest rate is affected by the benchmark interest rate of the People's Bank of China, the macroeconomic environment, market demand and supply and other factors, bringing uncertainties to the fluctuation of the market interest rate, which in turn causes uncertainties in revenue from the financial leasing business.

Hence, following the principles of scientific development and quality and efficiency enhancement, the Company will comprehensively improve its industrial structure and regional layout through the integration between its production and manufacture segment and financial services segment, and incorporation of smart technology into its industrial activities. The Company will emphasise on the development of leading businesses including paper making, finance and forestry so as to construct an efficient industrial system with synergies.

Credit risk

The Company may suffer from loss if the lessees of its financial leasing business cannot make full rental payment on time due to any reason and there are abuses on equipment or any other short-term behaviour. Although the risk of such rental being unrecoverable is minimal, the Company will also make bad debt provision as required under its accounting policy. If such amounts cannot be recovered on time, the Company may be exposed to risk of bad debts.

The stringent risk management measures of Chenming Leasing provide comprehensive risk prevention and management for the Company's projects. Besides, the Company usually cooperates with state-owned enterprises and local governments, so it has strong risk resistance and low risk of default. The Company does not have any non-performing or overdue loans so far. Chenming Leasing will develop quality customers and strengthen risk management so as to enhance risk resistance and maintain high quality services.

Operation risk

Recently, there is still a gap between the practitioners working in the financial leasing industry and those working in traditional financial institutions such as banks in terms of their expertise and experience in financial profession in China. There is also a large gap in terms of investment in infrastructure. If internal control procedures are not implemented properly and involve operation risk as a result of operation errors, violations or non-standard execution, the Company may suffer from loss.

Learning from the risk management experience of outstanding financial leasing companies at home and abroad, the leasing company has formulated and optimised the internal management system of the leasing business and established an effective system for risk assessment, risk control and risk tracking. The Company has also exercised proper control on business risk by regulating the key business procedures including quotation, guarantee review, contract signing, leased assets management and archives management.

V Discussion and Analysis of Operations

X. Reception of research investigations, communications and interviews

1. Registration report on reception of research investigations, communications and interviews during the reporting period

√ Applicable ☐ Not applicable

Date of reception	Manner of reception	Class of parties accommodated	Index of particulars of research investigations
5 May 2016	On-site research investigation	Institution	Details are disclosed in the investor relationship event record on CNINFO on 8 May 2016
19 May 2016	On-site research investigation	Institution	Details are disclosed in the investor relationship event record on CNINFO on 22 May 2016
27 June 2016	On-site research investigation	Institution	Details are disclosed in the investor relationship event record on CNINFO on 28 June 2016
Number of receptions			3
Number of institutions received			106
Number of individuals received			0
Number of other entities received			0
Disclosure, leakage or divulgence of undisclosed significant information			No

VI Directors' Report

The Directors (the "Directors") of the Company hereby present the annual report and the audited consolidated financial statements of the Company and the Group for the year ended 31 December 2016.

I. Principal activities

Please refer to section IV "Business Overview", and "I. Principal operations of the Company during the Reporting Period" and "II. Analysis of principal operations" under section V "Discussion and Analysis of Operations" for details of principal activities of the Company.

II. Results and profit distribution

Please refer to section XIII "Financial Report" for the results of the Group for the year ended 31 December 2016.

III. Dividends

After the end of the reporting period, the Board proposed to pay a final dividend for the year ended 31 December 2016 ("final dividend") of RMB6.00 in cash for every 10 Shares (tax inclusive) (2015: dividend of RMB3.00 in cash for every 10 Shares (tax inclusive)) to the ordinary shareholders of the Company, subject to approval of shareholders at the forthcoming Annual General Meeting ("AGM") of the Company held on 21 April 2017. Upon approval of shareholders of the Company at the AGM, the Company is expected to pay the final dividend on or by 20 June 2017 to shareholders whose names appear on the register of members of the Company on 28 April 2017.

In accordance with the Corporate Income Tax Law of the PRC and its implementation rules effective on 1 January 2008, where a PRC domestic enterprise distributes dividends for financial periods beginning from 1 January 2008 to non-resident enterprise shareholders, it is required to withhold 10% corporate income tax for such non-resident enterprise shareholders. Therefore, as a PRC domestic enterprise, the Company will, after withholding 10% of final dividends as corporate income tax, distribute the final dividends to non-resident enterprise shareholders, i.e. any shareholders who hold the Company's Shares in the name of non-individual shareholders, including but not limited to HKSCC Nominees Limited, or other nominees, trustees, or holders of H Shares registered in the name of other organisations and groups.

Due to changes in the PRC tax laws and regulations, according to the Announcement on the List of Fully and Partially Invalid and Repealed Tax Regulatory Documents issued by the State Administration of Taxation (《關於公佈全文失效廢止、部份條款失效廢止的稅收規範性文件目錄的公告》) on 4 January 2011, individual Shareholders who hold the Company's H Shares and whose names appeared on the H Share Register of the Company can no longer be exempted from individual income tax pursuant to the Notice of the State Administration of Taxation Concerning the Taxation of Gains on Transfer and Dividends from Shares (Equities) Received by Foreign Investment Enterprises, Foreign Enterprises and Foreign Individuals (Guo Shui Fa [1993] No. 045) (《關於外商投資企業、外國企業和外籍個人取得股票(股權)轉讓收益和股息所得稅收問題的通知》(國稅發[1993]045號)) issued by the State Administration of Taxation, whilst pursuant to the letter titled Tax Arrangements on Dividends Paid to Hong Kong Residents by Mainland Companies issued by the Stock Exchange to the issuers on 4 July 2011 and the Notice on Matters Concerning the Levy and Administration of Individual Income Tax after the Repeal of Guo Shui Fa [1993] No. 045 of State Administration of Taxation (Guo Shui Han [2011] No. 348) (《國家稅務總局關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》(國稅函[2011]348號)), it is confirmed that the overseas resident individual shareholders holding shares of domestic non-foreign invested enterprises issued in Hong Kong are entitled to the relevant preferential tax treatments pursuant to the provisions in the tax arrangements between the countries where they reside and the PRC or the tax arrangements between the PRC and Hong Kong or the Macau Special Administrative Region of the PRC. Therefore, the Company will withhold 10% of the dividend as individual income tax, unless it is otherwise specified in the relevant tax regulations and tax agreements, in which case the Company will withhold individual income tax of such dividends in accordance with the tax rates and according to the relevant procedures as specified by the relevant regulations.

VI Directors' Report

IV. Closure of register of members

The register of members of the Company will be closed from 20 March 2017 (Monday) to 21 April 2017 (Friday), (both days inclusive), during which no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the annual general meeting to be held on 21 April 2017 (Friday), all share transfer documents accompanied by the corresponding share certificates must be lodged with the Company's Hong Kong share registrar and transfer office, Computershare Hong Kong Investor Services Limited at shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on 17 March 2017 (Friday).

V. Five-year financial summary

Please refer to "IX. Five-year financial summary under paragraph 19 of appendix 16 of the Hong Kong Listing Rules" under section II "Company Profile and Key Financial Indicators" for the financial summary of the Company for the past five financial years.

VI. Donations

During the year, the Company donated RMB1,000,000 (2015: RMB600,000) to non-profit making organisations.

VII. Subsidiaries

Please refer to "VII. Analysis of major subsidiaries and investees" under section V "Discussion and Analysis of Operations" and "XX. Matters of significant of subsidiaries of the Company" under section VII "Material Matters" for the details of acquisition and disposal of subsidiaries by the Company during the year.

VIII. Property, plant and equipment

Please refer to "1. Consolidated Balance Sheet" under section XIII "Financial Report" for the details of changes in property, plant and equipment of the Group for the year ended 31 December 2016.

IX. Share capital

Please refer to "I. Changes in shares" under section VIII "Changes in Share Capital and Shareholders" for details of changes in share capital of the Company for the year ended 31 December 2016.

X. Pre-emptive rights

In accordance with the Articles of Association and the PRC laws, there are no rules requiring the Company to grant existing shareholders pre-emptive rights on newly issued shares of the Company in proportion to their shareholdings.

XI. Transfer into reserves

The Company's contributed surplus is distributable to shareholders in accordance with the Companies Law. As at 31 December 2016, the Company's reserves available for cash distribution and/or distribution in specie, including contributed surplus of the Company, amounted to RMB7,393,989,520.67 (2015: RMB6,002,557,599.09) as set out in "1. Consolidated Balance Sheet" under section XII "Financial Report".

VI Directors' Report

XII. Directors

As at 31 December 2016, the Directors of the Company were:

1. Executive Directors

Mr. Chen Hongguo
Mr. Yin Tongyuan
Mr. Li Feng
Mr. Geng Guanglin

2. Non-executive Directors

Ms. Zhang Hong
Ms. Yang Guihua

3. Independent Non-executive Directors

Ms. Liang Fu
Ms. Wang Fengrong
Mr. Huang Lei
Ms. Pan Ailing

According to the Articles of Association of the Company, all Directors, including non-executive Directors, have been elected at the general meetings with a term of three years from May 2016 to May 2019. They may be re-elected for another term upon expiry of tenure.

XIII. Directors' service contracts

All Directors have entered into service contracts with the Company for a term from 18 May 2016 to 17 May 2019.

None of the Directors who have offered themselves for re-election at the forthcoming AGM have entered into any service contract with the Company or any of its subsidiaries which cannot be terminated by the Group within one year without payment of compensation other than statutory compensation.

XIV. Directors and senior management's remuneration and the five highest paid individuals

Details of Directors and senior management's remuneration and those of the five highest paid individuals in the Company and its subsidiaries are set out in part V of section X and part XII of section XII.

In 2016, the Company has 33 senior management in total, which include directors, supervisors and senior management. The remuneration of senior management falls within the following ranges:

Range of remuneration (RMB)	Number
4.8 million to 5.2 million	1
3.6 million to 4.0 million	
3.2 million to 3.6 million	
2.8 million to 3.2 million	1
2.4 million to 2.8 million	
2.0 million to 2.4 million	1
1.2 million to 1.6 million	3
0.8 million to 1.2 million	2
Below 0.8 million	25

VI Directors' Report

XV. Independent Non-executive Directors

The Company has received from each of the independent non-executive Directors a confirmation of independence for the year pursuant to Rule 3.13 of the Hong Kong Listing Rules and considered all of the independent non-executive Directors to be independent during the year.

XVI. Securities interests held by Directors, Supervisors and Chief Executives

As at 31 December 2016, interests of the Company or its associated corporations (within the meaning of Part XV of SFO) held by each of the Directors, Supervisors and Chief Executives of the Company under section 352 of the SFO are set out as follows:

Name	Position	Number of shares (A shares) held as at the end of the reporting period (shares)
Directors		
Chen Hongguo (Note 1)	Chairman and General Manager	6,434,527
Yin Tongyuan	Executive Director and Vice Chairman	2,423,640
Li Feng	Executive Director	471,818
Geng Guanglin	Executive Director	437,433
Yang Guihua	Non-executive Director	—
Zhang Hong	Non-executive Director	—
Huang Lei	Independent non-executive Director	—
Liang Fu	Independent non-executive Director	—
Wang Fengrong	Independent non-executive Director	—
Pan Ailing	Independent non-executive Director	—
Supervisors		
Li Dong	Supervisor	—
Sun Yinghua	Supervisor	—
Yang Hongqin	Supervisor	—
Liu Jilu	Supervisor	—
Zhang Xiaofeng	Supervisor	—

VI Directors' Report

Associated corporations

Name	Position	Name of associated corporations	Number of shares held at the beginning of the reporting period (shares)	Change during the period +/-	Number of shares held at the end of the reporting period (shares)
Chen Hongguo	Chairman	Shouguang Henglian Enterprise Investment Co. Ltd. (Note 2)	231,000,000	—	231,000,000

Note 1: Save for the 6,434,527 A shares held personally, Chen Hongguo is deemed to be interested in the 429,348 A shares held by his spouse, Li Xueqin.

Note 2: Chen Hongguo and his spouse, Li Xueqin, collectively hold 43% equity interests in Shouguang Henglian Enterprise Investment Co. Ltd., (hereinafter referred to as "Shouguang Henglian"), as a result, Shouguang Henglian is deemed to be controlled by Chen Hongguo. As a result, the 231,000,000 shares in Chenming Holdings (approximately 18.65% of the total share capital of Chenming Holdings) held by Shouguang Henglian is also deemed to be held by Chen Hongguo.

Save as disclosed above, as at 31 December 2016, none of the Directors, Supervisors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations which were required to be filed in the register of the Company required to be maintained pursuant to section 352 of the SFO or which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (hereinafter referred to as the "Hong Kong Listing Rules").

As at 31 December 2016, none of the Directors, Supervisors or chief executives or their respective spouses or children under the age of 18 held or exercised any rights to subscribe for the share capital or debentures of the Company or its associated corporations.

XVII. Interests and short position of substantial shareholders in shares and underlying shares

As at 31 December 2016, the following shareholders (other than the Directors, Supervisors or chief executives of the Company) had interests or short positions in the Company's shares and underlying shares as shown in the share register maintained by the Company in accordance with Section 336 of the SFO (Chapter 571 of the Laws of Hong Kong):

Name	Number of shares held (shares)	Approximate shareholding as a percentage of	
		Total share capital (%)	Class of shares (%)
Shouguang Chenming Holdings Co., Ltd.	293,003,657 A shares (L)	15.13	26.32
Shouguang Chenming Holdings Co., Ltd.	73,207,900 B shares (L)	3.78	15.55
Chenming Holdings (Hong Kong) Limited	73,207,900 B shares (L)	3.78	15.55
Shouguang Chenming Holdings Co., Ltd.	99,885,500 H shares (L)	5.16	28.36
Chenming Holdings (Hong Kong) Limited	99,885,500 H shares (L)	5.16	28.36
The National Social Security Fund Council	35,570,000 H shares (L)	1.84	10.10

(L) - Long position

(S) - Short position (P) - Lending pool

Save as disclosed above, as at 31 December 2016, no other person had interests or short positions in the Company's shares or underlying shares as recorded in the register maintained under section 336 of the SFO.

XVIII. Relationship with employees, customers and suppliers

Please refer to “VI. Personnel of the Company” under section X “Directors, Supervisors and Senior Management and Staff”, “2. (8) Sales to major customers and major suppliers” of “II. Analysis of principal operations” under section V “Discussion and Analysis of Operations” for details of the relationship between the Company and its employees, customers and suppliers.

XIX. Directors' interests in material contracts and indemnity provision

None of the Company or any of its subsidiaries entered into any material contracts, in which Directors had significant interests (either directly or indirectly), that subsisted at the end of the financial year or at any time during the reporting period. The Company did not have any indemnity provision in favour of any Director.

XX. Interests in competing business

None of the Directors or controlling shareholders of the Company was interested in any business which competes or is likely to compete with the businesses of the Company and any of its subsidiaries.

XXI. Directors' rights to purchase shares or debentures

At no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

XXII. Preference shares

Please refer to section IX “Preference Shares” for details of the issue of preference shares of the Company.

XXIII. Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed in 2016.

XXIV. Major risk factors

Please refer to “(V) Risk factors likely to be faced and the measures to be taken” of “IX. Outlook on the future development of the Company” under section V “Discussion and Analysis of Operations” for details of major risk factors of the Company.

XXV. Material matters

Please refer to section VII “Material Matters” for details of material matters of the Company.

XXVI.Future development

Please refer to “(I) Competition overview and development trend of the industry”, “(II) Development strategy”, “(III) Operating plan for 2017” and “(IV) Future capital requirements, source of funds and plan for use” of “IX. Outlook on the future development of the Company” under section V “Discussion and Analysis of Operations” for details of future development of the Company.

XXVII. Environment, social and governance report and social responsibility

Please refer to XVIII. Fulfilment of Social Responsibility under section VII “Material Matters” for details of fulfilment of social responsibility. Please refer to the environment, social and governance report as required by the Hong Kong Listing Rules, which will be issued separately by the Company before 17 May 2017.

VI Directors' Report

XXVIII. Purchase, sale and redemption of shares

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

XXIX. Sufficiency of public float

During the reporting period, based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient prescribed amount of public float as required under the Hong Kong Listing Rules.

XXX. Review of the Audit Committee

The audited consolidated financial statements of the Company for the year ended 31 December 2016 has been reviewed by the Audit Committee of the Company.

XXXI. Gearing ratio

As at 31 December 2016, the Company's gearing ratio (including minority interest) was 62.41%, representing a decrease of 2.65 percentage points from 65.06% for 2015, mainly due to the issuance of preference shares of RMB4.5 billion as the Company sought to improve its capital and debt structure.

The ratio was calculated as: total borrowings/total assets (whereas total borrowings represent borrowings due within one year, borrowings due after one year, short-term commercial paper and medium and long-term notes and others).

XXXII. Going Concern Basis

The Company is a leading player in the paper making industry in China. After entrepreneurship and innovation for more than half a century, it has developed into a large and integrated modern conglomerate principally engaged in pulp production, paper making, finance and forestry businesses while also involved in mining, energy, logistics, construction materials, hotel operation and others. It is the only Chinese company with A shares, B shares, H shares and preference shares in issue, and the first company in the paper making industry to integrate finance and industry and own a finance company and a financial leasing company. The Group has production bases in Shandong, Guangdong, Hubei, Jiangxi and Jilin, which deliver annual pulp and paper production capacity of over 8,500,000 tonnes.

The Company has good sustainable profitability. In 2016, the Company achieved revenue of RMB22.907 billion, net profit attributable to shareholders of the Company of RMB2,064 million and net cash flows from operating activities of RMB2,153 million. Meanwhile, the Company always places emphasis on the interests of and return to shareholders, and has paid generous cash dividends for several years. With the improvement of the economic situation, the future performance of the Company is worth looking forward to.

In addition, as of the end of December 2016, the Company obtained a comprehensive credit line of RMB68.4 billion from major financial institutions, of which unused credit line amounted to RMB31.7 billion, which provided important support to the Company's business development. As an A-share, B-share and H-share listed company, the Company has convenient financing channels. The Company established Shandong Chenming Financial Leasing Co., Ltd., Shandong Chenming Investment Limited and Shandong Chenming Group Finance Co., Ltd. as the core of the financial segment. The rapid business development, improving management system and effective risk control provide new sources of profit growth for the Company, further increase the Group's fund settlement, management, investment and financing ability, and reduce its financing cost while improving its debt structure.

The auditors of the Company have prepared the 2016 annual financial report on a going concern basis, and have issued a standard unqualified audit opinion (see Financial Report section).

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

VII Material Matters

I. Profit distribution for ordinary shares of the Company and conversion of capital reserves into share capital

Formulation, implementation or adjustment of profit distribution policy for ordinary shares, especially the cash dividend during the reporting period

☒ Applicable ☐ Not applicable

On 2 June 2016, the Resolution on Amendments to the Articles of Association of Shandong Chenming Paper Holdings Limited was considered and passed at the 2016 second extraordinary general meeting of the company, which amended the practice of profit distribution in the Articles of Association based on the actual operating conditions and the non-public issuance of shares of the Company.

The Company implemented its profit distribution policy in strict compliance with the Articles of Association. Its cash dividend policy was formulated and implemented in compliance with the requirements of the Articles of Association and the resolution of the general meeting with well-defined and clear dividend distribution criteria and proportion. The legal interests of the small shareholders were fully protected as the related decision making process and mechanism were in place, the duties of independent Directors were well-defined so that they played a role, and the small shareholders were given opportunities to sufficiently voice their opinion and make requests.

Implementation of the 2015 profit distribution plan: Based on the number of the shares as at the dividend distribution registration date of 1,936,405,467 shares, a cash dividend of RMB3 (tax inclusive) was to be paid to all shareholders for every 10 shares held. The total cash dividend to be distributed amounted to RMB580,921,640.10 (tax inclusive). The dividend distribution was implemented and completed on 15 July 2016. For details, please refer to the announcement on payment of final dividend and withholding and payment of enterprise income tax for non-resident enterprise shareholders published on the Hong Kong Stock Exchange on 4 July 2016, and the announcement on the implementation of the 2015 profit distribution plan for A share and B share published on CNINFO on 7 July 2016.

Particulars of Cash Dividend Policy

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

The dividend distribution plans for ordinary shares (proposed) and the proposals on conversion of capital reserves into share capital (proposed) over the past three years (the reporting period inclusive)

(1) The 2016 profit distribution plan

Based on the total ordinary share capital of 1,936,405,467 shares as at the end of 2016, a cash dividend of RMB6 (tax inclusive) per ten shares or RMB1,161,843,280.20, representing 56.29% of the consolidated net profit attributable to ordinary shareholders of the Company, will be distributed to ordinary shareholders.

VII Material Matters

I. Profit distribution for ordinary shares of the Company and conversion of capital reserves into share capital (Cont'd)

The dividend distribution plans for ordinary shares (proposed) and the proposals on conversion of capital reserves into share capital (proposed) over the past three years (the reporting period inclusive) (Cont'd)

(2) The 2015 profit distribution plan

The 2015 profit distribution plan was considered and approved in the 2015 annual general meeting convened by the Company on 18 May 2016. Based on the number of the shares as at the dividend distribution registration date of 1,936,405,467 shares, a cash dividend of RMB3.00 (tax inclusive) was to be paid to all shareholders for every 10 shares held. The total cash dividend distributed during 2015 amounted to RMB580,921,640.10 (tax inclusive).

(3) The 2014 profit distribution plan

The 2014 profit distribution plan was considered and approved in the 2014 annual general meeting convened by the Company on 15 May 2015. Based on the number of the shares as at the dividend distribution registration date of 1,936,405,467 shares, a cash dividend of RMB1.40 (tax inclusive) was to be paid to all shareholders for every 10 shares held. The total cash dividend distributed amounted to RMB271,096,765.38 (tax inclusive).

Cash dividends for ordinary shares of the Company over the past three years (the reporting period inclusive)

Unit: RMB

Year of distribution	Amount of cash dividends (tax inclusive)	Net profit attributable to owners of the Company in the consolidated financial statements during the year of distribution	As a percentage of net profit attributable to owners of the Company in the consolidated financial statements	Amount of cash dividends distribution through other means	Ratio of cash dividends distribution through other means
2016	1,161,843,280.20	2,063,986,822.25	56.29%	0.00	0.00%
2015	580,921,640.10	959,717,938.31	60.53%	0.00	0.00%
2014	271,096,765.38	505,204,384.73	53.66%	0.00	0.00%

The Company made a profit and had positive retained profit available for ordinary shareholders of parent company during the reporting period without cash dividend for ordinary shares being proposed

☐ Applicable ☒ Not applicable

VII Material Matters

II. Proposals on profit distribution and conversion of capital reserves into share capital during this reporting period (Including preference shares)

√ Applicable ☐ Not applicable

Numbers of bonus share per 10 shares (share(s))	0
Dividend distribution per 10 shares (RMB) (tax inclusive)	Dividend of RMB6.00 (tax inclusive) per 10 ordinary shares and RMB3.08 (tax inclusive) for per 10 preference shares
Conversion per 10 shares (share(s))	0
Share base of the distribution proposal (shares)	1,936,405,467 ordinary shares and 387,263,339 simulated shares converted from preference shares on a conversion ratio of 1 share valued at RMB5.81
Total cash dividend (RMB) (tax inclusive)	1,281,120,388.61
Distributable profits (RMB)	6,684,468,041.59
Percentage of cash dividend to total profits distribution	100.00%

Cash dividend policy

For profit distribution of companies which are fully developed with significant capital expenditure arrangement, the percentage for cash dividend shall represent at least 40% of the profits distribution for the current year

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

The audited consolidated net profit attributable to shareholders of the Company for 2016 prepared in accordance with Accounting Standards for Business Enterprises by the Company amounted to RMB2,063,986,822.25. When deducting the interest for perpetual bonds of RMB153,140,000 for 2016, the distributable profit realised for 2016 amounted to RMB1,910,846,822.25. In accordance with the requirements of the Articles of Association and the Prospectus of Non-public Issuance of Preference Shares, the proposed profit distribution plan of the Company for 2016 is as follows:

In accordance with the Prospectus of Non-public Issuance of Preference Shares, shareholders of preference shares may jointly participate in the distribution of the 50% retained earnings realised for the year of issuance with ordinary shareholders. The basis for the distribution is calculated as follows: (the number of months for the period from the next month after the month of issuance to the end of the reporting period/12) × the retained earnings realised for the year × 50%, and the basis for the distribution is $9/12 \times 19.11 \times 50\% = \text{RMB}717$ million.

Based on the total ordinary share capital of 1,936,405,467 shares as at the end of 2016 and the 387,263,339 simulated shares converted from the preference shares as at the end of 2016 on a conversion ratio of 1 share valued at RMB5.81, a cash dividend of RMB6 (tax inclusive) per ten shares or RMB1,161,843,280.20 will be distributed to ordinary shareholders, and a cash dividend of RMB3.08 (tax inclusive) per ten shares or a variable cash dividend of RMB119,277,108.41 will be distributed to holders of preference shares.

VII Material Matters

III. Performance of undertakings

1. Undertakings made by parties involved in undertakings including the Company's beneficial controllers, shareholders, related parties, bidders and the Company during the reporting period or prior periods but subsisting to the end of the reporting period

√ Applicable ☐ Not applicable

Undertaking	Party involved in undertaking	Type of undertaking	Details of undertaking	Undertaking date	Term	Particulars on the performance
Undertaking on shareholding structure reformation						
Undertaking made in offering documents or shareholding alternation documents						
Undertaking made during asset reconstruction						
Undertaking made on initial public offering or refinancing	Shouguang Chenming Holdings Co., Ltd.	Non-competitive undertaking	(1) Shouguang Chenming Holdings Co., Ltd. ("Shouguang Chenming Holdings") shall not engage, whether solely, jointly, or by representing itself or any other persons or companies, and shall not procure its associates (as defined in The Listing Rules of Hong Kong Stock Exchange) to engage, in any business which competes with the business of the Company and its subsidiaries ("Chenming Group" or "we") directly or indirectly, in any country and region which our business exists (or any part of the world if in any form of electronics business), or in any business that directly or indirectly competes with Chenming Group's business which we operate from time to time (including but not limited to any business in the form of sole proprietorship, joint ventures or acquisitions, or holding interests directly or indirectly in such enterprises, or by any other means); (2) in the event that Shouguang Chenming Holdings is required by its business to, whether solely, jointly, or by representing itself or any other persons or companies, engage in business which directly or indirectly competes against the business of Chenming Group, or obtain any business opportunity which directly or indirectly competes against the business of Chenming Group, it shall endeavour to procure that Chenming Group shall have priority to obtain the right to operate such business or to obtain such business opportunity; (3) if Shouguang Chenming Holdings is in breach of the abovementioned undertakings, it shall indemnify the Company for any loss caused by such breach and the Company shall have the right to acquire all businesses of Shouguang Chenming Holdings, which directly or indirectly compete with the businesses of our Group, at market price or cost price (whichever price is lower); (4) Shouguang Chenming Holdings shall not make use of its position as the controlling shareholder (as defined in The Listing Rules of Hong Kong Stock Exchange) of our Group to jeopardise the legal interests of Chenming Group and its shareholders with other persons or companies or on their behalf.	22 May 2008		During the period when Chenming Holdings was the major shareholder of the Company

VII Material Matters

III. Performance of undertakings (Cont'd)

1. Undertakings made by parties involved in undertakings including the Company's beneficial controllers, shareholders, related parties, bidders and the Company during the reporting period or prior periods but subsisting to the end of the reporting period (Cont'd)

Undertaking	Party involved in undertaking	Type of undertaking	Details of undertaking	Undertaking date	Term	Particulars on the performance
	Shouguang Chenming Holdings Co., Ltd.	Defective properties	(1) According to the plan on defective properties of the Company, Shouguang Chenming Holdings Co., Ltd. ("Shouguang Chenming Holdings") has guaranteed and undertaken that: according to the application of the Company, for defective property(ies) owned by the Company and its holding subsidiary company which situated in the administrative area of Shouguang city, Shouguang Chenming Holdings will purchase it (them) and have it(them) being transferred to itself pursuant to the law in accordance with the result of the related asset valuation if the Company decides to transfer and dispose of it(them) and there is no other transferee; (2) before the Company transfers and disposes of the defective properties pursuant to the law, if the Company suffers any economic losses due to the defects of the title (including but not limited to damages, penalties and relocation costs), Shouguang Chenming Holdings will bear such economic losses; (3) during the regulatory process taken to the defective properties of buildings and land of subsidiaries of the Company situated outside the local areas (outside the administrative area of Shouguang city), the economic losses such as penalties or relocation costs imposed by competent administrative authorities to be borne by the subsidiaries arising from defects of insufficient title documents shall be paid pursuant to the law by Shouguang Chenming Holdings after verification.	16 January 2008	During the period when Chenming Holdings was the major shareholder of the Company	Implementing as normal
	Shandong Chenming Paper Holdings Limited	Specific remedial measures for non-public issuance of preference shares	In view of the impacts on dilution of current returns for ordinary shareholders under the preference shares issuance, and in order to implement the Notice of the General Office of the State Council on Further Strengthening Protection of the Lawful Rights of Small Investors in Capital Markets, protect the interests of ordinary shareholders and provide remedies for the possible dilution on current returns as a result of preference shares issuance, the Company has undertaken that it will implement various measures to ensure the effective utilisation of proceeds raised, which can prevent dilution on current returns effectively, thereby enhancing future returns.	25 March 2016	9999-12-31	Implementing as normal

VII Material Matters

III. Performance of undertakings (*Cont'd*)

2. Description on the Company's assets and items in meeting original profit forecast and its explanation as there is profit forecast for assets and items of the Company and the reporting period is still within the profit forecast period

☐ Applicable ☒ Not applicable

IV. Appropriation of funds of the Company by the controlling shareholder and its related parties for non-operating purposes

☐ Applicable ☒ Not applicable

There was no appropriation of funds of the Company by the controlling shareholder and its related parties for non-operating purposes during the reporting period.

V. Opinions of the Board, the Supervisory Committee and independent Directors (if any) regarding the “modified auditor’s report” for the reporting period issued by the accountants

☐ Applicable ☒ Not applicable

VII Material Matters

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

☒ Applicable ☐ Not applicable

1. There was no change in accounting policies and accounting methods of the Company during the reporting period.
2. There was a change in accounting estimates of the Financial Leasing Company under the Company during the reporting period. The debts arising from the financial leasing business of the Financial Leasing Company were provided for bad debts at 5% to 10% since 1 November 2016.

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

☐ Applicable ☒ Not applicable

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

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

☒ Applicable ☐ Not applicable

1. Establishment of new subsidiaries

Name of the company	Date of establishment	Operating scope	Registered capital (RMB'0,000)	Percentage of shareholding
Qingdao Chenming Nonghai Finance Leasing Co., Ltd.	July 2016	Finance leasing, operational leasing, purchase of assets for leasing, etc.	500,000.00	100%
Jilin Chenming Logistics Co., Ltd.	August 2016	Road transportation of general cargo; transportation for containers; road transportation agency; consultation on cargo transportation; warehousing, loading and unloading services, etc.	500.00	100%
Jiangxi Chenming Logistics Co., Ltd.	September 2016	Road transportation of general cargo; transportation for containers; road transportation agency; consultation on cargo transportation; warehousing, loading and unloading services, etc.	500.00	100%

VII Material Matters

VIII. Reason for changes in scope of the consolidated financial statements as compared to the financial report for the prior year (*Cont'd*)

2. Disposal of subsidiary

Name of subsidiary	Consideration for equity disposal (RMB'0,000)	Percentage of equity disposed (%)	Way of disposal	Date on which control over subsidiary is lost	Basis of determination of date on which control over subsidiary is lost	Difference between disposal consideration and net assets of the subject subsidiary attributable to the Company under consolidated financial statements (RMB)
Shouguang Chenming Jiatai Property Management Co., Ltd.	100.00	100.00	Transfer	December 2016	Equity transfer agreement and transfer consideration received	1,203.18

IX. Engagement or dismissal of accounting firms

Current accounting firm engaged

Name of the domestic accounting firm

Ruihua Certified Public Accountants
(Special General Partnership)

Remuneration of the domestic accounting firm (RMB '0,000)

260

Continued term of service of the domestic accounting firm

4

Name of certified public accountants of the domestic accounting firm

Zhao Yanmei and Wang Zongpei

Whether to appoint another accounting firm during the period

☐ Yes ☒ No

Particulars on recruitment of accounting firms, financial consultants or sponsors for internal control and auditing purposes

☒ Applicable ☐ Not applicable

1. In 2016, the Company engaged Ruihua Certified Public Accountants as the internal control and auditing firm of the Company. The Company paid RMB600,000 as internal control and auditing fees during the period;
2. In 2016, the Company engaged King & Wood Mallesons (Qingdao) Law Firm as its regular legal advisor and paid RMB100,000 as legal advisory fees during the period;
3. During the year, due to non-public issuance of preference shares, the Company engaged Zhongtai Securities Co., Ltd. as the sponsor of the Company. The Company paid RMB2.00 million as sponsorship fees during the period. During the reporting period, due to the working requirements for the non-public issuance of A shares, the Company engaged CSC Financial Co., Ltd. as the sponsor for the non-public issuance. Hence, the unfinished ongoing supervisory of Zhongtai Securities on the non-public issuance of the Company will be succeeded by CSC Financial. The term for ongoing supervisory will be expired on 31 December 2017.

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

☐ Applicable ☒ Not applicable

XI. Matters related to bankruptcy and reorganisation

☐ Applicable ☒ Not applicable

There was no matter related to bankruptcy and reorganisation during the reporting period.

XII. Material litigation and arbitration

✓ Applicable ☐ Not applicable

Basic information about litigation (arbitration)	Amount (RMB '0,000)	Will liability be incurred	Progress of litigation (arbitration)	Judgment result of the litigation (arbitration) and its effect	Judgment execution of the litigation (arbitration)	Disclosure date	Disclosure index
Statutory demand	RMB167,860,000 and the interest thereon, USD3,548,900 and the interest thereon and HKD3,303,900 and the interest thereon	No	<ol style="list-style-type: none"> On 18 October 2016, a "statutory demand" from a claimed creditor was delivered to the Hong Kong registered address of the Company; On 7 November 2016, the Company engaged solicitor to apply to the Court of First Instance in the High Court of Hong Kong Special Administrative Region and has obtained an injunction order "against applicant to petition for winding-up against the Company; On 11 November 2016, the Court of First Instance in the High Court of Hong Kong Special Administrative Region has made the following orders: (1) The injunction order issued on 7 November 2016 will continue to be effective until further order made by the court; (2) the inter-parties hearing regarding the injunction order will be continued at the Court of First Instance in the High Court of Hong Kong Special Administrative Region on 21 February 2017 and 22 February 2017, with 23 February 2017 reserved. 	<ol style="list-style-type: none"> The injunction order issued on 7 November 2016 will continue to be effective until further order made by the court. The inter-parties hearing regarding the injunction order will be continued at the Court of First Instance in the High Court of Hong Kong Special Administrative Region on 21 February 2017 and 22 February 2017, with 23 February 2017 reserved. The production and operation of the Company remain normal, with increase in production and sale volume. In view of the amount involved in this incident and the current financial condition of the Company, the Board of the Company is not expecting any significant adverse effect on the ordinary production and operation of the Company. 	Not applicable	26 October 2016, 9 November 2016 and 22 November 2016	http://www.cninfo.com.cn , announcement number: 2016-140, 2016-144 and 2016-151

VII Material Matters

XIII. Punishment and rectification

√ Applicable ☐ Not applicable

Name	Type	Reason	Type of punishment	Conclusion (if any)	Disclosure date	Disclosure index
Jiangxi Chenming Paper Co., Ltd.	Enterprise	Administrative penalty imposed by environment authority due to over-discharge of waste gas and waste water	Ordinary administrative penalty imposed by environment authority	From April to September 2016, the unstable operation of environmental protection facilities of Jiangxi Chenming resulted in fluctuation in waste water and waste gas indicators. The Environmental Protection Bureau imposed six administrative penalties on Jiangxi Chenming. The penalties were paid on-time, and the aforesaid punishment was concluded. Jiangxi Chenming conducted rectification in accordance with the requirements under the Notice on Rectification within a Prescribed Timeframe, and the rectification achieved good results. The six administrative penalties above were ordinary administrative penalty and did not constitute any material breach of laws and regulations.	Not applicable	Not applicable

Explanation on rectification

√ Applicable ☐ Not applicable

After the aforesaid environmental protection punishment had been imposed, Jiangxi Chenming has proactively implemented rectification. As of 31 December 2016, Jiangxi Chenming had fully paid the penalties. Specific rectify measures imposed by Jiangxi Chenming are as follow:

- In respect of over-discharge of waste water, specific rectify measures imposed by Jiangxi Chenming are as follows:
 - Establish an environment management team under the supervision of senior management, which will be responsible for discovering and solving issues about process effluent produced during ordinary production, and supervising the ordinary production and operation.
 - Adjust the water discharge indicator for workshops. Filtration equipment will be installed at gutters of workshops in order to reduce impurity in waste water.
 - Cooling water and condensate in workshops will be fully reused; For paper-making workshops, 90% of the white water will be reused; Invest RMB3.50 million for the installation of new sand filtration system, which can reuse approximately 6,000 m3 process effluent per day; Improve the fibre retention rate to over 95% in systems as to reduce loss in fibres. Through reducing loss at source, the volume of waste water discharged will be reduced, thus mitigating the load for process effluent treatment. By implementing aforesaid measures, the waste water discharge of Jiangxi Chenming can meet with the discharge limitation.
- In respect of over-discharge of smelly gas, Jiangxi Chenming will invest RMB3.80 million for the installation of new odour elimination system for process effluent. Such system has put into operation. The process effluent workshops of Jiangxi Chenming have been operating steadily. Functional departments have enhanced their supervision over the operation of process effluent workshop, and focused on supervision over various technical indicators, thus meeting with the discharge indicators.

VII Material Matters

XIV. Credibility of the Company, its controlling shareholders and beneficial controllers

☐ Applicable ☒ Not applicable

XV. Implementation of the equity incentive plan, employee shareholding plan or other employee incentive measure of the Company

☐ Applicable ☒ Not applicable

There was no implementation of the equity incentive plan, employee shareholding plan or other employee incentive measure of the Company during the reporting period.

XVI. Significant related party transactions and connected transactions

1. Related party transactions associated with day-to-day operation

☒ Applicable ☐ Not applicable

Related party	Related party relationship	Types of the related party transactions	Subject matter of the related party transactions	Pricing basis of the related party transactions	Price of related party transactions	Amount of related party transactions (RMB'0,000)	Percentage as the amount of similar transactions (%)	Amount of transactions approved (RMB'0,000)	Whether exceeding approved cap	Settlement of related party transactions	Market price of available similar transaction	Disclosure date	Disclosure index	A connected transaction under Chapter 14A of the Hong Kong Listing Rules or not	Disclosed under the requirements of the Hong Kong Listing Rules or not
Jiangxi Chenming Natural Gas Co., Ltd.	Senior management of the Company served as its director	Procurement	Natural gas and heavy oil etc.	Market price	Market price	16,943.69	1.07%	36,000	No	Bank acceptance and telegraphic transfer	Not applicable	31 March 2016	http://www.cninfo.com.cn	Yes	Yes. Please see the related announcement dated 30 March 2016
Particulars on refund of bulk sale										Nil					
Estimated total amount for day-to-day related party transactions to be conducted during the period (by types of transactions) and their actual implementing during the reporting period (if any)										Not applicable					
Reason for the difference between transaction price and market reference price (if applicable)										Not applicable					

2. Related party transaction in connection with purchase or sale of assets or equity interest

☐ Applicable ☒ Not applicable

There was no related party transaction of the Company in connection with purchase or sale of assets or equity interest during the reporting period.

3. Related party transaction in connection with joint external investment

☐ Applicable ☒ Not applicable

There was no related party transaction of the Company connected to joint external investment during the reporting period.

VII Material Matters

XVI. Significant related party transactions (Cont'd)

4. Related creditors' rights and debts transactions

☒ Applicable ☐ Not applicable

Whether non-operating related creditors' rights and debts transactions existed

☐ Yes ☒ No

There was no non-operating related creditors' rights and debts transaction of the Company during the reporting period.

5. Other significant related party transactions

☐ Applicable ☒ Not applicable

There was no other related party transaction of the Company during the reporting period.

6. Connected transactions

During the year, the connected transaction entered into by the Company was in strict compliance with the related requirements of Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). The details of the related connected transaction are as follows:

Entering into a conditional new share subscription agreement with the controlling shareholder

On 17 May 2016, the Company entered into a conditional new share subscription agreement with Chenming Holdings, pursuant to which Chenming Holdings subscribed shares in the non-public issue based on its 20.35% (including 20.35%) equity interest in the Company as at 31 March 2016. The specific number of the subscribed shares was determined by the final number of the shares issued in the non-public issue multiplied by 20.35%. As at the date of this report, Chenming Holdings is the controlling shareholder of the Company which holds 24.07% equity interest in the Company. Under Chapter 14A of the Listing Rules, Chenming Holdings is a connected person of the Company. For the details of entering into the new share subscription agreement, please refer to 1. Non-public issue of A shares under XIX. Other matters of significance of this section, and the announcement of the Company dated 17 May 2016.

7. Continuing connected transactions

During the year, the continuing connected transactions entered into by the Company were in strict compliance with the related requirements of Chapter 14A of the Listing Rules and approved by the independent shareholders if necessary. The details of the related continuing connected transactions are as follows:

Entering into a purchase and sale agreement with Jiangxi Chenming Natural Gas Co., Ltd. (the "Purchase and Sale Agreement")

On 30 March 2016, the Company and Jiangxi Chenming Natural Gas Co., Ltd. ("Jiangxi Chenming Natural Gas") entered into the Purchase and Sale Agreement in relation to the procurement. The term of the Purchase and Sale Agreement is one year commencing on 30 March 2016 and expiring on 29 March 2017. As at the effective date of the Purchase and Sale Agreement, Mr. Chen Hongguo, being an executive Director, held 60.36% equity interest in Shouguang Hengtai Enterprise Investment Company Limited ("Hengtai Enterprise"), and Mr. Yin Tongyuan, Mr. Li Feng, Mr. Geng Guanglin, Mr. Hou Huancai and Mr. Zhou Shaohua, all being executive Directors, and Mr. Gao Junjie, being a Supervisor, held in aggregate 37.28% equity interest in Hengtai Enterprise, which in turn held 51% equity interest in Jiangxi Chenming Natural Gas. Accordingly, Jiangxi Chenming Natural Gas was deemed to be an associate of the above connected persons. Pursuant to Chapter 14A of the Listing Rules, the procurement under the Purchase and Sale Agreement constituted continuing connected transactions of the Company. For the details of the Purchase and Sale Agreement, please refer to XVI. Significant related party transactions under this section, (1) Related party transactions in connection with purchase and sales of goods and rendering and receiving services under 5. Related party transactions of XII. Related parties and related party transactions under section XIII Financial Report, and the announcement of the Company dated 30 March 2016.

VII Material Matters

XVI. Significant related party transactions (Cont'd)

The independent non-executive Directors of the Company had reviewed the above continuing connected transactions and confirmed that the transactions had been entered into:

- (1) in the ordinary and usual course of business of the Group;
- (2) on normal commercial terms or better (as defined in the Listing Rules); and
- (3) according to the agreement governing them on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company had engaged Ruihua Certified Public Accountants (Special General Partnership), the auditors of the Company, to conduct an annual review of the above continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules. Ruihua Certified Public Accountants (Special General Partnership) had undertaken a limited assurance engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and with reference to Practice Note 740, Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules issued by Hong Kong Institute of Certified Public Accountants, and provided a letter separately to the Board, confirming that the above continuing connected transactions:

- (1) were approved by the Board;
- (2) were, in all material respects, executed in accordance with the pricing policies of the relevant agreement governing the transactions;
- (3) were, in all material respects, conducted in accordance with the terms of the relevant agreement governing the transactions; and
- (4) had not exceeded the annual cap as disclosed in the related announcement.

XVII. Material contracts and implementation

1. Custody, contracting and leasing

(1) Custody

☐ Applicable ☒ Not applicable

There was no custody of the Company during the reporting period.

(2) Contracting

☐ Applicable ☒ Not applicable

There was no contracting of the Company during the reporting period.

(3) Leasing

☐ Applicable ☒ Not applicable

There was no leasing of the Company during the reporting period.

VII Material Matters

XVII. Material contracts and implementation (Cont'd)

2. Significant guarantees

√ Applicable ☐ Not applicable

(1) Guarantees

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

During the reporting period, the Company provided guarantee to their subsidiaries with respect to application of bank loans. The guarantee amount incurred was RMB12,007.0451 million. As at 31 December 2016, the balance of the guarantee provided by the Company amounted to RMB13,170.7253 million, representing 59.28% of the equity attributable to shareholders of the Company as at the end of 2016.

Unit: RMB'0,000

External guarantees of the Company and its subsidiaries (excluding guarantees to subsidiaries)									
Name of obligee	Date of the related announcement disclosing the guarantee amount	Amount of guarantee	Guarantee date (agreement date)	Guarantee provided	Type of guarantee	Term	Fulfilled or not	Guarantee to related parties or not	
Total external guarantees approved during the reporting period (A1)			0	Total actual external guarantees during the reporting period (A2)					0
Total external guarantees approved at the end of the reporting period (A3)			0	Balance of total actual guarantees at the end of the reporting period (A4)					0
Guarantees between the Company and its subsidiaries									
Name of obligee	Date of the related announcement disclosing the guarantee amount	Amount of guarantee	Guarantee date (agreement date)	Guarantee provided	Type of guarantee	Term	Fulfilled or not	Guarantee to related parties or not	
Zhanjiang Chenming Pulp & Paper Co., Ltd.	27 October 2014	650,000	29 June 2015	253,602.82	General guarantee	3 years	No	No	
Zhanjiang Chenming Pulp & Paper Co., Ltd.	30 March 2016	150,000			General guarantee	3 years	No	No	
Shandong Chenming Financial Leasing Co., Ltd.	26 March 2015	500,000	28 November 2014	258,586.54	General guarantee	7 years	No	No	
Shandong Chenming Financial Leasing Co., Ltd.	30 March 2016	300,000			General guarantee	7 years	No	No	
Huanggang Chenming Arboriculture Co., Ltd.	27 October 2014	10,000			General guarantee	3 years	No	No	
Huanggang Chenming Pulp & Paper Co., Ltd.	26 March 2015	400,000	17 August 2015	83,607.05	General guarantee	7 years	No	No	
Huanggang Chenming Pulp & Paper Co., Ltd.	30 March 2016	550,000			General guarantee	7 years	No	No	
Jiangxi Chenming Paper Co., Ltd.	27 October 2014	200,000	29 January 2014	82,423.66	General guarantee	3 years	No	No	
Jiangxi Chenming Paper Co., Ltd.	30 March 2016	150,000			General guarantee	3 years	No	No	
Shouguang Meilun Paper Co., Ltd.	16 December 2010	600,000	14 November 2016	34,383.49	General guarantee	10 years	No	No	
Shandong Chenming Paper Sales Company Limited	27 October 2014	400,000	7 July 2016	227,671.05	General guarantee	3 years	No	No	
Shandong Chenming Paper Sales Company Limited	30 March 2016	200,000			General guarantee	3 years	No	No	
Chenming (HK) Limited	27 October 2014	500,000	22 January 2016	372,797.91	General guarantee	3 years	No	No	
Chenming (HK) Limited	30 March 2016	100,000			General guarantee	3 years	No	No	
Shouguang Chenming Import and Export Trade Co., Ltd.	27 October 2014	200,000			General guarantee	3 years	No	No	
Jilin Chenming Paper Co., Ltd.	27 October 2014	150,000	20 July 2016	4,000	General guarantee	3 years	No	No	
Shandong Chenming Group Finance Co., Ltd.	29 December 2014	400,000			General guarantee	3 years	No	No	
Total amount of guarantee provided for subsidiaries approved during the reporting period (B1)				2,050,000	Total amount of guarantee provided for subsidiaries during the reporting period (B2)				1,200,704.51
Total amount of guarantee provided for subsidiaries approved as at the end of the reporting period (B3)				5,460,000	Total balance of guarantee provided for subsidiaries as at the end of the reporting period (B4)				1,317,072.53

VII Material Matters

XVII. Material contracts and implementation (Cont'd)

2. Significant guarantees (Cont'd)

(1) Guarantees (Cont'd)

Name of obligee	Guarantees between subsidiaries							Guarantee to related parties or not
	Date of the related announcement disclosing the guarantee amount	Amount of guarantee	Guarantee date (agreement date)	Guarantee provided	Type of guarantee	Term	Fulfilled or not	
Total amount of guarantee provided for subsidiaries approved during the reporting period (C1)			0	Total amount of guarantee provided for subsidiaries during the reporting period (C2)			0	
Total amount of guarantee provided for subsidiaries approved as at the end of the reporting period (C3)			0	Total balance of guarantee provided for subsidiaries at the end of the reporting period (C4)			0	
Total amount of guarantee provided (i.e. sum of the above three guarantee amount)								
Total amount of guarantee approved during the reporting period (A1+B1+C1)			2,050,000	Total amount of guarantee during the reporting period (A2+B2+C2)			1,200,704.51	
Total amount of guarantee approved as at the end of the reporting period (A3+B3+C3)			5,460,000	Total balance of guarantee as at the end of the reporting period (A4+B4+C4)			1,317,072.53	
The percentage of total amount of guarantee provided (i.e. A4+B4+C4) to the net assets of the Company							59.28%	
Of which:								
Balance of guarantee provided for shareholders, beneficial controllers and its related parties (D)							0	
Balance of guarantee directly or indirectly provided for obligors with gearing ratio over 70% (E)							1,232,228.49	
Total amount of guarantee provided in excess of 50% of net assets (F)							188,829.57	
Sum of the above three amount of guarantee (D+E+F)							1,317,072.53	

(2) External guarantees against the rules and regulations

☐ Applicable ☒ Not applicable

There was no external guarantee provided by the Company which was against the rules and regulations during the reporting period.

VII Material Matters

XVII. Material contracts and implementation (Cont'd)

3. Entrusted cash and asset management

(1) Entrusted wealth management

☐ Applicable ☒ Not applicable

The Company did not have any entrusted wealth management during the reporting period.

(2) Entrusted loans

☒ Applicable ☐ Not applicable

Unit: RMB'0,000

Borrower	Related party transaction or not	Interest rate of loans	Loan amount	Commencement date	Expiry date	Actual principal recovered during the period	Impairment provision (if any)	Expected return	Actual gains or losses during the reporting period	Gains or losses recovered during the reporting period
Shouguang Jin Choi Public Assets Management Co., Ltd.	No	10.00%	50,000	18 January 2014	17 January 2017	0	0	15,000	4,867.14	Recovered on time
Shouguang Jin Choi Public Assets Management Co., Ltd.	No	10.00%	40,000	18 April 2014	18 April 2017	0	0	12,000	3,893.71	Recovered on time
Source of entrusted loans						Self-owned funds				
Accumulated principal and return overdue but not yet recover						0				
Dispute (if applicable)						None				
Disclosure date of approval of entrusted loans in board meeting (if any)						18 January 2014				
Disclosure date of approval of entrusted loans at a general meeting (if any)										
Any entrusted loan plan in the future?						Not applicable				

4. Other material contracts

☐ Applicable ☒ Not applicable

The Company did not have any other material contract during the reporting period.

XVIII. Fulfilment of Social Responsibility

1. Fulfilment of social responsibility regarding specialised poverty relief

☐ Applicable ☒ Not applicable

2. Fulfilment of other social responsibility

The state is the strongest support for the development of Chenming, while the society is the greatest origin for Chenming's development and growth. During its development for more than half a century, Chenming has always adhered to its philosophy of "building the country through industry development and paying back to society". It has voluntarily performed its social responsibility, and cultivated the "tree of responsibility", which has already achieved fruitful results.

The Company has established its corporate governance structure in accordance with the requirements of the Companies Law, Securities Law, Articles of Association and other relevant laws and regulations and the actual situation of the Company. There is a clear separation of powers and responsibilities between the general meeting, the Board, the Supervisory Committee and the management which is accountable to the general manager. The management system under the structure is characterised by a mechanism of checks and balances of a legal person with separation of ownership and operation, separation of the decision-making, execution and supervisory powers, as well as the co-existence of the general meeting, the Board and the Supervisory Committee. Strict provisions on the rights, duties and responsibilities of the general meeting, the Board, the Supervisory Committee and general managers have been stipulated. The Company has placed great emphasis on fulfilment of social responsibility and goes beyond the concept of “profit as the only goal”. While creating value for shareholders during the process of production, operation and business development, the Company, in line with the development of the State and the society, has strived to reach a compromise between economic benefits and social benefits, short-term benefits and long-term benefits, as well as corporate development and social development, with the aim to achieve a healthy and harmonious development between the Company and its employees, the Company and the society, and the Company and the environment.

Centring the corporate mission of “Creating Sharing Culture within Chenming and Achieving Win-Win Situation”, the core value of “Good Faith, Win-Win and Sharing”, the corporate spirit of “Learning, Surpass and Leading” as well as the human resources philosophy of “Providing Staff Trainings, Recruiting Talents, Allocating Human Resources Properly and Retaining Talents”, the Company has established its own corporate culture, which has become the spirit and driver for the sustainable and health development of the Company.

The Company strives to the development path of new type industrialisation with high technology contents, low energy consumption and less pollution. It puts great efforts in the implementation of green low-carbon strategy. In addition, the Company endeavours to facilitate business development in line with ecological development, enhance its competitiveness in economic development and environmental protection, and establish its economic and ecological culture. It also seeks for development while protecting the environment and maintains higher environmental protection while seeking for scientific development, thus achieving “win-win” situation in economic development and environmental protection. The Company has strictly in compliance with relevant environmental protection policies, laws and regulations in China. It has mitigated the impact on environment through industrial optimisation and upgrade, reduced resources utilisation through innovative operation, and implemented strict management with the concept of environmental protection and safety operation being penetrated into every procedure in production and operation, thereby promoting the harmonious development between the people and the Company, as well as that of the Company and the environment. The Company is the first in the industry in China which passes ISO14001 environmental management system certification. The Company has been named the environmental friendly enterprise, the recycling economy exemplary enterprise, the outstanding water efficiency unit and the outstanding unit in comprehensive utilisation of resources of Shandong province.

VII Material Matters

XVIII. Fulfilment of Social Responsibility (Cont'd)

2. Fulfilment of other social responsibility (Cont'd)

Leveraging its advanced production technology and manufacture equipment, extensive experience in waste treatment and various comprehensive treatment systems, the Company strives to implement horizontal and vertical control throughout its production processes, thus achieving low carbon emission through low energy consumption, as well as reduction of use of resources through recycling. The Company has passed the clean production assessment organised by United Nations Development Programme in May 1999. The Company focuses on its works in various aspects, including the establishment of eco-friendly energy consumption system, implementation of on-site 6S management, launch of environmental protection and hazard inspection works, wide application of new energy conservation and emission reduction technology, promotion of key energy conservation and emission reduction projects, enhancement of innovative technology, promotion of the industrialisation of comprehensive resources utilisation, implementation of scientific proposal on “multi-usage of water” based on the quality, quantity and working procedure, as well as strengthening of the awareness on energy saving and environmental protection of all staff and habit building. Hence, the Company has achieved whole process control and management over clean and efficient production.

The Company has strictly implemented in-depth corporate governance. It has put great efforts and huge investments in promoting the management of “the three wastes” so as to facilitate energy conservation and emission reduction, aiming to become a low energy consumption and environment friendly enterprise. In respect of waste water treatment, the Company has established world-class waste water treatment system. It has over 10 waste water treatment facilities for various purposes, with the most advanced treatment technology in domestic and overseas market being adopted. Hence, the Company has realised the comprehensive integration and upgrade of waste water treatment facilities in plants, with different emission indicators better than relevant regulatory benchmark. In respect of solid waste treatment, the Company has discontinued the traditional landfilling treatment. It has enhanced its technology innovation, strengthened comprehensive resources utilisation, as well as expanded its industrial chain, thereby achieving recycling and harmless utilisation of solid wastes. In respect of waste gas treatment, the Company has introduced advanced international environmental protection equipment and technology for desulphurisation, denitrification and de-dusting, smelly gas treatment and closure of coal plants. It has adopted scientific waste gas treatment as to ensure our waste gas emission is in compliance with all relevant environmental protection standards and requirements in China.

The Company strives to create a wealthy society. It has offered more job vacancies, thereby contributing more taxes to the government, and sharing the achievements of the Company with our staff and society. While caring our staff sincerely and building up a harmonious relationship with the staff, the Company also greatly supports different charity programmes. Over the past few years, the Company has donated tens of millions to Shouguang Education Fund, Shouguang Charity Federation, Weifang Venture Association, Shandong Red Cross and districts suffered from earthquake, which reflects the outstanding contribution of the Company to building a harmonious society in China. The Company has been honoured with the title of “Most Caring Donating Enterprise” by Weifang and Shouguang Municipal Committee and Municipal Government for several times, while our chairman Mr. Chen Hongguo has been honoured with the title of “Most Caring Person”.

XVIII. Fulfilment of Social Responsibility (Cont'd)

2. Fulfilment of other social responsibility (Cont'd)

Are the Company and its subsidiaries classified as key pollutant discharging unit as specified by environmental protection authority?

☒ Yes ☐ No ☐ Not applicable

- (1) The Company and its subsidiaries strictly comply with laws, regulations and relevant rules regarding environmental protection of the central and local government. The construction of projects strictly executed the evaluation system on impacts of project construction on environment. In order to ensure pollutants are discharged strictly in accordance to requirements under laws and regulation and disposed properly, production and operation strictly comply with the national Law on the Prevention and Control of Environmental Pollution, Law on the Prevention and Control of Air Pollution, Ten Rules Regarding Water Pollution and Law on the Prevention and Control of Environmental Pollution by Solid Waste.
- (2) Both the Company and its subsidiaries are equipped with comprehensive environmental protection treatment facilities. The aerobic-anaerobic-in-depth treatment technology is the major technology for water treatment, which can achieve standardised discharge of waste water. Moreover, subsidiaries are equipped with recycling system for process effluent, and reuse treated waste water to the greatest extent in order to minimise pollution. Chenming Paper has constructed a total of 8 water treatment plants, with daily treatment capacity of 350,000 m³. Major national monitor indicators included indicators on COD, SS, ammonia nitrogen and PH value etc. The emission standards are: <90mg/l for COD, <30mg/l for SS, <8mg/l for ammonia nitrogen and PH value ranges from 6-9. In 2016, the average emission standards are: 68mg/l for COD, 19mg/l for SS, 2mg/l for ammonia nitrogen and PH value of 7.1. Total pollutant emission in 2016 was 2,674 tonnes for COD and 128.97 tonnes for ammonia nitrogen. A total of seven online water monitor facilities were installed in subsidiaries (one of which was shared by two water treatment plants in Zhanjiang). Four online water monitor facilities are directly managed by the environmental protection bureau, while the remaining three online water monitor facilities are operated by entrusted enterprises qualified for running such facilities. In addition, governmental authority will regularly visit the Company to conduct comparison of online monitor data every quarter. All data meets the standards.
- (3) Subsidiaries of Chenming Paper have its own power plants. Each self-owned plant has its own environmental protection facilities for de-dusting, desulphurisation and denitrification. Denitrification is conducted through SNCR, while desulphurisation is primarily conducted through gypsum desulphurisation (ammonia desulphurisation is adopted in self-owned plant of Jianqixi Chenming).

Shouguang Chenming power plant II: 12mg/l for smoke (standard: 20mg/l), 8mg/l for sulphur dioxide (standard: 100mg/l) and 50mg/l for nitrogen oxide (standard: 200mg/l);

Shouguang Chenming power plant III: 11mg/l for smoke (standard: 20mg/l), 9mg/l for sulphur dioxide (standard: 35mg/l) and 53mg/l for nitrogen oxide (standard: 100mg/l):

Jilin Chenming, Zhanjiang Chenming 1#2#: 13mg/l for smoke (standard: 30mg/l), 12mg/l for sulphur dioxide (standard: 100mg/l) and 35mg/l for nitrogen oxide (standard: 100mg/l):

Jiangxi Chenming: 12mg/l for smoke (standard: 30mg/l), 50mg/l for sulphur dioxide (standard: 200mg/l) and 110ma/l for nitrogen oxide (standard: 200ma/l):

Total pollutant emission in 2016: 900.25 tonnes per year for smoke, 1,583.11 tonnes per year for sulphur dioxide and 3,776.02 tonnes per year for nitrogen oxide. A total of ten online water monitor facilities were installed in subsidiaries. Five online water monitor facilities are directly managed by the environmental protection bureau, while the remaining five online water monitor facilities are operated by entrusted enterprises qualified for running such facilities. In addition, governmental authority will regularly visit the Company to conduct comparison of online monitor data every quarter. All data meet the standards.

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XVIII. Fulfilment of Social Responsibility (Cont'd)

2. Fulfilment of other social responsibility (Cont'd)

Will social responsibility report be published?

☐ Yes ☒ No

XIX. Other matters of significance

☒ Applicable ☐ Not applicable

1. Non-public issue of A shares

At the 4th extraordinary meeting of the eighth session of the Board, relevant resolutions, including the Resolution on the Adjustments to the Use of Proceeds, Proceeds Amount, Issue Price and Issue Volume for the Non-Public Issue of A Shares, were considered and approved. In view of the recent fluctuation in the security market and the actual conditions of the Company, based on the authorisation granted to the Board at the general meeting, the Company intended to cancel the utilisation of proceeds of RMB1,500 million for the repayment of bank loans. The proceeds to be raised from the issue will be adjusted from not more than RMB5,200 million (inclusive) to not more than RMB3,700 million (inclusive). It is proposed that the proceeds, net of issue expenses, will be fully utilised for the annual production capacity of 400,000-tonne bleached sulphate pine chemical pulp project. The Announcement on Supplemental Reply to the Notice of Feedback on Administrative Approval Application for the Non-public Issuance and the Supplemental Reply to the Notice of Feedback on Administrative Approval Application for the Non-public Issuance were published on 27 September 2016.

As of the disclosure date of the Report, the Company has not received the related approval of the CSRC. The Company will perform its obligations to disclose the related information on a timely basis based on the approval of the CSRC.

2. Completion of non-public issuance of 45.00 million preference shares with proceeds raised of RMB4.5 billion

On 17 September 2015, as approved by the Approval from the China Securities Regulatory Commission (Zheng Jian Xu Ke [2015] No. 2130), not more than 45,000,000 preference shares shall be issued. Among which: the Company issued 22,500,000 preference shares on 17 March 2016. The actual proceeds raised from the non-public issuance, net of issue expenses, amounted to RMB2,238.75 million; The Company issued 10,000,000 preference shares on 17 August 2016. The actual proceeds raised from the non-public issuance, net of issue expenses, amounted to RMB995 million; The Company issued 12,500,000 preference shares on 22 September 2016. The actual proceeds raised from the non-public issuance, net of issue expenses, amounted to RMB1,243.75 million.

3. Obtaining high and new tech enterprise qualifications by the Company and its subsidiaries

The Company received a high and new technology enterprise certificate jointly issued by the Shandong Provincial Office of SAT, Shandong Local Taxation Bureau, the Shandong Province Finance Bureau and the Department of Science & Technology of Shandong Province certifying the Company as a high and new technology enterprise with a certification number of GR201537000611 valid for three years.

Shouguang Meilun, a wholly-owned subsidiary, received a high and new technology enterprise certificate jointly issued by the Shandong Provincial Office of SAT, Shandong Local Taxation Bureau, the Shandong Province Finance Bureau and the Department of Science & Technology of Shandong Province certifying Shouguang Meilun as a high and new technology enterprise with a certification number of GR201537000228 valid for three years.

XIX. Other matters of significance (Cont'd)

3. Obtaining high and new tech enterprise qualifications by the Company and its subsidiaries (Cont'd)

Zhanjiang Chenming, a controlling subsidiary of the Company, received a high and new technology enterprise certificate jointly issued by the Guangdong Provincial Office of SAT, Guangdong Local Taxation Bureau, the Guangdong Province Finance Bureau and the Department of Science & Technology of Guangdong Province certifying Zhanjiang Chenming as a high and new technology enterprise of Guangdong with a certification number of GR201544000146 valid for three years.

Jilin Chenming, a wholly-owned subsidiary, received a high and new technology enterprise certificate jointly issued by the Jilin Provincial Office of SAT, Jilin Local Taxation Bureau, the Jilin Province Finance Bureau and the Department of Science & Technology of Jilin Province certifying the Jilin Chenming as a high and new technology enterprise of Jilin with a certification number of GR201622000039 valid for three years.

Pursuant to relevant requirements, the Company, Shouguang Meilun, Zhanjiang Chenming and Jilin Chenming are eligible for relevant national preferential treatment enjoyable by high and new tech enterprises for three years and subject to a corporate income tax rate of 15%.

4. Capital increase of Guangdong Dejun Investment Co., Ltd.

In order to promote the diversified development of Shandong Chenming Paper Holdings Limited, further expand the business scope, enhance overall strength and comprehensive competitiveness, and foster new sources of profit growth, Chenming Paper, together with Shanghai Zhongneng Enterprise Development (Group) Co., Ltd. ("Shanghai Zhongneng"), intended to increase the capital of Guangdong Dejun Investment Co., Ltd. ("Guangdong Dejun"). According to the evaluation report, as agreed by both parties and based on the net assets of Guangdong Dejun of RMB1,000 million, Shanghai Zhongneng shall contribute RMB850 million, of which RMB425 million and RMB425 million shall be contributed to registered capital and capital reserve, respectively. Chenming Paper shall contribute RMB1,850 million, of which RMB925 million and RMB925 million shall be contributed to register capital and capital reserve, respectively. Upon completion of capital increase, the registered capital of Guangdong Dejun will increase to RMB1,850 million. The contribution made by Shanghai Zhongneng and Chenming Paper shall represent 50% of the registered capital of Guangdong Dejun, i.e. RMB925 million.

For details, please refer to relevant announcement (announcement no.: 2016-162) of the Company published on CNINFO on 29 December 2016.

5. Capital injection to Zhanjiang Chenming

Zhanjiang Chenming is applying for syndicated loan for its projects. Banks have requested Zhanjiang Chenming to increase its registered capital in order to reduce its gearing ratio. To ensure smooth commencement of projects of Zhanjiang Chenming, the Company intended to increase the registered capital of Zhanjiang Chenming by RMB2.0 billion. Contribution will be gradually made based on the progress of syndicated loan investment. Prior to the capital injection, the Company contributed RMB3.0 billion, representing 84.51% of the shareholding of Zhanjiang Chenming. China Development Bank Development Fund Co., Ltd. contributed RMB550 million, representing 15.49% of the shareholding of Zhanjiang Chenming. Since China Development Bank Development Fund Co., Ltd. will not participate in the daily operation and management of Zhanjiang Chenming, it will not make corresponding capital contribution based on its shareholding. Upon completion of the capital injection, the registered capital of Zhanjiang Chenming will increase to RMB5.55 billion from RMB3.55 billion. Capital contribution made by the Company will be amounted to RMB5.0 billion, representing 90.09% of the shareholding of Zhanjiang Chenming. Capital contribution made by China Development Bank Development Fund Co., Ltd. will be amounted to RMB550 million, representing 9.91% of the shareholding of Zhanjiang Chenming.

For details, please refer to relevant announcement (announcement no.: 2016-148) of the Company published on CNINFO on 18 November 2016.

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XIX. Other matters of significance (Cont'd)

6. Capital injection to Finance Company

After operated for more than two years, Shandong Chenming Group Finance Co., Ltd. had its indicators fulfilling the regulatory requirements of regulatory authorities. In order to further improve the fund settlement, management and investment and financing standards, optimise resources utilisation, maximise profits, reduce financing costs and enhance comprehensive strength, the Company and Jiangxi Chenming Paper Co., Ltd. intended to increase the capital of Chenming Finance Company by RMB0.8 billion and RMB0.2 billion with their own funds respectively. Upon the completion of the capital increase, the registered capital of Chenming Finance Company will be increased to RMB2.0 billion from RMB1.0 billion.

For details, please refer to relevant announcement (announcement no.: 2016-115) of the Company published on CNINFO on 14 September 2016.

7. Establishment of Qingdao Chenming Nonghai Finance Leasing Co., Ltd.

In order to strengthen overall strength and comprehensive competitiveness, further expand the scope of finance leasing business, promote diversified development, increase investment in financial sector, and foster new sources of profit growth, the Company intended to establish a new finance leasing company in Qingdao. For details, please refer to relevant announcement (announcement no.: 2016-033) of the Company published on CNINFO on 31 March 2016.

8. Investment in Leader Life Insurance Co., Ltd.

In order to promote diversified development, further optimise the operating structure, expand and enrich business scope, facilitate the strategic plan in financial field, enhance overall strength and comprehensive competitiveness, and foster new sources of profit growth, the Company intended to jointly establish Leader Life Insurance Co., Ltd. (tentative name, subject to company name under commercial registration) with Leader Technology Co., Ltd., Shanjin Jinkong Capital Management Co., Ltd., Septwolves Group Holding Co., Ltd., Jiangxi Zhongyi Mining Group Co., Ltd., Shanxi Xinlongyuen Coal Development Co., Ltd., Tibet Yifeng Investment Management Co., Ltd. and Haineng Industrial Group Co., Ltd.

For details, please refer to relevant announcement (announcement no.: 2016-136) of the Company published on CNINFO on 26 October 2016.

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XIX. Other matters of significance (Cont'd)

9. Information disclosure index for 2016

Announcement No.	Subject matter	Date of publication	Publication website and index
2016-001	Announcement on Pledge of Shares by Shareholders	5 January 2016	http://www.cninfo.com.cn
2016-002	Announcement on Progress of increase in shareholding of the Company by Controlling Shareholder	5 January 2016	http://www.cninfo.com.cn
2016-003	Announcement on Progress of Undertaking by the Controlling Shareholder of the Company	9 January 2016	http://www.cninfo.com.cn
2016-004	Announcement on Pledge of Shares by Shareholders	13 January 2016	http://www.cninfo.com.cn
2016-005	Announcement on Progress of increase in shareholding of the Company by Controlling Shareholder	13 January 2016	http://www.cninfo.com.cn
2016-006	Full Report of Changes in Equity	15 January 2016	http://www.cninfo.com.cn
2016-007	Second Supplementary Notice of the 2016 First Extraordinary General Meeting	15 January 2016	http://www.cninfo.com.cn
2016-008	Supplementary Announcement on Full Report of Changes in Equity	19 January 2016	http://www.cninfo.com.cn
2016-009	Announcement on Result of the Issue of 2016 First Tranche of Super & Short-term Commercial Paper	20 January 2016	http://www.cninfo.com.cn
2016-010	Announcement on Progress of Registered Capital Decrease by Controlling Shareholder	23 January 2016	http://www.cninfo.com.cn
2016-011	Announcement on Estimated Annual Results for 2015	26 January 2016	http://www.cninfo.com.cn
2016-012	Indicative Announcement of 2016 First Extraordinary General Meeting	29 January 2016	http://www.cninfo.com.cn
2016-013	Indicative Announcement on Subsidiary Receiving Subsidy	29 January 2016	http://www.cninfo.com.cn
2016-014	Announcement on Resolutions of the 2016 First Extraordinary General Meeting	4 February 2016	http://www.cninfo.com.cn
2016-015	Announcement on Result of the Issue of 2016 Second Tranche of Super & Short-term Commercial Paper	12 March 2016	http://www.cninfo.com.cn
2016-016	Announcement on Pledge of Shares by Shareholders	12 March 2016	http://www.cninfo.com.cn
2016-017	Announcement on Result of the Issue of 2016 Third Tranche of Super & Short-term Commercial Paper	15 March 2016	http://www.cninfo.com.cn
2016-018	Announcement in Respect of Resolutions of the Ninth Extraordinary Meeting of the Seventh Session of the Board of Directors	16 March 2016	http://www.cninfo.com.cn
2016-019	Announcement on Investment of China Development Bank Development Fund Co., Ltd. in Subsidiary Zhanjiang Chenming	16 March 2016	http://www.cninfo.com.cn
2016-020	Indicative announcement on refund of value-added tax received by a subsidiary	19 March 2016	http://www.cninfo.com.cn
2016-021	Announcement on Undertakings and Performance under Non-public Issue of Preference Shares	25 March 2016	http://www.cninfo.com.cn
2016-022	Announcement on Resolution of the 10th Extraordinary Meeting of the Seventh Session of the Board of Directors	25 March 2016	http://www.cninfo.com.cn
2016-023	Announcement on Replacement of Self-raised Funds Invested in Advance to Projects with Proceeds from Issue of Preference Shares	25 March 2016	http://www.cninfo.com.cn
2016-024	Announcement on Resolution of the First Extraordinary Meeting of the Seventh Session of the Supervisory Committee	25 March 2016	http://www.cninfo.com.cn
2016-025	Announcement on Entering into Proceeds Supervision Agreement	29 March 2016	http://www.cninfo.com.cn

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XIX. Other matters of significance (Cont'd)

9. Information disclosure index for 2016 (Cont'd)

Announcement No.	Subject matter	Date of publication	Publication website and index
2016-026	Announcement on Subsidiaries Obtaining High and New Tech Enterprise Qualifications	29 March 2016	http://www.cninfo.com.cn
2016-027	Indicative Announcement on Medium-term Notes Issue Registered	29 March 2016	http://www.cninfo.com.cn
2016-028	Announcement in respect of Resolutions of the 13th Meeting of the Seventh Session of the Board of Directors	31 March 2016	http://www.cninfo.com.cn
2016-029	Announcement on Resolution of the 13th Meeting of the Seventh Session of the Supervisory Committee	31 March 2016	http://www.cninfo.com.cn
2016-030	2015 Annual Report Summary	31 March 2016	http://www.cninfo.com.cn
2016-031	Notice of 2015 Annual General Meeting	31 March 2016	http://www.cninfo.com.cn
2016-032	Announcement on Provision of Guarantee for Comprehensive Credit Line of Relevant Subsidiaries	31 March 2016	http://www.cninfo.com.cn
2016-033	Announcement in relation to External Investment	31 March 2016	http://www.cninfo.com.cn
2016-034	Announcement on Expected Ordinary Connected Transactions in 2016	31 March 2016	http://www.cninfo.com.cn
2016-035	Announcement on Entering into a Strategic Cooperation Agreement with Postal Savings Bank of China (Shandong Branch)	1 April 2016	http://www.cninfo.com.cn
2016-036	Announcement on the Company and Subsidiaries Obtaining High and New Tech Enterprise Qualifications	2 April 2016	http://www.cninfo.com.cn
2016-037	Transfer Announcement on Non-public Issue of Preference Shares	7 April 2016	http://www.cninfo.com.cn
2016-038	Announcement on Estimated Results for the First Quarter of 2016	7 April 2016	http://www.cninfo.com.cn
2016-039	Announcement on Suspension of Trading in Relation to Major Event	12 April 2016	http://www.cninfo.com.cn
2016-040	Announcement on Synchronised Information Disclosure on Two Stock Exchanges	12 April 2016	http://www.cninfo.com.cn
2016-041	Announcement in respect of Resolutions of the 11th Extraordinary Meeting of the Seventh Session of the Board of Directors	16 April 2016	http://www.cninfo.com.cn
2016-042	Announcement on Resolution of the Second Extraordinary Meeting of the Seventh Session of the Supervisory Committee	16 April 2016	http://www.cninfo.com.cn
2016-043	Announcement on Dilution of Current Returns and Remedial Measures upon Non-public Offering	16 April 2016	http://www.cninfo.com.cn
2016-044	Notice of 2016 Second Extraordinary General Meeting	16 April 2016	http://www.cninfo.com.cn
2016-045	Notice of the 2016 First Domestic Listed Share Class Meeting and 2016 First Overseas Listed Share Class Meeting	16 April 2016	http://www.cninfo.com.cn
2016-046	Announcement on Resumption of Trading	16 April 2016	http://www.cninfo.com.cn
2016-047	Announcement on Capital Increase of Chenming Leasing	16 April 2016	http://www.cninfo.com.cn
2016-048	Indicative Announcement for H Shares	19 April 2016	http://www.cninfo.com.cn
2016-049	Supplemental Notice of 2016 Second Extraordinary General Meeting	20 April 2016	http://www.cninfo.com.cn
2016-050	Supplementary Notice of the 2016 First Domestic Listed Share Class Meeting and 2016 First Overseas Listed Share Class Meeting	20 April 2016	http://www.cninfo.com.cn
2016-051	Announcement on Result of the Issue of 2016 Fifth Tranche of Super & Short-term Commercial Paper	20 April 2016	http://www.cninfo.com.cn
2016-052	Announcement on Result of the Issue of 2016 Sixth Tranche of Super & Short-term Commercial Paper	23 April 2016	http://www.cninfo.com.cn
2016-053	Indicative Announcement on Media Coverage	26 April 2016	http://www.cninfo.com.cn
2016-054	2016 First Quarterly Report	28 April 2016	http://www.cninfo.com.cn

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XIX. Other matters of significance (Cont'd)

9. Information disclosure index for 2016 (Cont'd)

Announcement No.	Subject matter	Date of publication	Publication website and index
2016-055	Announcement on Total New Borrowings for 2015 and 2016	28 April 2016	http://www.cninfo.com.cn
2016-056	Announcement in respect of Resolutions of the 12th Extraordinary Meeting of the Seventh Session of the Board of Directors	29 April 2016	http://www.cninfo.com.cn
2016-057	Announcement on Revision on the Date of 2015 Annual General Meeting	29 April 2016	http://www.cninfo.com.cn
2016-058	Notice of 2015 Annual General Meeting	29 April 2016	http://www.cninfo.com.cn
2016-059	Announcement on Revision on the Date of 2016 Second Extraordinary General Meeting	29 April 2016	http://www.cninfo.com.cn
2016-060	Announcement on Revision on the Date of 2016 First Domestic Listed Share Class Meeting and 2016 First Overseas Listed Share	29 April 2016	http://www.cninfo.com.cn
2016-061	Notice of 2016 Second Extraordinary General Meeting	29 April 2016	http://www.cninfo.com.cn
2016-062	Notice of 2016 First Domestic Listed Share Class Meeting and 2016 First Overseas Listed Share	29 April 2016	http://www.cninfo.com.cn
2016-063	Announcement in respect of Resolutions of the 15th Meeting of the Seventh Session of the Board of Directors	30 April 2016	http://www.cninfo.com.cn
2016-064	Announcement on Resolution of the 15th Meeting of the Seventh Session of the Supervisory Committee	30 April 2016	http://www.cninfo.com.cn
2016-065	Announcement on Additional Resolutions Proposed at the 2015 General Meeting	30 April 2016	http://www.cninfo.com.cn
2016-066	Supplemental Notice of 2015 General Meeting	30 April 2016	http://www.cninfo.com.cn
2016-067	Notice of Investor Reception Day	4 May 2016	http://www.cninfo.com.cn
2016-068	Announcement on Result of the Issue of 2016 Seven Tranche of Super & Short-term Commercial Paper	8 May 2016	http://www.cninfo.com.cn
2016-069	Indicative Announcement on 2015 General Meeting	13 May 2016	http://www.cninfo.com.cn
2016-070	Announcement in respect of Resolutions of the 13th Meeting of the Seventh Session of the Board of Directors	18 May 2016	http://www.cninfo.com.cn
2016-071	Announcement on Resolution of the Third Extraordinary Meeting of the Seventh Session of the Supervisory Committee	18 May 2016	http://www.cninfo.com.cn
2016-072	Announcement on Additional Resolutions Proposed at the 2016 Second Extraordinary General Meeting	18 May 2016	http://www.cninfo.com.cn
2016-073	Announcement on Additional Resolutions Proposed at 2016 First Domestic Listed Share Class Meeting and 2016 First Overseas Listed Share	18 May 2016	http://www.cninfo.com.cn
2016-074	Supplementary Notice of 2016 Second Extraordinary General Meeting	18 May 2016	http://www.cninfo.com.cn
2016-075	Supplementary Notice of 2016 First Domestic Listed Share Class Meeting and 2016 First Overseas Listed Share	18 May 2016	http://www.cninfo.com.cn
2016-076	Announcement on Dilution of Current Returns and Remedial Measures upon Non-public Offering (Revision)	18 May 2016	http://www.cninfo.com.cn
2016-077	Announcement on Entering into Conditional Share Purchase Agreement and Connected Transactions under the Non-public Offering of A Shares (Revision)	18 May 2016	http://www.cninfo.com.cn
2016-078	Announcement on Revision of Non-public Offering for 2016	18 May 2016	http://www.cninfo.com.cn
2016-079	Announcement on Resolutions of the 2015 General Meeting	19 May 2016	http://www.cninfo.com.cn
2016-080	Announcement in respect of Resolutions of the 1st Meeting of the Eighth Session of the Board of Directors	19 May 2016	http://www.cninfo.com.cn

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XIX. Other matters of significance (Cont'd)

9. Information disclosure index for 2016 (Cont'd)

Announcement No.	Subject matter	Date of publication	Publication website and index
2016-081	Announcement on Resolutions of the 1st Meeting of the Eighth Session of the Supervisory Committee	19 May 2016	http://www.cninfo.com.cn
2016-082	Indicative Announcement on 2016 Second Extraordinary General Meeting	26 May 2016	http://www.cninfo.com.cn
2016-083	Indicative Announcement on 2016 First Domestic Listed Share Class Meeting and 2016 First Overseas Listed Share	26 May 2016	http://www.cninfo.com.cn
2016-084	Announcement on Resolutions of 2016 Second Extraordinary General Meeting	3 June 2016	http://www.cninfo.com.cn
2016-085	Poll Results Announcement of the 2016 First Domestic A Shareholders' and B Shareholders' Class Meeting and the 2016 First Overseas H Shareholders' Class Meeting	3 June 2016	http://www.cninfo.com.cn
2016-086	Announcement on Pledge of Shares by Shareholders	7 June 2016	http://www.cninfo.com.cn
2016-087	Notice of Investor Reception Day	14 June 2016	http://www.cninfo.com.cn
2016-088	Announcement on Resignation of Senior Management	15 June 2016	http://www.cninfo.com.cn
2016-089	Announcement on receipt of CSRC Notice of Acceptance of Application for Administrative Approval	21 June 2016	http://www.cninfo.com.cn
2016-090	Announcement on Result of the Issue of 2016 Eighth Tranche of Super & Short-term Commercial Paper	25 June 2016	http://www.cninfo.com.cn
2016-091	Announcement on Redemption, Dividend Payment and Delisting of "11 Chenming Bond" for 2016	30 June 2016	http://www.cninfo.com.cn
2016-092	Announcement on the Implementation of Dividend Distribution to Holders of A Shares and B Shares for 2015	7 July 2016	http://www.cninfo.com.cn
2016-093	Announcement on Estimated Results for the Half Year of 2016	11 July 2016	http://www.cninfo.com.cn
2016-094	Announcement on Result of the Issue of 2016 Ninth Tranche of Super & Short-term Commercial Paper	11 July 2016	http://www.cninfo.com.cn
2016-095	Announcement on Entering into a Strategic Cooperation Agreement with Ping An Bank	16 July 2016	http://www.cninfo.com.cn
2016-096	Announcement on Reply to the Notice of Feedback on Project Administrative Approval from CSRC	28 July 2016	http://www.cninfo.com.cn
2016-097	Announcement on Neither Punishment nor Regulatory Measures Being Imposed by Security Regulator and Stock Exchange in Last Five Years	28 July 2016	http://www.cninfo.com.cn
2016-098	Indicative Announcement on Receipt of the Fund of Tax Rebate by Subsidiary	5 August 2016	http://www.cninfo.com.cn
2016-099	Indicative Announcement on Subsidiary Receiving Subsidy	5 August 2016	http://www.cninfo.com.cn
2016-100	Announcement on Result of the Issue of 2016 Tenth Tranche of Super & Short-term Commercial Paper	15 August 2016	http://www.cninfo.com.cn
2016-101	Announcement in respect of Resolution of the 1st Extraordinary Meeting of the Eighth Session of the Board of Directors	18 August 2016	http://www.cninfo.com.cn
2016-102	Announcement on Investment of China Development Bank Development Fund Co., Ltd. in Subsidiary Zhanjiang Chenming	18 August 2016	http://www.cninfo.com.cn
2016-103	Announcement on Pledge of Shares by Shareholders	20 August 2016	http://www.cninfo.com.cn
2016-104	Indicative Announcement on Receipt of Subsidy	20 August 2016	http://www.cninfo.com.cn
2016-105	Indicative Announcement on Receipt of Subsidy	23 August 2016	http://www.cninfo.com.cn

VII Material Matters

XIX. Other matters of significance (Cont'd)

9. Information disclosure index for 2016 (Cont'd)

Announcement No.	Subject matter	Date of publication	Publication website and index
2016-106	Announcement in respect of Resolution of the 2nd Meeting of the Eighth Session of the Board of Directors	25 August 2016	http://www.cninfo.com.cn
2016-107	Announcement in respect of Guarantee for Issuance of Super & Short-term Commercial Paper by Zhanjiang Chenming	25 August 2016	http://www.cninfo.com.cn
2016-108	Notice of 2016 Third Extraordinary General Meeting	25 August 2016	http://www.cninfo.com.cn
2016-109	2016 Interim Report Summary	25 August 2016	http://www.cninfo.com.cn
2016-110	Announcement on Undertakings and Performance under Non-public Issue of Preference Shares	25 August 2016	http://www.cninfo.com.cn
2016-111	Indicative Announcement on Subsidiary Receiving Subsidy	3 September 2016	http://www.cninfo.com.cn
2016-112	Transfer Announcement on Non-public Issue of Preference Shares	9 September 2016	http://www.cninfo.com.cn
2016-113	Announcement in respect of Resolutions of the Second Extraordinary Meeting of the Eighth Session of the Board of Directors	14 September 2016	http://www.cninfo.com.cn
2016-114	Announcement on Commencement of Asset Securitisation Operation by Sales Company	14 September 2016	http://www.cninfo.com.cn
2016-115	Announcement on External Investment	14 September 2016	http://www.cninfo.com.cn
2016-116	Announcement on Additional Resolutions Proposed at the 2016 Third Extraordinary General Meeting	14 September 2016	http://www.cninfo.com.cn
2016-117	Announcement on Resolution of the 2nd Extraordinary Meeting of the Eighth Session of the Board of Directors	14 September 2016	http://www.cninfo.com.cn
2016-118	Announcement on Resolution of the 3rd Extraordinary Meeting of the Eighth Session of the Board of Directors	24 September 2016	http://www.cninfo.com.cn
2016-119	Announcement on Reimbursement of the Self-raised Funds Used in the Project Financed by Proceeds with the Proceeds from the Third Tranche of Preference Shares	24 September 2016	http://www.cninfo.com.cn
2016-120	Announcement on Resolution of the 1st Extraordinary Meeting of the Eighth Session of the Supervisory Committee	24 September 2016	http://www.cninfo.com.cn
2016-121	Supplemental Notice of 2016 Third Extraordinary General Meeting	24 September 2016	http://www.cninfo.com.cn
2016-122	Announcement in respect of Resolutions of the Fourth Extraordinary Meeting of the Eighth Session of the Board of Directors	27 September 2016	http://www.cninfo.com.cn
2016-123	Announcement on Resolution of the 2nd Extraordinary Meeting of the Eighth Session of the Supervisory Committee	27 September 2016	http://www.cninfo.com.cn
2016-124	Announcement on Adjustments to the Use of Proceeds, Proceeds Amount, Issue Price and Issue Volume for the Non-Public Issue of A Shares	27 September 2016	http://www.cninfo.com.cn
2016-125	Announcement on Second Revision of Non-public Offering for 2016	27 September 2016	http://www.cninfo.com.cn
2016-126	Announcement on Dilution of Current Returns and Remedial Measures upon Non-public Offering (Second Revision)	27 September 2016	http://www.cninfo.com.cn
2016-127	Announcement on Supplemental Reply to the Notice of Feedback on Administrative Approval Application for the Non-public Issuance	27 September 2016	http://www.cninfo.com.cn
2016-128	Indicative Announcement of 2016 Third Extraordinary General Meeting	30 September 2016	http://www.cninfo.com.cn
2016-129	Announcement on Undertakings and Performance under Non-public Issue of Preference Shares	30 September 2016	http://www.cninfo.com.cn

VII Material Matters

XIX. Other matters of significance (Cont'd)

9. Information disclosure index for 2016 (Cont'd)

Announcement No.	Subject matter	Date of publication	Publication website and index
2016-130	Announcement on Resolution of the 2016 Third Extraordinary General Meeting	12 October 2016	http://www.cninfo.com.cn
2016-131	Announcement on Estimated Results for the First Three Quarters of 2016	12 October 2016	http://www.cninfo.com.cn
2016-132	Announcement on Result of the Issue of 2016 Eleventh Tranche of Super & Short-term Commercial Paper	20 October 2016	http://www.cninfo.com.cn
2016-133	Transfer Announcement on Non-public Issue of Preference Shares	21 October 2016	http://www.cninfo.com.cn
2016-134	Announcement in respect of Resolutions of the Third Meeting of the Eighth Session of the Board of Directors	26 October 2016	http://www.cninfo.com.cn
2016-135	2016 Third Quarterly Report	26 October 2016	http://www.cninfo.com.cn
2016-136	Announcement on External Investment (I)	26 October 2016	http://www.cninfo.com.cn
2016-137	Notice of 2016 Fourth Extraordinary General Meeting	26 October 2016	http://www.cninfo.com.cn
2016-138	Announcement on External Investment (II)	26 October 2016	http://www.cninfo.com.cn
2016-139	Announcement on Resolution of the 3rd Meeting of the Eighth Session of the Supervisory Committee	26 October 2016	http://www.cninfo.com.cn
2016-140	Indicative Announcement	26 October 2016	http://www.cninfo.com.cn
2016-141	Announcement on Pledge of Shares by Shareholders	4 November 2016	http://www.cninfo.com.cn
2016-142	Announcement on Pass Away of Chairman of the Supervisory Committee Mr. Gao Junjie	8 November 2016	http://www.cninfo.com.cn
2016-143	Announcement on Result of the Issue of 2016 Twelfth Tranche of Super & Short-term Commercial Paper	8 November 2016	http://www.cninfo.com.cn
2016-144	Indicative Announcement	9 November 2016	http://www.cninfo.com.cn
2016-145	Announcement in respect of Resolutions of the Fourth Meeting of the Eighth Session of the Board of Directors	17 November 2016	http://www.cninfo.com.cn
2016-146	Announcement on External Investment	17 November 2016	http://www.cninfo.com.cn
2016-147	Announcement on Provision of Guarantee to Sales Company for Commencement of Asset Securitisation Operation	17 November 2016	http://www.cninfo.com.cn
2016-148	Supplementary Announcement on External Investment	18 November 2016	http://www.cninfo.com.cn
2016-149	Indicative Announcement on Subsidiary Receiving Government Subsidy	18 November 2016	http://www.cninfo.com.cn
2016-150	Corrigendum for 2016 Interim Report	18 November 2016	http://www.cninfo.com.cn
2016-151	Indicative Announcement	22 November 2016	http://www.cninfo.com.cn
2016-152	Announcement on Resolution of the 3rd Extraordinary Meeting of the Eighth Session of the Supervisory Committee	23 November 2016	http://www.cninfo.com.cn
2016-153	Announcement on Additional Resolutions Proposed at the 2016 Fourth Extraordinary General Meeting	26 November 2016	http://www.cninfo.com.cn
2016-154	Supplemental Notice of 2016 Fourth Extraordinary General Meeting	26 November 2016	http://www.cninfo.com.cn
2016-155	Announcement on Changes in Sponsor and Sponsor Representative for Continuous Supervisory	26 November 2016	http://www.cninfo.com.cn
2016-156	Indicative Announcement of 2016 Fourth Extraordinary General Meeting	9 December 2016	http://www.cninfo.com.cn
2016-157	Indicative Announcement on Subsidiary Receiving Subsidy	13 December 2016	http://www.cninfo.com.cn
2016-158	Poll Results Announcement of the 2016 Fourth Extraordinary General Meeting	14 December 2016	http://www.cninfo.com.cn

VII Material Matters

XIX. Other matters of significance (Cont'd)

9. Information disclosure index for 2016 (Cont'd)

Announcement No.	Subject matter	Date of publication	Publication website and index
2016-159	Announcement on Resolution of the 4th Meeting of the Eighth Session of the Supervisory Committee	14 December 2016	http://www.cninfo.com.cn
2016-160	Announcement on 2016 Dividend Payment in Respect of "12 Chenming Bond"	19 December 2016	http://www.cninfo.com.cn
2016-161	Announcement in respect of Resolutions of the Sixth Extraordinary Meeting of the Eighth Session of the Board of Directors	29 December 2016	http://www.cninfo.com.cn
2016-162	Announcement on External Investment	29 December 2016	http://www.cninfo.com.cn
2016-163	Indicative Announcement on Subsidiary Receiving Subsidy	29 December 2016	http://www.cninfo.com.cn
2016-164	Announcement on Release of Stock Pledge by Shareholders	30 December 2016	http://www.cninfo.com.cn
2016-165	Announcement on Pledge of Shares by Shareholders	30 December 2016	http://www.cninfo.com.cn

XX. Matters of significant of subsidiaries of the Company

√ Applicable ☐ Not applicable

1. Commencement of Asset Securitisation Operation by Sales Company

In order to revitalise idle assets, facilitate capital transfer and broaden financing channels, the Sales Company intended to implement the asset securitisation project for cash flow receivables. The "asset-backed security project for cash flow receivables from sales" will be established through financial institution, and financing activities will be conducted by issuing asset-backed securities pursuant to the Project.

Under the Project, it is intended to issue asset-backed securities of not more than RMB2.1 billion (inclusive) by tranches, with terms of not more than 5 years. The asset-backed securities to be issued are classified as prioritised asset-backed securities and subordinated asset-backed securities. Relevant components of prioritised asset-backed securities and subordinated asset-backed securities, such as scale and terms, might be adjusted as required by regulators or based on the market demand.

The interest rate of prioritised asset-backed securities will be determined based on the prevailing market interest rate at the time of issuance through book-building procedure. Dividends for prioritised asset-backed securities will be payable at a fixed rate. Subordinated asset-backed securities will not provide fixed-term return with zero coupon rate.

Upon the establishment of the Project, asset-backed securities will be listed and traded on stock exchange.

For details, please refer to relevant announcement (announcement no.: 2016-114) of the Company published on CNINFO on 14 September 2016.

VII Material Matters

XX. Matters of significant of subsidiaries of the Company (Cont'd)

2. Investment by China Development Bank Development Fund Co., Ltd. (“CDBD Fund”) in the subsidiary Zhanjiang Chenming

CDBD Fund will contribute RMB550 million for the capital increase of Zhanjiang Chenming as an investment in its 600,000-tonne liquid packaging cardboard project. Upon the completion of capital increase, CDBD Fund will hold 9.91% equity interests in Zhanjiang Chenming. Investment made by CDBD Fund shall have a term of 12 years at a return rate of not more than 1.2% per annum. The Company and its subsidiaries will pledge its land and property as the guarantee. Such equity interest will be recovered by the Company in accordance to the agreed payback mechanism upon the expiry of the construction phase of the project.

For details, please refer to relevant announcements (announcement no.: 2016-019, 2016-102 and 2016-148) of the Company published on CNINFO on 16 March 2016, 18 August 2016 and 18 November 2016.

3. Issuance of super & short-term commercial paper by Zhanjiang Chenming

In order to further expand the financing channels, lower finance costs and increase the efficiency of the Company, Zhanjiang Chenming intended to, subject to registration with the National Association of Financial Market Institutional Investors, issue super & short-term commercial paper (the “SS Paper”) of not more than RMB3.5 billion (inclusive). The SS Paper will be guaranteed by Shandong Chenming Paper Holdings Limited.

For details, please refer to relevant announcement (announcement no.: 2016-106) of the Company published on CNINFO on 25 August 2016.

4. Joint establishment of Huanggang Chenming Port Co., Ltd. by Huanggang Chenming

In order to promote diversified development, further expand business scope, enhance overall strength and competitiveness, and foster new sources of profit growth while meeting the transportation and loading requirements for raw materials and finished goods of Huanggang Chenming, it proposed that Huanggang Chenming P&P and Huanggang Urban Investment and Asset Management Co., Ltd. will jointly establish Huanggang Chenming Port Co., Ltd. (tentative name, subject to company name under commercial registration).

For details, please refer to relevant announcement (announcement no.: 2016-138) of the Company published on CNINFO on 26 October 2016.

1. Changes in shares

	Opening balance		Change during the reporting period (+/-)					Closing balance	
	Amount	Percentage	New issue	Bonus issue	Shares	Others	Subtotal	Amount	Percentage
					converted from reserves				
I. Restricted shares	8,241,219	0.42%	0	0	0	-454,039	-454,039	7,787,180	0.40%
1. Shares held by other domestic investors	8,241,219	0.42%	0	0	0	-454,039	-454,039	7,787,180	0.40%
Shares held by domestic natural persons	8,241,219	0.42%	0	0	0	-454,039	-454,039	7,787,180	0.40%
II. Non-restricted shares	1,928,164,248	99.58%	0	0	0	454,039	454,039	1,928,618,287	99.60%
1. RMB ordinary shares	1,105,037,237	57.07%	0	0	0	554,039	554,039	1,105,591,276	57.10%
2. Domestic listed foreign shares	470,923,511	24.32%	0	0	0	-100,000	-100,000	470,823,511	24.31%
3. Overseas listed foreign shares	352,203,500	18.19%	0	0	0	0	0	352,203,500	18.19%
III. Total number of shares	1,936,405,467	100.00%	0	0	0	0	0	1,936,405,467	100.00%

VIII Changes in Share Capital and Shareholders

I. Changes in shares (Cont'd)

1. Changes in shares (Cont'd)

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

☐ Applicable ☒ Not applicable

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

☐ Applicable ☒ Not applicable

2. Changes in restricted shares

☐ Applicable ☒ Not applicable

II. Issuance and listing of securities

1. Issuance of securities (excluding preference shares) during the reporting period

☐ Applicable ☒ Not applicable

2. Changes in the total number of shares and structure of shareholders and the structure of the assets and liabilities of the Company

☐ Applicable ☒ Not applicable

3. Existing staff shares

☐ Applicable ☒ Not applicable

III. Shareholders and beneficial controllers

1. Total number of shareholders and shareholdings

Unit: share

Total number of shareholders of ordinary shares as at the end of the reporting period	106,915, of which 84,582 were holders of A shares, 21,862 were holders of B shares and 471 were holders of H shares	Total number of shareholders of ordinary shares as at the end of the month prior to the publication date of this annual report	95,521, of which 73,559 were holders of A shares, 21,497 were holders of B shares and 465 were holders of H shares	Total number of shareholders of preference shares with restored voting right as at the end of the reporting period (if any) (please refer to note 8)	0	Total number of shareholders of preference shares with restored voting right as at the end of the month prior to the disclosure date of the annual report (if any) (please refer to note 8)	0
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VIII Changes in Share Capital and Shareholders

III. Shareholders and beneficial controllers (Cont'd)

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

Shareholdings of shareholders interested in more than 5% of the shares of the Company or Top 10 shareholders

Name of shareholders	Nature of shareholders	Percentage of shareholding	Number of shares held at the end of the reporting period	Changes (increase or decrease) during the reporting period	Number of restricted shares held	Number of non-restricted shares held	Share pledged or locked-up Status of shares	Number
SHOUGUANG CHENMING HOLDINGS COMPANY LIMITED	State-owned legal person	15.13%	293,003,657	0	0	293,003,657	Pledged	201,562,000
HKSCC NOMINEES LIMITED	Overseas legal person	12.97%	251,155,350	-40,855,550	0	251,155,350		
CHENMING HOLDINGS (HONG KONG) LIMITED	Overseas legal person	8.94%	173,093,400	101,310,220	0	173,093,400		
CENTRAL HUIJIN ASSET MANAGEMENT LTD.	Domestic non-state-owned legal person	2.07%	40,137,900	0	0	40,137,900		
ANBANG ASSET MANAGEMENT - CHINA MERCHANTS BANK - ANBANG ASSET MANAGEMENT - CHINA MERCHANTS BANK - ANBANG ASSET MANAGEMENT - WIN-WIN NO. 3 COLLECTIVE ASSET MANAGEMENT PRODUCT	Others	1.52%	29,403,560	29,403,560	0	29,403,560		
HUATAI SECURITIES CO., LTD.	Domestic non-state-owned legal person	0.71%	13,839,967	-3,854,801	0	13,839,967		
BBH A/C VANGUARD EMERGING MARKETS STOCK INDEX FUND	Overseas legal person	0.44%	8,608,238	0	0	8,608,238		
JIN Xing	Domestic nature person	0.40%	7,761,763	-233,237	0	7,761,763		
CHEN Hongguo	Domestic nature person	0.33%	6,434,527	0	0	6,434,527		
LSV EMERGING MARKETS EQUITY FUND, L.P.	Overseas legal person	0.32%	6,102,800	0	0	6,102,800		

Connected relationship or connected party relationship among the above shareholders

A shareholder, Chenming Holdings (Hong Kong) Limited, which is an overseas legal person, is a wholly-owned subsidiary of a shareholder, Shouguang Chenming Holdings Company Limited, which is a state-owned legal person. Hence, they are persons acting in concert under Administration of Disclosure of Information on the Change of Shareholdings in Listed Companies Procedures. Save for the above, it is not aware that any other shareholders of tradable shares are persons acting in concert and is also not aware that any other shareholders of tradable shares are connected with each other.

VIII Changes in Share Capital and Shareholders

III. Shareholders and beneficial controllers (Cont'd)

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

Shareholdings of the top ten shareholders of non-restricted shares			
Name of shareholders	Number of non-restricted shares held as at the end of the reporting period	Class of shares	
		Class of shares	Number
SHOUGUANG CHENMING HOLDINGS COMPANY LIMITED	293,003,657	RMB ordinary shares	293,003,657
HKSCC NOMINEES LIMITED	251,155,350	Overseas listed foreign shares	251,155,350
CHENMING HOLDINGS (HONG KONG) LIMITED	173,093,400	Domestic listed foreign shares	73,207,900
		Overseas listed foreign shares	99,885,500
CENTRAL HUIJIN ASSET MANAGEMENT LTD.	40,137,900	RMB ordinary shares	40,137,900
ANBANG ASSET MANAGEMENT - CHINA MERCHANTS BANK - ANBANG ASSET MANAGEMENT - CHINA MERCHANTS BANK - ANBANG ASSET MANAGEMENT - WIN-WIN NO. 3 COLLECTIVE ASSET MANAGEMENT PRODUCT	29,403,560	RMB ordinary shares	29,403,560
HUATAI SECURITIES CO., LTD.	13,839,967	RMB ordinary shares	13,839,967
BBH A/C VANGUARD EMERGING MARKETS STOCK INDEX FUND	8,608,238	Domestic listed foreign shares	8,608,238
JIN Xing	7,761,763	Domestic listed foreign shares	7,761,763
CHEN Hongguo	6,434,527	RMB ordinary shares	6,434,527
LSV EMERGING MARKETS EQUITY FUND, L.P.	6,102,800	Domestic listed foreign shares	6,102,800

Connected relationship or connected party relationship among the top ten shareholders of non-restricted shares, and between the top ten shareholders of non-restricted shares and the top ten shareholders

A shareholder, Chenming Holdings (Hong Kong) Limited, which is an overseas legal person, is a wholly-owned subsidiary of a shareholder, Shouguang Chenming Holdings Company Limited, which is a state-owned legal person. Hence, they are persons acting in concert under Administration of Disclosure of Information on the Change of Shareholdings in Listed Companies Procedures. Save for the above, it is not aware that any other shareholders of tradable shares are persons acting in concert and is also not aware that any other shareholders of tradable shares are connected with each other.

Whether an agreed repurchase transaction was entered into during the reporting period by the top 10 ordinary shareholders and top 10 shareholders of non-restricted shares of the Company

☐ Yes ☒ No

The top 10 ordinary shareholders and top 10 shareholders of non-restricted ordinary shares of the Company did not enter into any agreed repurchase transaction during the reporting period.

III. Shareholders and beneficial controllers (Cont'd)

2. Controlling shareholders of the Company

Nature of controlling shareholder: regional state-owned enterprise

Type of controlling shareholder: legal person

Name of controlling shareholders	Legal representative/ Person in charge of the unit	Date of establishment	Enterprise code	Principal business
Shouguang Chenming Holdings Company Limited	Chen Hongguo	30 December 2005	78348518-9	Investment in paper making, electricity, heat and arboriculture.

Shareholdings of controlling shareholders who have control or hold shares in other domestic or overseas listed companies during the reporting period	Save for the Company, Shouguang Chenming Holdings Company Limited does not have control over or hold any equity interest of other domestic or overseas listed companies.
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Change of controlling shareholders during the reporting period

☐ Applicable ☒ Not applicable

There was no change of controlling shareholders of the Company during the reporting period.

3. Beneficial owner of the Company

Nature of the beneficial owner: Regional state-owned assets administration authority

Type of the beneficial owner: legal person

Name of beneficial owner	Legal representative/ Person in charge of the unit	Date of establishment	Enterprise code	Principal business
State-owned Assets Supervision and Administration Office of Shouguang City	Fu Xingang	1 August 1991	F5108355-4	Responsible for the management and capital operation of the state-owned assets of enterprises and business units in Shouquang city

Shareholdings of beneficial owner who has control or holds shares in other domestic or overseas listed companies during the reporting period	Save for the Company, State-owned Assets Supervision and Administration Office of Shouguang City does not have control over or hold any equity interest of other domestic or overseas listed companies.
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VIII Changes in Share Capital and Shareholders

III. Shareholders and beneficial controllers (Cont'd)

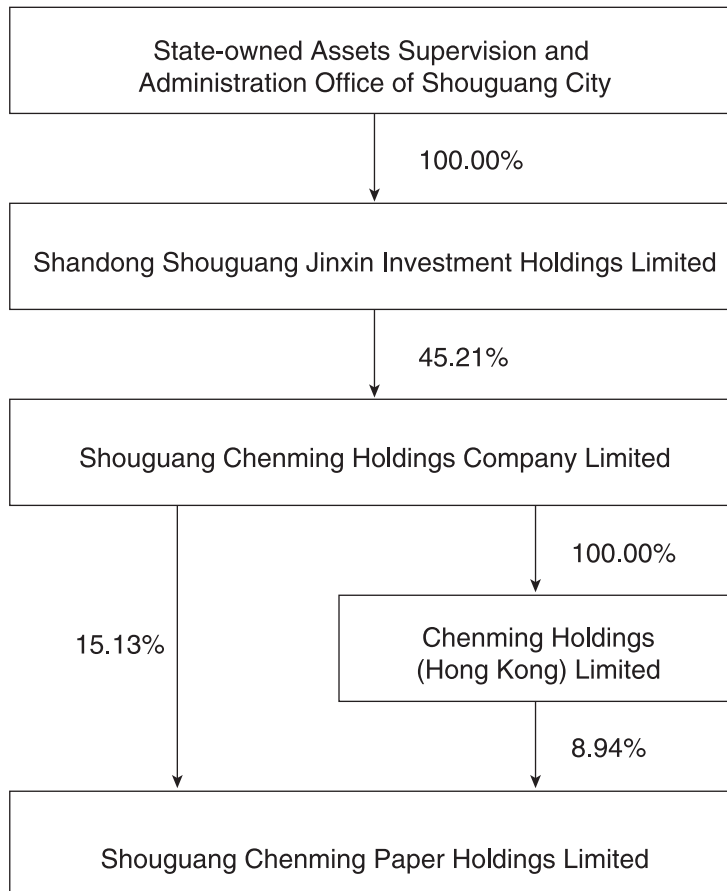
3. Beneficial owner of the Company (Cont'd)

Change of beneficial owner during the reporting period

☐ Applicable ☒ Not applicable

There was no change of beneficial owner of the Company during the reporting period.

Chart illustrating the relationship between the Company and the beneficial owner



Beneficial owner controlling the Company through trust or other asset management method

☐ Applicable ☒ Not applicable

4. Other legal person shareholders interested in over 10% of the shares of the Company

☐ Applicable ☒ Not applicable

5. Restrictions on decrease in shareholding by controlling shareholders, beneficial owner, reorganising party and other undertaking parties

☐ Applicable ☒ Not applicable

IX Preference Shares

√ Applicable □ Not applicable

I. Issue and listing of preference shares during the past three years at the end of the reporting period

√ Applicable □ Not applicable

Method	Issue date	Issue price (RMB/share)	Coupon rate	Issue size (share)	Listing date	With listing permission (share)	Delisting date	Information of use of proceeds	Information of changes to proceeds
Private	6 March 2016	100	4.36%	22,500,000	8 April 2016	22,500,000		http://www.cninfo.com.cn	http://www.cninfo.com.cn
Private	16 August 2016	100	5.17%	10,000,000	12 September 2016	10,000,000		http://www.cninfo.com.cn	http://www.cninfo.com.cn
Private	21 September 2016	100	5.17%	12,500,000	24 October 2016	12,500,000		http://www.cninfo.com.cn	http://www.cninfo.com.cn

II. Holders of preference shares and their shareholdings

Unit: share

Total number of shareholders of preference shares as at the end of the reporting period	7	Total number of shareholders of preference shares as at the end of the month prior to the publication date of this annual report	7
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More than 5% shareholdings of the preference shares of the Company or top ten holders of preference shares

Name of shareholders	Nature of shareholders	Percentage of shareholding	Number of shares held at the end of the reporting period	Changes (increase or decrease) during the reporting period	Number of restricted shares held	Number of non-restricted shares held	Share pledged or locked-up Status of shares	Number
BEIJING YIBEN ZHONGXING INVESTMENT MANAGEMENT CO., LTD.	Domestic non-state-owned legal person	27.78%	12,500,000	12,500,000	0	12,500,000	Pledged	12,500,000
BANK OF COMMUNICATIONS INTERNATIONAL TRUST CO., LTD. - HUILI NO.167 SINGLE CAPITAL TRUST	Others	22.44%	10,100,000	10,100,000	0	10,100,000		
BANK OF COMMUNICATIONS INTERNATIONAL TRUST CO., LTD. - HUILI NO.136 SINGLE CAPITAL TRUST	Others	14.22%	6,400,000	6,400,000	0	6,400,000		
QILU BANK CO., LTD. - QILU BANK QUANXIN WEALTH MANAGEMENT PRODUCT SERIES	Others	13.33%	6,000,000	6,000,000	0	6,000,000		
HENGFENG BANK CO., LTD.	Domestic non-state-owned legal person	11.11%	5,000,000	5,000,000	0	5,000,000		
SHANGHAI STATE-OWNED ASSETS OPERATION CO., LTD.	State-owned legal person	6.67%	3,000,000	3,000,000	0	3,000,000		
NCF - MINSHENG BANK - CHINA FORTUNE INTERNATIONAL TRUST - CHINA FORTUNE TRUST • MIN XIN NO. 11 SINGLE CAPITAL TRUST	Others	4.44%	2,000,000	2,000,000	0	2,000,000		

Connected relationship or connected party relationship among the top ten holders of preference shares, and between the top ten holders of preference shares and the top ten holders of ordinary shares

The aforesaid holders of preference shares, "BANK OF COMMUNICATIONS INTERNATIONAL TRUST CO., LTD. - HUILI NO.167 SINGLE CAPITAL TRUST" and "BANK OF COMMUNICATIONS INTERNATIONAL TRUST CO., LTD. - HUILI NO.136 SINGLE CAPITAL TRUST", are persons acting in concert. Save for the above, it is not aware that the remaining holders of preference shares are persons acting in concert, and it is also not aware whether there is any connected relationship between the above holders of preference shares and top ten holders of ordinary shares.

IX Preference Shares

III. Profit distribution for preference shares

☒ Applicable ☐ Not applicable

Profit distribution for preference shares during the reporting period

☒ Applicable ☐ Not applicable

2016 proposed profit distribution plan for preference shares

The audited consolidated net profit attributable to shareholders of the Company for 2016 prepared in accordance with Accounting Standards for Business Enterprises by the Company amounted to RMB2,063,986,822.25. When deducting the interest for perpetual bonds of RMB153,140,000 for 2016, the distributable profit realised for 2016 amounted to RMB1,910,846,822.25. In accordance with the requirements of the Articles of Association and the Prospectus of Non-public Issuance of Preference Shares, the proposed profit distribution plan for preference shares of the Company for 2016 is as follows:

In accordance with the Prospectus of Non-public Issuance of Preference Shares, shareholders of preference shares may jointly participate in the distribution of the 50% retained earnings realised for the year of issuance with ordinary shareholders. The basis for the distribution is calculated as follows: (the number of months for the period from the next month after the month of issuance to the end of the reporting period/12) × the retained earnings realised for the year × 50%, and the basis for the distribution is $9/12 \times 19.11 \times 50\% = \text{RMB717 million}$.

Based on the 387,263,339 simulated shares converted from the preference shares as at the end of 2016 on a conversion ratio of 1 share valued at RMB5.81, a cash dividend of RMB3.08 (tax inclusive) per ten shares or a variable cash dividend amounting to RMB119,277,108.41 will be distributed to holders of preference shares.

Distribution for preference shares of the Company for the past three years

Unit: RMB

Year of distribution	Distributed amount (tax inclusive)	Net profit attributable to owners of the Company under the consolidated financial statements for the distribution year	Percentage to the net profit attributable to owners of the Company under the consolidated financial statements	Explanation on shortfall accumulated to the next accounting year due to insufficient distributable profits or portion can be allocated to remaining profit distribution
2016	119,277,108.41	2,063,986,822.25	5.78%	Nil

Any adjustment or change in profit distribution policy for preference shares

☐ Yes ☒ No

Both earnings of the Company and retained profit of the parent company are positive during the reporting period but without profit distribution for preference shares

☐ Applicable ☒ Not applicable

IX Preference Shares

III. Profit distribution for preference shares (Cont'd)

Explanation on other matters regarding distribution for preference shares

☒ Applicable ☐ Not applicable

Shareholders of preference shares participate in profit distribution in two portions, namely the fixed dividend distributed based on a fixed dividend rate and the distribution of retained earnings realised for the year.

1. Distribution of fixed dividend

According to the Articles of Association, the Company shall distribute fixed dividends to holders of the preference shares at fixed dividend rate if there are distributable profits after making good losses and the contribution to reserve fund according to law. The Board is authorised by the general meeting to declare and pay all dividends on the preference shares in accordance with the issuance plan under the framework and principles considered and approved in the general meeting in respect of the preference shares. The general meeting of the Company has the right to cancel part of or all of the current dividends on the preference shares. However, when the general meeting of the Company will consider the cancellation of part of or all of the current dividends on the preference shares, the Company shall inform the shareholders of preference shares at least 10 working days before the date of dividend payment in accordance with the requirements of the related authorities.

2. Participation in the distribution of retained earnings realised for the year.

Holders of preference shares participate in the distribution of the retained earnings through receipt of cash which is non-cumulative and non-deferrable. In the event of making good losses and the contribution to reserve fund according to law, after receiving fixed dividends at fixed dividend rate as agreed, holders of preference shares can also participate in the distribution of the retained earnings for the year in proportion. Specific terms are as follows: the retained earnings for the year arises from net profit attributable to owners of the parent company on a consolidated basis upon distribution of relevant fixed income to holders of financial instruments such as the preference shares which may be classified under equity. 50% of the retained earnings shall be distributed to holders of preference shares and ordinary shareholders. Holders of preference shares shall participate in the distribution of the retained earnings by receiving cash dividends, and the ordinary shareholders shall participate in the distribution of the retained earnings by receiving cash dividends or dividends on ordinary shares.

IV. Repurchase or conversion

☐ Applicable ☒ Not applicable

There was no repurchase or conversion during the reporting period.

V. Resumption of voting rights of preference shares

1. Resumption and exercise of voting rights

☐ Applicable ☒ Not applicable

2. Shareholders and beneficial owner involved in resumption of voting rights of preference shares

☐ Applicable ☒ Not applicable

VI. Accounting policy and reasons thereof

☒ Applicable ☐ Not applicable

Pursuant to requirements of Accounting Standard for Business Enterprises No. 22 - Recognition and Measurement of Financial Instruments, Accounting Standard for Business Enterprises No. 37 - Presentation of Financial Instruments and Provisions for Differentiation between Financial Instruments and Equity Instruments and Relevant Accounting Treatment, the preference shares were accounted for as equity instruments as their terms satisfied requirements for such treatments.

X. Directors, Supervisors and Senior Management and Staff

I. Changes in shareholding of Directors, Supervisors and Senior Management

Name	Position	Status	Sex	Age	Start date of the term	End date of the term	Shares held as at the beginning of the period (shares)	Increase in the number of shares held during the period (shares)	Decrease in the number of shares held during the period (shares)	Other changes (increase or decrease) (shares)	Shares held as at the end of the period (shares)
Chen Hongguo	Chairman and general manager	In office	M	52	6 September 2001	18 May 2019	6,434,527				6,434,527
Yin Tongyuan	Vice Chairman	In office	M	59	6 September 2001	18 May 2019	2,423,640				2,423,640
Li Feng	Director	In office	M	44	19 April 2006	18 May 2019	471,818				471,818
Geng Guanglin	Director and deputy general manager	In office	M	43	27 May 2009	18 May 2019	437,433				437,433
Zhang Hong	Director	In office	F	52	12 April 2010	18 May 2019					
Yang Guihua	Director	In office	F	51	9 May 2014	18 May 2019					
Pan Ailing	Independent Director	In office	F	52	15 May 2013	18 May 2019					
Wang Fengrong	Independent Director	In office	F	48	18 May 2016	18 May 2019					
Huang Lei	Independent Director	In office	M	60	18 May 2016	18 May 2019					
Liang Fu	Independent Director	In office	M	49	18 May 2016	18 May 2019					
Li Dong	Chairman of Supervisory Committee	In office	M	34	13 December 2016	18 May 2019					
Yang Hongqin	Supervisor	In office	F	49	30 April 2007	18 May 2019					
Sun Yinghua	Supervisor	In office	F	48	18 May 2016	18 May 2019					
Liu Jilu	Supervisor	In office	M	50	18 May 2016	18 May 2019					
Zhang Xiaofeng	Supervisor	In office	M	39	18 May 2016	18 May 2019					
Li Xueqin	Deputy general manager	In office	F	51	1 September 2004	18 May 2019	429,348				429,348
Hu Changqing	Deputy general manager	In office	M	51	12 April 2010	18 May 2019	1,238				1,238
Hu Jinbao	Financial controller	In office	M	50	16 November 2016	18 May 2019					
Xiao Peng	Secretary to the Board	In office	M	34	16 November 2016	18 May 2019					
Yang Weiming	Deputy general manager	In office	M	42	18 May 2016	18 May 2019					
Li Zhenzhong	Deputy general manager	In office	M	43	30 March 2011	18 May 2019					
Zhang Qingzhi	Deputy general manager	In office	M	51	18 May 2016	18 May 2019					
Poon Shiu Cheong	Company secretary and qualified accountant	In office	M	47	28 May 2008	18 May 2019					
Hou Huancai	Director	Resigned	M	55	1 September 2004	18 May 2016	628,915				Note 1
Zhou Shaohua	Director and deputy general manager	Resigned	M	55	1 September 2004	18 May 2016	123,007				Note 2
Wang Xiaoqun	Director	Resigned	M	61	12 April 2010	18 May 2016					
Wang Chunfang	Director, deputy general manager and secretary to the Board	Resigned	M	41	8 April 2009	14 June 2016	130,000				130,000
Zhang Zhiyuan	Independent Director	Resigned	M	54	12 April 2010	18 May 2016					
Wang Aiguo	Independent Director	Resigned	M	53	12 April 2010	18 May 2016					
Gao Junjie	Chairman of Supervisory Committee	Resigned	M	46	6 September 2001	4 November 2016	39,606				39,606
Wang Ju	Supervisor	Resigned	M	51	11 May 2006	18 May 2016					
Yin Qixiang	Supervisor	Resigned	M	79	12 April 2010	18 May 2016					
Guo Guangyao	Supervisor	Resigned	M	74	27 May 2009	18 May 2016					
Total	—	—	—	—	—	—	11,119,532	0	0	0	10,367,610

Notes 1 and 2: Hou Huancai and Zhou Shaohua resigned during the reporting period and their resignation was effective for half a year. As at the end of the reporting period, their shareholding after their resignation was unknown.

II. Changes of Directors, Supervisors and Senior Management of the Company

Name	Position	Type	Date	Reason
Hou Huancai	Director	Resigned on expiry of term of office	18 May 2016	Resigned on expiry of term of office
Zhou Shaohua	Director	Resigned on expiry of term of office	18 May 2016	Resigned on expiry of term of office
Wang Xiaoqun	Director	Resigned on expiry of term of office	18 May 2016	Resigned on expiry of term of office
Zhang Zhiyuan	Independent Director	Resigned on expiry of term of office	18 May 2016	Resigned on expiry of term of office
Wang Aiguo	Independent Director	Resigned on expiry of term of office	18 May 2016	Resigned on expiry of term of office
Wang Ju	Supervisor	Resigned on expiry of term of office	18 May 2016	Resigned on expiry of term of office
Yin Qixiang	Supervisor	Resigned on expiry of term of office	18 May 2016	Resigned on expiry of term of office
Guo Guangyao	Supervisor	Resigned on expiry of term of office	18 May 2016	Resigned on expiry of term of office
Wang Chunfang	Director	Resigned	14 June 2016	Resigned due to personal reasons
Wang Chunfang	Secretary to the Board and deputy general manager	Dismissed	14 June 2016	Resigned due to personal reasons
Gao Junjie	Chairman of Supervisory Committee	Resigned	14 November 2016	Passed away due to illness

X. Directors, Supervisors and Senior Management and Staff

III. Employment

Professional background, major working experiences and current duties at the Company of Directors, Supervisors and Senior Management

1. Brief biographies of Directors

(1) Brief biographies of executive Directors

Mr. Chen Hongguo, with Chinese nationality but without the right of permanent residence abroad, joined the Company in 1987, had held different positions including chief officer of manufacturing section, chief officer of branch factory, deputy general manager, Director of the Company and the chairman of Wuhan Chenming Hanyang Paper Holdings Co., Ltd., etc. He is currently the Chairman and general manager of the Company and the chairman of Shouguang Chenming Holdings Company Limited. Mr. Chen Hongguo is the spouse of Ms. Li Xueqin, a deputy general manager of the Company.

Mr. Yin Tongyuan, with Chinese nationality but without the right of permanent residence abroad, joined the Company in 1982, had held different positions including the chief officer of manufacturing section, director of technology department, deputy factory chief, standing deputy factory chief and general manager. He is currently the vice-chairman of the Company and a director of Shouguang Chenming Holdings Company Limited.

Mr. Li Feng, with Chinese nationality but without the right of permanent residence abroad, joined the Company in 1992, had held different positions including the chief officer of manufacturing section and assistant to the general manager of the Company, deputy general manager of Shandong Chenming Paper Group Qihe Paperboard Co., Ltd., deputy general manager and chairman of Wuhan Chenming Hanyang Paper Holdings Co., Ltd., and a director of Chenming Holdings Co., Ltd. He is currently the executive Director of the Company in charge of the sales of cultural paper products. Mr. Li Feng is the brother of Ms. Li Xueqin, a deputy general manager of the Company.

Mr. Geng Guanglin, with Chinese nationality but without the right of permanent residence abroad, joined the Company in 1992, had held different positions including the chief officer of manufacturing section of the Company, deputy general manager of Chibi Chenming Paper Co., Ltd., the chairman of Wuhan Chenming Hanyang Paper Holdings Co., Ltd. the chairman of Jilin Chenming Paper Co., Ltd. and the chairman of Jiangxi Chenming Paper Co., Ltd. He is currently a Director and the deputy general manager of the Company, and a director of Shouguang Chenming Holdings Company Limited in charge of the operation of Zhanjiang Chenming.

(2) Brief biographies of non-executive Directors

Ms. Yang Guihua, with Chinese nationality but without the right of permanent residence abroad, holds a doctoral degree. She served as a technician with Jinan Advanced Tissue Paper Factory (濟南高級薄頁紙廠), a teacher at Light Chemistry and Environmental Engineering College, Qilu University of Technology. Ms. Yang is a professor of Qilu University of Technology and a standing director of Shandong Technical Association of Paper Industry. She has served as a non-executive Director of the Company since May 2014.

Ms. Zhang Hong, with Chinese nationality but without the right of permanent residence abroad, holds a doctoral degree in Economics. She is currently a professor and advisor to doctoral students at Shandong University, head of a multinational corporation research institute, non-practising member of the Chinese Institute of Certified Public Accountants, director of China Association of International Trade, director of Shandong Province External Trade Association and independent director of Shandong Gettop Acoustic Co., Ltd. She has served as an independent non-executive Director of the Company since April 2010.

X. Directors, Supervisors and Senior Management and Staff

III. Employment (Cont'd)

1. Brief biographies of Directors (Cont'd)

(3) Brief biographies of independent non-executive Directors

Ms. Pan Ailing, with Chinese nationality but without the right of permanent residence abroad, is currently a professor of the School of Management, and the chief of the Investment and Financing Research Centre (投資研究中心) in Shandong University. She is also a director of the Accounting Institute, Shandong Province (山東省會計學會), a council member of Shandong Comparative Management Association, a visiting professor at Soochow University in Taiwan, and a visiting scholar at University of Connecticut in the United States. She is also an independent director of Sinotruck Jinan Truck Co., Ltd. (中國重汽集團濟南卡車股份有限公司) and Inspir Software Co., Ltd. She has served as an independent non-executive director of the Company since May 2013.

Ms. Wang Fengrong, with Chinese nationality but without the right of permanent residence abroad, is a Ph.D. in Economics and a visiting scholar at West Virginia University in the United States. She was previously a lecturer at the Department of Finance of Shandong Economic University (山東經濟學院財金系) and an associate professor at the Economic Research Center of Shandong University (山東大學經濟研究中心). She currently holds positions including professor and advisor to doctoral students at the Economic Research School of Shandong University (山東大學經濟研究院) and Shandong School of Development at Shandong University (山東大學山東發展研究院), evaluation experts in both National Social Science Fund and National Natural Science Foundation of China, as well as guest analyst regarding policy implementation of currency and credit matters for the Jinan branch of the People's Bank of China. She has finished various research projects at national and provincial level and published more than 60 academic papers on CSSCI academic journals. Her research was included in the National Achievements Library of Philosophy and Social Sciences. She concurrently serves as an independent director of Shandong Xinneng Taishan Power Generation Co., Ltd. (山東新能泰山發電股份有限公司) and Shandong Denghai Seeds Co., Ltd.

Mr. Huang Lei, with Chinese nationality but without the right of permanent residence abroad, is a Ph.D. in Economics. He was the chief of the Department of Finance and the dean of School of Finance in Shandong University of Finance (山東財政大學). He currently holds positions including the dean of School of Finance in Shandong University of Finance and Economics, the director of the professor committee and the deputy director of the academic committee of Shandong University of Finance and Economics, a member of the Guiding Committee on Education of Financial Majors (金融學類專業教學指導委員會) of the Ministry of Education, a deputy director of the Collaborative Innovation Centre for Financial Optimisation and Regional Development in Shandong (山東金融產業優化與區域管理協同創新中心), a director of the Taishan Capital Market Research Center (泰山資本市場研究中心) of the Shandong University of Finance and Economics, a director of the Shandong Capital Market Training Fund (山東資本市場人才培訓基金) as well as an independent director of Shandong Hi-Speed Road and Bridge Co., Ltd. and Wanjia Asset Management Co., Ltd.

Ms. Liang Fu, with Chinese nationality but without the right of permanent residence abroad, is an advisor to doctoral students and a Young and Middle-aged Expert with Outstanding Contributions in Shandong Province (山東省有突出貢獻的中青年專家). She served as a deputy professor, a professor and an advisor to master's students of the business school of Shandong University of Finance, a professor, an advisor to master's students and an advisor to doctoral students of the business school of Shandong University of Finance and Economics and a company president and experienced in start-up, development, mergers and acquisitions and listing. She published three academic papers on CSSCI, a major academic journal in the PRC. She had one case included in the China Management Case-sharing Center and was in charge of two provincial level topics. She currently holds positions including an evaluation expert in National Social Science Fund, a support specialist in the decision-making of the information industry in the PRC, a director of Shandong Economic Association (山東省經濟學會), an executive director of Shandong Management Association (山東省管理學會) as well as an independent director of Shandong Shengli Co., Ltd.

X. Directors, Supervisors and Senior Management and Staff

III. Employment (*Cont'd*)

2. Brief biographies of Supervisors

Mr. Li Dong, with Chinese nationality but without the right of permanent residence abroad, graduated from Shandong University of Science and Technology with a diploma in auditing. After joining the Company in 2004, he had held different positions including the deputy chief of cost auditing section and the chief of general section under the financial department of the Company, the financial controller of Zhanjiang Chenming and the chief of financial department of the Group. He is currently the Chairman of Supervisory Committee.

Mr. Liu Jilu, with Chinese nationality but without the right of permanent residence abroad, graduated from the School of Economics and Management of China University of Geosciences with a master's degree. He currently serves as an associate professor of the accounting specialty of Weifang Vocational College and has years of teaching and practical experience in financial accounting, financial management, audit and tax laws. He participated in the core training of the preparatory courses for the accountant and certified public accountant examinations and was invited to conduct seminars for the continuing education classes for the middle and high level accounting personnel in the Weifang City for many times.

Mr. Zhang Xiaofeng, with Chinese nationality but without the right of permanent residence abroad, graduated from the School of Management of Shandong University with a doctorate's degree and his research direction was corporate system and corporate governance, corporate strategies and human resources, etc. He currently serves as an associate professor of the Business Management Discipline in the School of Management of Shandong University, offering management courses for undergraduate, MBA, EDP and EMBA students for a long time as well as providing training to large enterprises both inside and outside the province for hundreds of times. He concurrently holds positions including the committee member of the Professional Committee of Corporate Governance in the PRC (中國公司治理專業委員會), the part-time case researcher of China Europe International Business School and the deputy secretary general of Shandong Young Social Science Workers Association (山東省青年社會科學工作者協會).

Ms. Sun Yinghua, with Chinese nationality but without the right of permanent residence abroad, graduated from the vocational Shandong Communist Party School (山東省委黨校) specialising in Economics and Management and is an associate economist. She joined the Company in 1993, serving as price audit officer, audit director and other positions, and is currently an assistant to the general manager of the Company responsible for the audit department.

Ms. Yang Hongqin, with Chinese nationality but without the right of permanent residence abroad, joined the Company in 1987, serving as the deputy chief and chief officer of quality control section and the chief of after sale services department of the Company and the manager of property management company, and is currently a Supervisor of the Company and assistant to general manager of Shandong Chenming Power Supply Holdings Co., Ltd.

III. Employment (Cont'd)

3. Brief biographies of Senior Management

Ms. Li Xueqin, with Chinese nationality but without the right of permanent residence abroad, is the deputy general manager of the Company. She joined the Company in 1987 and held the positions of the chief of audit department and deputy general manager, etc. Ms. Li has been a deputy general manager of the Company and a director of Shouguang Chenming Holdings Company Limited since March 2003. Ms. Li Xueqin is the spouse of Mr. Chen Hongguo, chairman of the Company.

Mr. Hu Changqing, with Chinese nationality but without the right of permanent residence abroad, is the deputy general manager of the Company. He joined the Company in 1988 and had held positions as the chief of the technological reform department, chief officer of branch factory, deputy general manager and Director of the Company, etc. He is currently the deputy general manager of the Company in charge of the Huanggang Chenming Pulp and Paper project.

Mr. Yang Weiming, with Chinese nationality but without the right of permanent residence abroad, is the deputy general manager of the Company. He joined the Company in 1998 and had held positions as the deputy manager, manager, general manager and principal representative of Chenming Sales Company, and the deputy manager, leader in charge, and general manager of a product company. He is currently the vice marketing director of a sales company.

Mr. Li Zhenzhong, with Chinese nationality but without the right of permanent residence abroad, joined the Company in 1995. He had served as principal representative of the Shanghai management region of a sales company, sales manager of cultural paper products. He is currently deputy general manager of the Company and in charge of the sales of coated paper products of the Company.

Mr. Zhang Qingzhi, with Chinese nationality but without the right of permanent residence abroad, is the deputy general manager of the Company. He joined the Company in 1982 and had held positions as the chief officer of branch factory, head of the production department, assistant to the general manager and vice production director. He is currently the production director of the Company.

Mr. Hu Jinbao, with Chinese nationality but without the right of permanent residence abroad, graduated from China Central Radio and TV University with a bachelor's degree. He is senior project manager in energy saving. He joined the Company in 2016. He had held different positions including the head of the savings counter unit, the head of the credit card section and the director of the business department of the Shouguang sub-branch of Bank of China in Weifang City of Shandong Province, the deputy general manager of the Shouguang sub-branch, the general manager of the Kuiwen sub-branch, the deputy director of the business department of the sub-branch and the general manager of the Changyi sub-branch of Bank of China in Weifang City of Shandong Province. He is currently the financial controller of the Company.

Mr. Xiao Peng, with Chinese nationality but without the right of permanent residence abroad, holds a bachelor degree in management. He had held different positions including the chief officer of the capital section, the chief officer of information disclosure section, head of securities and investment management department, and representative of securities affairs of the Company. He is currently the secretary to the Board of the Company.

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

X. Directors, Supervisors and Senior Management and Staff

III. Employment (Cont'd)

3. Brief biographies of Senior Management (Cont'd)

Employment at the shareholder of the Company

☒ Applicable ☐ Not applicable

Name of employee	Name of shareholder of the Company	Position at the shareholder of the Company	Start date of the term	End date of the term	Whether receiving any remuneration or allowance from the shareholder of the Company
Chen Hongguo	Shouguang Chenming Holdings Company Limited	Chairman	22 September 2016	21 September 2019	No
Yin Tongyuan	Shouguang Chenming Holdings Company Limited	Director	22 September 2016	21 September 2019	No
Geng Guanglin	Shouguang Chenming Holdings Company Limited	Director	22 September 2016	21 September 2019	No
Li Xueqin	Shouguang Chenming Holdings Company Limited	Director	22 September 2016	21 September 2019	No
Explanation of the employment at the shareholder of the Company		Nil			

Employment at other units

☒ Applicable ☐ Not applicable

Name of employee	Name of other unit	Position at the other unit	Start date of the term	End date of the term	Whether receiving any remuneration or allowance from other unit
Zhang Hong	Sinoer Men's Clothes Co., Ltd.	Independent director	5 September 2014	4 September 2017	Yes
Zhang Hong	Shandong Gettop Acoustic Co., Ltd.	Independent director	16 September 2014	15 September 2017	Yes
Zhang Hong	Shandong Zhangqiu Blower Co., Ltd.	Independent director	12 July 2015	11 July 2018	Yes
Pan Ailing	Sinotruk Jinan Truck Co., Ltd.	Independent director	6 May 2014	5 May 2017	Yes
Pan Ailing	Inspir Software Co., Ltd.	Independent director	14 March 2014	13 March 2017	Yes
Wang Fengrong	Shandong Xinneng Taishan Power Generation Co., Ltd.	Independent director	23 May 2014	22 May 2017	Yes
Wang Fengrong	Shandong Denghai Seeds Co., Ltd.	Independent director	12 May 2016	11 May 2019	Yes
Huang Lei	Shandong Hi-Speed Road and Bridge Co., Ltd.	Independent director	15 July 2013	15 July 2016	Yes
Huang Lei	Wanjia Asset Management Co., Ltd.	Independent director	16 October 2015	16 October 2018	Yes
Liang Fu	Shandong Shengli Co., Ltd.	Independent director	15 May 2015	15 May 2018	Yes
Explanation of the employment at the other unit		Nil			

Sanctions against current Directors, Supervisors and Senior Management of the Company and those who resigned during the reporting period by securities regulatory authorities in the past three years

☐ Applicable ☒ Not applicable

X. Directors, Supervisors and Senior Management and Staff

IV. Remuneration of Directors, Supervisors and Senior Management

Decision process, basis for determining the remuneration and actual payment for the remuneration of Directors, Supervisors and Senior Management

- (1) Determination basis for remuneration of Directors, Supervisors and Senior Management: The annual remuneration of each of the executive Directors and senior management of the Company was in the band of RMB0.20 million to 5.00 million and the specific amount for each of them was determined by the remuneration committee based on the main financial indicators and operation target completed by the Company, the scope of work and main responsibilities of the Directors and senior management of the Company, the target completion of the Directors and senior management as assessed by the duty and performance appraisal system, as well as business innovation capability and profit generation ability of the Directors and senior management. During the reporting period, the Company will pay each of the independent non-executive Directors and non-executive Directors of the Company annual allowance of RMB50,000. The travel expenses for attending board meetings and general meetings of the Company and fees reasonably incurred in the performance of their duties under the Articles of Association by independent non-executive Directors and non-executive Directors are reimbursed as expensed. The annual remuneration of Supervisors assuming specific managerial duties in the Company were determined by the general manager office of the Company based on specific managerial duties assumed by them. Fixed annual remuneration policy was adopted on external Supervisors who did not hold actual management positions in the Company. During the reporting period, the fixed annual remuneration of external Supervisors was RMB25,000 each year.
- (2) Decision process for remuneration of Directors, Supervisors and Senior Management: In accordance with the relevant policies and regulations such as the Implementation Rules Of The Remuneration And Assessment Committee Under The Board, any remuneration plan for the Company's executive Directors proposed by the remuneration and assessment committee shall be agreed on by the Board and then submitted to the general meeting for consideration and approval prior to implementation. Any proposal of remuneration distribution plan for senior management officers of the Company shall be submitted to the Board for approval. The remuneration of independent non-executive directors, non-executive directors and external supervisors of the Company shall be agreed on by the Board and then submitted to the general meeting for consideration and approval prior to implementation.
- (3) The remuneration and assessment committee, which was set up by the Board according to the resolution of the general meeting, is mainly responsible to formulate the standards of, carry out appraisal in respect of the non-independent Directors and Senior Management of the Company; formulate and examine the remuneration policy and scheme of the non-independent Directors and Senior Management of the Company, and accountable to the Board.

X. Directors, Supervisors and Senior Management and Staff

IV. Remuneration of Directors, Supervisors and Senior Management (Cont'd)

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

Remuneration of Directors, Supervisors and Senior Management during the reporting period

Unit: RMB'0,000

Name	Position	Sex	Age	Status	Total remuneration before tax received from the Company	Received remuneration from related parties of the Company
Chen Hongguo	Chairman and general manager	M	52	In office	498	No
Yin Tongyuan	Vice-chairman	M	59	In office	298	No
Li Feng	Director	M	44	In office	133.74	No
Geng Guanglin	Director and deputy general manager	M	43	In office	138.11	No
Zhang Hong	Director	F	52	In office	5	No
Yang Guihua	Director	F	51	In office	5	No
Pan Ailing	Independent Director	F	52	In office	5	No
Wang Fengrong	Independent Director	F	48	In office	2.92	No
Huang Lei	Independent Director	M	60	In office	2.92	No
Liang Fu	Independent Director	F	49	In office	2.92	No
Li Dong	Chairman of Supervisory Committee	M	34	In office	27.81	No
Yang Hongqin	Supervisor	F	49	In office	19.19	No
Sun Yinghua	Supervisor	F	48	In office	49.77	No
Liu Jilu	Supervisor	M	50	In office	1.46	No
Zhang Xiaofeng	Supervisor	M	39	In office	1.46	No
Li Xueqin	Deputy general manager	F	51	In office	234.55	No
Hu Changqing	Deputy general manager	M	51	In office	114.75	No
Hu Jinbao	Financial controller	M	50	In office	66.83	No
Xiao Peng	Secretary to the Board	M	34	In office	22.37	No
Yang Weiming	Deputy general manager	M	42	In office	77.79	No
Li Zhenzhong	Deputy general manager	M	43	In office	128.27	No
Zhang Qingzhi	Deputy general manager	M	51	In office	90.34	No
Poon Shiu Cheong	Company secretary and qualified accountant	M	47	In office	13.52	No
Hou Huancai	Director	M	55	Resigned	24.56	No
Zhou Shaohua	Director and deputy general manager	M	55	Resigned	59.83	No
Wang Xiaoqun	Director	M	61	Resigned	5	No
Wang Chunfang	Director, deputy general manager and secretary to the Board	M	41	Resigned	62.35	No
Zhang Zhiyuan	Independent Director	M	54	Resigned	5	No
Wang Aiguo	Independent Director	M	53	Resigned	5	No
Gao Junjie	Chairman of Supervisory Committee	M	46	Resigned	59.77	No
Wang Ju	Supervisor	F	51	Resigned	1.01	No
Yin Qixiang	Supervisor	M	79	Resigned	2.5	No
Guo Guangyao	Supervisor	M	74	Resigned	2.5	No
Total	—	—	—	—	2,167.24	—

X. Directors, Supervisors and Senior Management and Staff

IV. Remuneration of Directors, Supervisors and Senior Management (Cont'd)

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

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

☐ Applicable ☒ Not applicable

V. Personnel of the Company

1. Number of staff, specialty composition and education level

Number of staff at the Company (person)	4,418
Number of staff at major subsidiaries (person)	8,568
Total number of staff (person)	12,986
Total number of staff receiving remuneration during the period (person)	12,986
Number of ex-employees or retired employees for which the Company and the major subsidiaries have obligations (person)	11

Specialty composition	
Category of specialty composition	Number of people (person)
Production staff	7,151
Sales staff	724
Technical staff	2,054
Financial staff	176
Administrative staff	1,469
Other staff	1,412
Total	12,986

Education level	
Category of education level	Number of people (person)
Postgraduate and above	39
Undergraduate	1,214
Post-secondary	2,875
Technical secondary and below	8,858
Total	12,986

X. Directors, Supervisors and Senior Management and Staff

V. Personnel of the Company (Cont'd)

2. Remuneration policies

The remuneration of the employees of the Company includes their salaries, bonuses and other fringe benefits. Subject to the relevant laws and regulations of the PRC, the Company adopts different standards of remuneration for different employees, which are determined based on their performance, experience, position, etc. Details of the remuneration of employees of the Group in 2016 are set out in Note 26 to the financial statements prepared in accordance with Accounting Standards for Business Enterprises.

Meanwhile, employees of the Group in the PRC participate in state-managed retirement benefit schemes operated by local governments. The Group is required to contribute a specified percentage of the employees' payroll costs to the retirement benefit scheme to fund the benefits. Details of the employee pension benefits provided by the Group are set out in Note 26 of the financial statements prepared in accordance with Accounting Standards for Business Enterprises.

3. Training programmes

The Company attaches importance to personnel training, implements the corporate spirit of "learning, surpassing and leading", and establishes a learning organisation. In 2017, the Company will strengthen the cooperation with management consulting companies and professional training organisations, and utilise the internal resources and exert the management autonomy at different levels to initiate targeted training programmes by levels and by classes. The Company will classify the staff members under the Senior Management level, the middle level and the junior level with respective training materials, and initiate dynamic corporate culture and company development training sessions for all staff members. The training for the Senior Management emphasises leadership, the training for the middle-level staff emphasises team management and execution, while the training for junior staff emphasises business skills and theory and knowledge.

4. Labour outsourcing

☐ Applicable ☒ Not applicable

XI Corporate Governance

(II) Corporate governance activities

During the reporting period, the Board strived to regulate the operation of the Company by improving corporate governance based on relevant special activities carried out in 2015. Pursuant to the requirements of the CSRC, the Shenzhen Stock Exchange, Hong Kong Exchanges and Clearing Limited and the Shandong Securities Regulatory Bureau, it made the following efforts to continuously improve the corporate governance level:

1. On 2 June 2016, the Resolution on Amendments to the Articles of Association of Shandong Chenming Paper Holdings Limited was considered and passed at the 2016 second extraordinary general meeting of the Company, which amended the practice of profit distribution in the Articles of Association based on the actual operation conditions and the non-public issuance of shares of the Company. On 17 March 2016, 17 August 2016 and 22 September 2016, the Company was approved to respectively issue 22,500,000, 10,000,000 and 12,500,000 preference shares. The Company amended the issuing scale and conditions of the preference shares in the Articles of Association according to the issuing status of the preference shares.
2. According to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended and effective 1 January 2016), the Board amended the Implementing Rules of the Audit Committee.
3. Pursuant to the relevant laws and regulations and regulations of regulatory documents such as the Guidelines for the Supervision and Administration on Listed Companies No. 2 - Supervision and Administration Requirements for Listed Companies on the Management and Use of Raised Funds and Guidelines of the Shenzhen Stock Exchange for the Standard Operation of Listed Companies on the Small and Medium-sized Enterprise Board (2015 Revision), the Company's proposed to reformulate the Administrative Measures of Proceeds of Shandong Chenming Paper Holdings Limited in order to further regulate the use and management of the proceeds of the Company and ensure the use and management of the proceeds of the Company conforming to the requirements of relevant laws and regulations. The proposal was considered and approved by the 2016 second extraordinary general meeting and was executed.

The Company strictly implemented its related system of internal control to facilitate its regulated operation and healthy development, thereby protecting the legal interests of investors. The corporate governance of the Company was exactly the same as what was required by the CSRC. The regulated operations and the internal control standards would grow with the development of the Company.

Any material non-compliance of the regulatory documents on the governance of listed companies issued by the CSRC in respect of actual governance of the Company

☐ Yes ☒ No

There was no material non-compliance of the regulatory documents on the governance of listed companies issued by the CSRC in respect of the actual governance of the Company.

XI Corporate Governance

II. Particulars about the independence in terms of businesses, personnel, assets, organisations, and finance from the controlling shareholder

In terms of business: The Company was completely independent from the controlling shareholder, and had business independence and self-operation capability.

In terms of personnel: The labour, personnel and salary management were completely separated from the controlling shareholder.

In terms of assets: There was only shareholding relationship between the Company and Shouguang Chenming Holdings Company Limited. The assets of the Company were completely separated from that of the controlling shareholder.

In terms of organisation: The Company had a mature and independent organisation structure, which was established according to the legal processes and the business practice of the Company. It was completely separated from that of the controlling shareholder.

In terms of finance: The Company had its own accounting department, accounting system, financial management system, and bank accounts. The controlling shareholder did not interfere in the financial activities of the Company.

All in all, the Company is totally separate in businesses, personnel, assets, organisations, and finance from the controlling shareholder, and had its business independence and self-operation capability.

III. Competition in the industry

☐ Applicable ☒ Not applicable

IV. Annual general meeting and extraordinary general meeting convened during the reporting period

1. General meetings during the reporting period

Meeting	Type of meeting	Attendance rate of investors	Convening date	Disclosure date	Disclosure index
2016 first extraordinary general meeting	Extraordinary general meeting	0.06%	3 February 2016	4 February 2016	http://www.cninfo.com.cn
2015 annual general meeting	Annual general meeting	0.08%	18 May 2016	19 May 2016	http://www.cninfo.com.cn
2016 second extraordinary meeting	Extraordinary general meeting	0.10%	2 June 2016	3 June 2016	http://www.cninfo.com.cn
2016 first domestic listed share class meeting	Extraordinary general meeting	0.10%	2 June 2016	3 June 2016	http://www.cninfo.com.cn
2016 first overseas listed share class meeting	Extraordinary general meeting	0.20%	2 June 2016	3 June 2016	http://www.cninfo.com.cn
2016 third extraordinary meeting	Extraordinary general meeting	0.10%	11 October 2016	12 October 2016	http://www.cninfo.com.cn
2016 fourth extraordinary meeting	Extraordinary general meeting	0.08%	13 December 2016	14 December 2016	http://www.cninfo.com.cn

XI Corporate Governance

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

2. Extraordinary general meeting requested by holders of the preference shares with voting rights restored

☐ Applicable ☒ Not applicable

V. Performance of Independent Directors during the reporting period

1. Attendance of independent Directors at Board meetings and general meetings

Attendance of Independent Directors at board meetings						
Name of independent Directors	Number of attendance required for Board meetings during the reporting period	Attendance in person	Attendance by communication	Attendance by proxy	Absence	Absent twice in a row (in person)
Pan Ailing	17	2	15	0	0	No
Wang Fengrong	9	1	8	0	0	No
Huang Lei	9	1	8	0	0	No
Liang Fu	9	1	8	0	0	No
Zhang Zhiyuan	8	1	7	0	0	No
Wang Aiguo	8	1	7	0	0	No
Zhang Hong	8	1	7	0	0	No
Number of the general meetings attended by independent Directors						1

Explanation on absence from the Board meeting twice in a row:

None of the independent Directors was absent from the Board meeting twice in a row.

2. Objections from independent Directors on related issues of the Company

Were there any objections on related issues of the Company from the independent Directors?

☐ Yes ☒ No

There was no objection on related issues of the Company from the independent Directors during the reporting period.

XI Corporate Governance

V. Performance of Independent Directors during the reporting period (Cont'd)

3. Other details about the performance of duties by the independent Directors

Were there any suggestions from the independent Directors adopted by the Company?

☒ Yes ☐ No

Explanation on the adoption or non-adoption with related suggestions from the independent Directors

During the reporting period, the independent Directors of the Company focused on the operation of the Company and performed their duties strictly in accordance with relevant laws and regulations and the Articles of Association. They provided a lot of valuable professional recommendations on optimising the Company's system and decision on daily operation. They also issued independent and fair opinion on matters arising during the reporting period which requested opinions from independent Directors. This helped optimising the supervisory system of the Company, as well as protecting the legal rights of the Company and all shareholders.

Publication date	Subject matter	Opinion
24 March 2016	Independent opinions on replacement of self-raised funds invested in advance to projects with proceeds from issue of preference shares	Agreement
30 March 2016	Independent opinions on internal control self-assessment report, external guarantees, determination of remuneration of directors and senior management for 2015, use of proceeds by related parties and related party transactions, provision of guarantee for comprehensive credit line of wholly-owned subsidiaries and related party transactions	Agreement
15 April 2016	Independent opinions on the non-public issue of A shares, the Dividend Distribution Plan for Shareholders of Shandong Chenming Paper Holdings Limited in the Coming Three Years (2016-2018) and the related party transactions and entering into of conditional share subscription agreement with specific parties; prior approval opinions on the relevant matters of the non-public issue	Agreement
29 April 2016	Independent opinions on the appointment and re-appointment of Directors	Agreement
17 May 2016	Independent opinions on the non-public issue of A shares and the related party transactions and entering into of conditional share subscription agreement with specific parties; prior approval opinions on the relevant matters of the non-public issue	Agreement
18 May 2016	Independent opinions on the appointment of senior management	Agreement
24 August 2016	Independent opinions on the guarantee for issuance of short term commercial paper by Zhanjiang Chenming, utilisation of funds by controlling shareholders and other related parties and external guarantees	Agreement
23 September 2016	Independent opinions on replacement of self-raised funds invested in advance to projects with proceeds from issue of the third tranche of preference shares	Agreement
26 September 2016	Independent opinions on the non-public issue of A shares; prior approval opinions on the matters in relation to the non-public issue of A shares of the Company	Agreement
25 October 2016	Independent opinions on the appointment of accounting firm	Agreement
16 November 2016	Independent opinions on the appointment of the company secretary and chief financial officer and provision of guarantees for the commencement of asset securitisation business of Sales Company	Agreement

VI. Performance of duties by special committees under the Board

(I) Audit committee

1. The following major tasks were completed in 2016:

- (1) it conducted pre-audit communication with external auditing institution engaged by the Company in respect of the 2015 financial report auditing, reviewed the 2015 auditing report and financial report and submitted such reports to the Board of the Company;
- (2) it reviewed the first quarter report of the Company as of 31 March 2016, which was submitted to the Board for approval.
- (3) it reviewed the interim financial statements for the six months ended 30 June 2016, which were submitted to the Board for approval.
- (4) it reviewed the third quarter report of the Company as of 30 September 2016, which was submitted to the Board for approval.

2. Auditing work conducted on the 2016 financial report of the Company is as follows:

- (1) it reviewed the 2016 auditing plan and the related information of the Company with the auditing certified public accountants and the finance department of the Company prior to the on-site audit and negotiated and determined the schedule of an audit of the 2016 financial statements of the Company with Ruihua Certified Public Accountants;
- (2) it reviewed the draft of financial statements of the Company prior to an annual on-site audit performed by the auditing certified public accountants and issued its approval to audit;
- (3) it kept in close contact with the auditors upon the annual on-site audit and issued a letter to the auditors to urge the submission of the auditors' report on schedule;
- (4) it reviewed the financial statements of the Company again upon the issue of draft opinion on the annual audit by the auditing certified public accountants, and considered the financial statements of the Company true, accurate and complete to reflect the overall position of the Company;
- (5) at the first meeting of the audit committee in 2017, the auditors' report on the annual audit issued by the certified public accountants was approved and then was submitted to the Board;
- (6) it reviewed the report on internal audit and internal control of the Company for the year ended 31 December 2016.

(II) Remuneration and assessment committee

The remuneration and assessment committee of the Company were primarily responsible for formulating the remuneration and assessment for the Directors and the Senior Management of the Company and formulating and examining the remuneration package of the Directors and the Senior Management of the Company, and accountable to the Board. During the reporting period, the remuneration and assessment committee formulated the 2015 remuneration package of the Directors and the Senior Management of the Company, which then was submitted to the Board for approval, based on the production and operation conditions of 2015 and assessment of the Directors and the Senior Management of the Company.

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

(III) Strategic committee

During the reporting period, the strategic committee held two meetings. The first meeting in 2016 considered the proposed resolutions in relation to the capital increase of Chenming Financial Leasing Company Limited, which was submitted to the eleventh extraordinary meeting of the seventh session of the Board of the Company for consideration and approval. The second meeting in 2016 considered the proposed resolutions in relation to the capital increase of the Finance Company, which were submitted to the second extraordinary meeting of the eighth session of the Board of the Company for consideration and approval.

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

(IV) Nomination committee

During the reporting period, the nomination committee held two meetings. The first meeting in 2016 considered and approved the proposed resolutions in relation to the election of directors as part of the change of the session of the Board, which was submitted to the fifteenth meeting of the seventh session of the Board of the Company for consideration and approval;

VII. Performance of duties by the Supervisory Committee

During the reporting period, the Supervisory Committee held seven regular meetings and six extraordinary meetings.

The first extraordinary meeting of the seventh session of the Supervisory Committee considered and approved the proposed resolutions in relation to the reimbursement of the self-raised funds used in the project financed by proceeds with the proceeds from the preference shares;

The second extraordinary meeting of the seventh session of the Supervisory Committee considered and approved twelve proposed resolutions respectively in relation to the fulfilment of conditions in respect of the non-public issue of A shares of the Company, the proposal on the non-public issue of A shares of the Company and the proposal on the non-public issue of A shares of the Company;

The thirteenth meeting of the seventh session of the Supervisory Committee considered and approved six proposed resolutions respectively in relation to the 2015 supervisors' report of the Company, the full text and summary of the 2015 annual report of the Company and the 2015 financial statements of the Company;

The fourteenth meeting of the seventh session of the Supervisory Committee considered and approved the proposed resolution in relation to approving the full text and body text of the 2016 first quarterly report of the Company;

The fifteen meeting of the seventh session of the Supervisory Committee considered and approved the election of supervisors as part of the change of the session of the Supervisory Committee;

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VII. Performance of duties by the Supervisory Committee (Cont'd)

The third extraordinary meeting of the seventh session of the Supervisory Committee considered and approved eight proposed resolutions respectively in relation to the fulfilment of conditions in respect of the non-public issue of A shares of the Company, the proposal on the non-public issue of A shares of the Company and the proposal on the non-public issue of A shares of the Company;

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

The second meeting of the eighth session of the Supervisory Committee considered and approved the proposed resolution in relation to approving the full text and summary of the 2016 interim report of the Company;

The first extraordinary meeting of the eighth session of the Supervisory Committee considered and approved the proposed resolution in relation to the reimbursement of the self-raised funds used in the project financed by proceeds with the proceeds from the preference shares;

The second extraordinary meeting of the eighth session of the Supervisory Committee considered and approved four proposed resolutions in relation to the adjustments to the use of proceeds, proceeds amount, issue price and issue volume for the non-public issue of A shares, the second amendment of the proposal on the non-public issue of A shares of the Company and the second amendment of feasibility analysis report on the use of proceeds of the non-public issue of shares of the Company;

The third meeting of the eighth session of the Supervisory Committee considered and approved the proposed resolution in relation to approving the full text and body text of the 2016 third quarterly report of the Company.

The third extraordinary meeting of the eighth session of the Supervisory Committee considered and approved the proposed resolution in relation to the appointment of the shareholder representative supervisor;

The fourth meeting of the eighth session of the Supervisory Committee considered and approved the proposed resolution in relation to election of the chairman of the Supervisory Committee of the Company;

Were there any risks of the Company identified by Supervisory Committee when performing its duties during the reporting period?

☐ Yes ☒ No

None of those issues under the supervision was objected by Supervisory Committee during the reporting period.

VIII. Assessment and incentive mechanism for the Senior Management

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

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IX. Internal Control

1. Particulars of material deficiencies in internal control detected during the reporting period

☐ Yes ☒ No

2. Self-assessment Report on Internal Control

Date of Disclosure of Assessment Report on Internal Controls	17 February 2017
Index of Assessment Report on Internal Controls Disclosure	http://www.cninfo.com.cn
Percentage of Total Assets Included in Assessment to Total Assets in Consolidated Financial Statements of the Company	99.20%
Percentage of Revenue Included in Assessment to Revenue in Consolidated Financial Statements of the Company	99.50%

Type	Basis for identifying deficiencies	
	Financial reporting	Non-financial reporting
Qualitative criteria	(1) Indicators of material deficiencies in the internal control of financial reporting include: ineffective control environment, material loss to and adverse impact on the Company as a result of misconduct by Directors, Supervisors and senior management; material misstatement of non-exceptional incidents; ineffectiveness in supervision of internal control of the Company by the Board, or its delegated authorities, and the internal audit department. (2) Indicators of major deficiencies in internal control of financial reporting include: failure in selecting and applying accounting policies in accordance with generally accepted accounting principles; failure to establish procedures and control measures to prevent corrupt practices; failure to establish corresponding control mechanism for the accounting of unusual or special transactions or failure to implement or set up the corresponding compensation control; failure to reasonably ensure the truthfulness and accuracy in the preparation of financial statement, as a result of one or more deficiencies in the control of financial reporting as of the end of the period. (3) General deficiencies: other deficiencies in internal control that do not constitute material or major deficiencies.	Indicators of material deficiencies in the internal control of non-financial reporting include: major failure as a result of the decision making process; lack of control system or occurrence of systematic failure in principal activities and lack of effective compensation control, high turnover rate of mid to senior level management and senior technical staff; failure to address the findings of internal control assessment, in particular material deficiencies; and other factors which impose material adverse impact on the Company. Indicators of major deficiencies in internal control of nonfinancial reporting include: general failure as a result of the decision-making process; deficiencies in major business procedure or system; high turnover rate of key staff; failure to address the findings of internal control assessment, in particular major deficiencies; and other factors which impose great adverse impact to the Company. Indicators of general deficiencies in internal control of non-financial reporting include: low efficiency of decision making process; deficiencies in general business procedure or system; high turnover rate of employees; and failure to rectify general deficiencies.

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IX. Internal Control (Cont'd)

2. Self-assessment Report on Internal Control (Cont'd)

Type	Basis for identifying deficiencies	
	Financial reporting	Non-financial reporting
Quantitative criteria	General deficiencies: deviation of less than or equal to 0.1% from the target of accounting error/the total revenue; Major deficiencies: deviation of 0.1% - 0.5% from the target of accounting error/the total revenue; material deficiencies: deviation greater than 0.5% from the target of accounting error/the total revenue in consolidated statements.	General deficiencies: quantitative criterion (financial loss) less than RMB5,000,000; major deficiencies: quantitative criterion (financial loss) between RMB5,000,000 and RMB20,000,000; material deficiencies: quantitative criterion (financial loss) over RMB20,000,000.
Number of material deficiencies in financial reporting: (number)		0
Number of material deficiencies in non-financial reporting: (number)		0
Number of major deficiencies in financial reporting: (number)		0
Number of major deficiencies in non-financial reporting: (number)		0

X. Auditors' report on internal control

☒ Applicable ☐ Not applicable

Auditors' opinion contained in the Auditors' report on internal control

We are of the opinion that Shandong Chenming Paper Holdings Limited had in all material aspects maintained effective internal control over the financial statements in accordance with the Basic Internal Control Norms for Enterprises as of 31 December 2016.

Disclosure of Auditors' Report on Internal Control	Disclosed
Date of Disclosure of Auditors' report on internal control	17 February 2017
Index of Auditors' Report on Internal Control Disclosure	http://www.cninfo.com.cn
Type of Opinion in Auditors' Report on Internal Control	Standard and unqualified opinion
Material deficiencies in non-financial reporting	No

Any opinions of non-standardisation set out in the Auditors' Report on Internal Control issued by accountants

☐ Yes ☒ No

Auditors' Report on Internal Control issued by accountants was in line with Directors' opinions contained in Self-assessment Report

☒ Yes ☐ No

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XI. Disclosures as required by the Hong Kong Listing Rules issued by the Stock Exchange of Hong Kong Limited

(I) Compliance with the Code on Corporate Governance

The Company maintained high standards of corporate governance through various internal controls. The Board reviewed the corporate governance practices of the Company from time to time to enhance the corporate governance standards of the Company.

Save for the details set out in (III) “Board”, (IV) “Chairman and general manager” and (XVII) “Communications with shareholders”, the Company had fully complied with all the principles and code provisions of the Code on “Corporate Governance” as set out in Appendix 14 to the Hong Kong Listing Rules during the reporting period.

(II) Securities transactions by Directors

The Directors of the Company confirmed that the Company had adopted the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Hong Kong Listing Rules. Having made adequate enquiries with all Directors and Supervisors of the Company, the Company was not aware of any information that reasonably suggested that the Directors and Supervisors had not complied with the requirements as stipulated in this code during the reporting period.

(III) Board

The members of the Board of the Company are elected at the general meeting and held accountable to the general meeting, and shall exercise the following functions and powers: (1) to be responsible for convening the general meeting and to report on its work to the general meeting; (2) to carry out the resolutions of general meetings; (3) to decide on the business plans and investment proposals of the Company; (4) to formulate the proposed annual financial budget and final accounts of the Company; (5) to formulate the plan for profit distribution and the plan making up losses of the Company; (6) to formulate plans for the increase or reduction in the registered capital of the Company and for the issue and listing of Company’s debentures or other securities; (7) to draft plans for material acquisition and repurchase of the Company’s own shares; (8) to draft plans for the merger, division or dissolution or the change of formation of the Company; (9) to decide on external investment, acquisition and disposal of assets, pledge of assets, matter in relation to external guarantee, entrusted wealth management, connected transactions, etc. within the scope of mandate of the general meeting; (10) to decide on the establishment of the Company’s internal management organisation; (11) to employ or dismiss the manager or secretary to the Board of the Company; to employ or dismiss the Senior Management, such as the deputy general manager(s) and personnel in charge of financial affairs, as proposed by the general manager; and to decide on their remuneration and rewards and punishments; (12) to formulate the basic management system of the Company; (13) to formulate proposals for amending the Articles of Association; (14) to administrate matter related to information disclosure of the Company; (15) to propose to the general meeting for the engagement or replacement of accounting firm performing audit for the Company; (16) to review work reports from managers of the Company and to inspect on their work; (17) to exercise the functions and powers as conferred upon by the Articles of Association or the general meeting.

The Board comprised four executive Directors: Chen Hongguo (Chairman), Yin Tongyuan, Li Feng, Geng Guanglin; two non-executive Directors: Yang Guihua, Zhang Hong; and four independent non-executive Directors: Pan Ailing, Wang Fengrong, Huang Lei and Liang Fu. Please refer to section X of this Annual Report for their brief biographies.

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

(III) Board (Cont'd)

The Board is responsible for leading and monitoring the Company, and is wholly responsible for the administration and supervision of company businesses to facilitate its success. The Executive Director or the senior management is authorised to be responsible for the various divisions and functions and management of the processing. Directors of the Company shall act objectively and make decisions in the interests of the Company. The management and senior management of the Company held regular meetings with the Board to discuss the ordinary business operations and performance of the Company, and carried out the relevant decisions of the Board. The Company will arrange independent legal advice upon the request from the Directors or any committees of the Board, if the Board or any committees of the Board consider it necessary to seek for independent professional advice.

Pursuant to Code A.1.8 of the code provisions, the Company should arrange appropriate insurance cover in respect of legal action against its Directors. During the reporting period, the Company did not make such arrangement as no consensus was reached with the existing insurer. The Company, however, is in negotiations with another insurer for such arrangement for 2017.

During the reporting period, the Board held 17 meetings, 6 of which were regular meetings and 11 were extraordinary meetings. All Directors of the Company attended 17 Board meetings.

		Attendance at the relevant meetings (attention required/attended)						
Name	Position	Board meetings	Audit committee meetings	Nomination committee meetings	Remuneration and assessment committee meetings		General meetings	
					Strategic committee meetings			
I.	Executive Directors							
	Chen Hongguo	Chairman and General Manager	17/17	N/A	1/1	1/1	0/0	6/3
	Yin Tongyuan	Vice Chairman	17/17	N/A	N/A	N/A	0/0	6/6
	Li Feng	Director	17/17	N/A	N/A	N/A	N/A	6/0
	Geng Guanglin	Director and Deputy General Manager	17/17	N/A	N/A	N/A	N/A	6/5
	Hou Huancai (resigned)	Director	8/8	N/A	N/A	N/A	N/A	2/0
	Zhou Shaohua (resigned)	Director and Deputy General Manager	8/8	N/A	N/A	N/A	N/A	2/0
	Wang Chunfang (resigned)	Director, Deputy General Manager and Secretary to the Board	1/1	N/A	N/A	N/A	N/A	2/2
II.	Non-executive Directors							
	Yang Guihua	Director	17/17	5/5	N/A	N/A	N/A	6/0
	Wang Xiaoqun (resigned)	Director	8/8	N/A	N/A	N/A	N/A	2/0
	Zhang Hong	Director	9/9	N/A	N/A	0/0	0/0	4/0
III.	Independent non-executive Directors							
	Huang Lei	Independent Director	9/9	N/A	N/A	0/0	0/0	4/0
	Wang Fengrong	Independent Director	9/9	2/2	0/0	N/A	N/A	4/0
	Liang Fu	Independent Director	9/9	N/A	0/0	0/0	N/A	4/0
	Zhang Zhiyuan (resigned)	Independent Director	8/8	N/A	N/A	N/A	N/A	2/0
	Wang Aiguo (resigned)	Independent Director	8/8	4/4	1/1	1/1	N/A	2/0
	Zhang Hong	Independent Director	8/8	4/4	N/A	N/A	0/0	2/0
	Pan Ailing	Independent Director	17/17	2/2	1/1	1/1	N/A	6/1

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

(III) Board (*Cont'd*)

Save for those disclosed in the brief profile of Directors of the Company in this Report, none of the members of the Board had any financial, business, family relations or material connections with each other.

The Board held 6 regular meetings during the year, each by giving a 14-day notice in advance to ensure that all Directors could participate in discussions of matters in the agenda. Reasonable prior notification was given for the other meetings of the Board to ensure all Directors could take time to attend.

All Directors had access to opinions and services of the secretary to the Board to ensure the procedures governing the Board and all applicable regulations and rules were complied with.

Directors' trainings and professional development

All newly appointed Directors are provided with necessary orientation information, with an aim to ensure that they will have a better understanding of operations and business of the Company as well as relevant laws and regulations and obligations under the Listing Rules.

Directors and Supervisors of the Company were arranged by the Company to attend the 1st and the 2nd session of training courses 2016 for directors and supervisors held by China Securities Regulatory Commission, Shandong; and, briefing paper in respect of amendments to Hong Kong Listing Rules prepared by Advisor to Hong Kong Law of the Company was distributed to all Directors and Supervisors, the above of which were to ensure all Directors and Supervisors to comply with relevant laws and sound corporate governance practice, and enhance their awareness of sound corporate governance practice.

(IV) Chairman and general manager

The chairman and general manager of the Company is Mr. Chen Hongguo. Please refer to section X of this annual report for his brief biographies.

According to the Articles of Association of the Company, the chairman shall exercise the following powers: (1) presiding over general meetings, and convening and presiding over Board meetings; (2) supervising and inspecting the implementation of the resolutions of the Board; (3) signing the shares, the securities and bonds issued by the Company; (4) signing important documents of the Board and other documents which are required to be signed by legal representative of the Company; (5) performing the powers of a legal representative; (6) nominating candidates for general manager for the Board; (7) exercising the special right to operate the Company in accordance with the laws and acting for the benefits of the Company in the event of emergency situation as a result of act of God or natural disaster, and reporting to the Board meetings and general meeting afterwards; and (8) exercising other powers authorised by the Board.

The general manager shall exercise the following powers: (1) in charge of the operation and management of the Company, and organising the implementation of the resolutions of the Board; (2) organising the implementation of the Company's annual business plans and investment plans; (3) drafting plans for the establishment of the internal organisational structure of the Company; (4) drafting the basic management system of the Company; (5) formulating specific rules and regulations for the Company; (6) proposing the appointment or dismissal of the deputy general manager and chief financial officer; (7) appointing or dismissing management personnel other than those required to be appointed or dismissed by the Board; (8) proposing the wages, welfare, rewards, and penalties of staff and to decide the appointment or dismissal of staff of the Company; (9) proposing the convening of extraordinary meeting of the Board; and (10) exercising other powers conferred by the Articles of Association of the Company and the Board.

XI Corporate Governance

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

(IV) Chairman and general manager (*Cont'd*)

Mr. Chen Hongguo performs the roles of the chairman and the general manager for the overall management of the Company. This constitutes a deviation from the principle and code provisions under the Code on Corporate Governance Practices as set out in Appendix 14 to Hong Kong Listing Rules. However, the Directors of the Company believe that Mr. Chen Hongguo as the chairman and the general manager will enable the Company to more effectively plan and implement the business strategies so that the Group can effectively and rapidly seize business opportunities. As all major decisions will be made after consultation with other members of the Board, the Company believes that the supervision of the Board and independent non-executive directors will strike a sufficient balance of power and authority.

(V) Independent non-executive Directors

There are four independent non-executive Directors in the Board, which is in compliance with the minimum requirement of the number of independent non-executive directors set out in the Hong Kong Listing Rules. Wang Fengrong and Pan Ailing, the independent non-executive Directors of the Company, have appropriate accounting or related financial management expertise, which is compliance with the requirement of Rule 3.10 of the Hong Kong Listing Rules. Please refer to section X of this annual report for their brief biographies. The Company has received from each of the independent non-executive Directors a confirmation of independence for the year pursuant to Rule 3.13 of the Hong Kong Listing Rules and considered all of the independent non-executive Directors to be independent during the year.

(VI) Terms of Directors

According to the Articles of Association of the Company, all Directors, including non-executive Directors, are elected at general meetings with a term of three years from May 2016 to May 2019. They may be re-elected for another term upon expiry of tenure.

(VII) Directors' responsibility for the financial statements

The Directors acknowledged their responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company. The Directors believed that the Company had adopted and applied consistently appropriate accounting policies in preparing the financial statements in compliance with all related accounting standards.

(VIII) Board Committees

Pursuant to Code on Corporate Governance, the Board has established three committees, namely, Audit Committee, Remuneration and Assessment Committee and Nomination Committee, for overseeing particular aspects of the Company's affairs. Each Board Committee has its own defined written terms of reference. The written terms of reference of each Board Committee are published on websites of stock exchange and the Company.

Save for requirements of Code on Corporate Governance, the Company also set up Strategic Committee, for overseeing and studying long-term strategic development plan of the Company and making recommendations.

XI Corporate Governance

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

(IX) Audit Committee

The Audit Committee of the Company comprises three members, including Pan Ailing (as the chairman), Yang Guihua and Wang Fengrong. Two of them, including the chairman, are independent non-executive Directors. The primary duties of the Audit Committee are serving as a communication media between internal and external audit and the related review and supervision. Pan Ailing and Wang Fengrong has appropriate professional qualifications or appropriate accounting or related financial management expertise, which is in compliance with the requirement of the Hong Kong Listing Rules.

The primary duties of the Audit Committee of the Company are: (1) proposing the appointment or dismissal of the external auditors; (2) supervising the internal control system of the Company and its implementation; (3) serving as a communication media between internal and external audit; (4) auditing the financial information of the Company and its disclosures; (5) reviewing the financial control, risk control and internal control system of the Company and audit the significant connected transactions; (6) discussing the risk management and internal control system with the management to ensure the management has performed its duties to establish effective systems. The discussion should include the adequacy of resources, staff qualifications and experience, training programs and budget of the accounting and financial reporting functions of the Company; (7) studying the major investigation findings on risk management and internal control matters on its own initiative or as delegated by the Board and the management's response to these findings; (8) where the annual report includes statements in relation to the risk management and internal control system of the Company, reviewing such statements prior to submission to the Board for approval; and (9) dealing with other matters as delegated by the Board.

The Audit Committee discussed with the management of the Company the accounting standards and practices adopted by the Group and discussed and reviewed this report, including the review of the financial statements of the Group for the year ended 31 December 2016 prepared in accordance with China Accounting Standards for Business Enterprises.

Particulars of the meetings held by the Audit Committee during the reporting period were detailed in part VI of this section.

Risk Management and Internal Control

The Board is responsible for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Audit Committee (on behalf of the Board) oversees management in the design, implementation and monitoring of the risk management and internal control systems, and the management has provided a confirmation to the Audit Committee (and the Board) on the effectiveness of these systems for the year ended 31 December 2016.

In respect of internal control system, procedures have been designed for safeguarding assets against unauthorised use or disposition, ensuring the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensuring compliance of applicable laws, rules and regulations.

XI Corporate Governance

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

(X) Remuneration and Assessment Committee

The Remuneration and Assessment Committee of the Company comprises three members, including Liang Fu, the Chairman, and other members, namely Zhang Hong and Huang Lei. Two members, including the Chairman, are independent non-executive Directors, which is in compliance with Code on Corporate Governance Practices. The Remuneration and Assessment Committee is primarily responsible for formulating the criteria of appraisal of the Directors and managers and conducting the appraisal, and studying and formulating the remuneration policy and package of the Directors and the Senior Management of the Company. The Remuneration and Assessment Committee is accountable to the Board.

The primary duties of the Remuneration and Assessment Committee of the Company are: (1) formulating the remuneration plan or package based on the major scope of work, duties and importance of the Directors and the management and the remuneration level of other counterparts; (2) formulating the remuneration plan or package which mainly includes but not limited to standards, procedures and a system for performance appraisals as well as major plans and a system for rewards and sanctions; (3) examining the performance of the Directors, excluding the independent non-executive Directors, and the Senior Management and conduct annual performance appraisals for them; (4) supervising the implementation of the remuneration policy of the Company; and (5) dealing with other matters as delegated by the Board.

Particulars of the meetings held by the Remuneration and Assessment Committee during the reporting period are detailed in part VI of this section.

(XI) Nomination Committee

The Nomination Committee of the Company comprises three members, including Wang Fengrong (as the chairman), Chen Hongguo and Liang Fu. Two of them, including the chairman, are independent non-executive Directors, which is in compliance with Code on Corporate Governance Practices. The Nomination Committee is primarily responsible for selecting candidates for directors and the management of the Company, determining the selection criteria and procedure and making recommendations.

The primary duties of the Nomination Committee are (1) advising the Board on the size and composition of the Board in light of the company's operating activities, asset scale and shareholding structure; (2) studying the selection criteria and procedure for Directors and the management and advising the Board on the same; (3) extensively identifying qualified candidates for Directors and the management; (4) examining candidates for Director and the management and advising on the same; (5) examining other Senior Management staff pending referral to the Board for decision on their employment and advising on the same; (6) advising to the Board on appointment and re-appointment of directors and on skills, knowledge, experience, background, gender and other characteristics required in serving as a director taking into consideration diversity, balance and efficiency of the Board and benefits thereto; (7) reviewing the Board diversity policy, revising thereon in a timely manner and making relevant disclosure in the corporate governance report in the corresponding annual report; and (8) dealing with other matters as delegated by the Board.

XI Corporate Governance

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

(XI) Nomination Committee (*Cont'd*)

During the reporting period, the Nomination Committee, after studying the needs of the Company for new Directors and managerial personnel and taking into consideration the Board diversity policy, identified suitable candidates for Director and managerial positions through various channels (including from the Group internally and from the human resources market). Upon acceptance of nomination by the nominated person, the Nomination Committee performed qualification review on preliminary candidates by holding meetings, review criteria include the academic qualifications, relevant experience and specialised skills of the preliminary candidates. One to two months prior to election of new Directors, the Nomination Committee submitted recommendations and relevant materials of the directorial candidates to the Board; prior to engaging new Senior Management, the Nomination Committee submitted recommendations and relevant materials of the new Senior Management personnel to the Board.

Particulars of the meetings held by the Nomination Committee during the reporting period are detailed in part VI of this section.

(XII) Strategic Committee

The Company set up a Strategic Committee which comprised three members, including Chen Hongguo, the Chairman, and other members, namely, Yin Tongyuan and Huang Lei. The Strategic Committee is primarily responsible for studying the long term strategic development and major investments of the Company and making recommendations.

The primary duties of the Strategic Committee are (1) conducting research and submitting proposals regarding the long term development strategic plan; (2) conducting research and submitting proposals regarding the financing plans for major investments which require approval from the Board as stipulated in the Articles of Association of the Company; (3) conducting research and submitting proposals regarding major capital operations and assets operation projects which require approval from the Board as stipulated in the Articles of Association of the Company; (4) conducting research and submitting proposals regarding other material matters that may affect the development of the Company; (5) carrying out examination on the implementation of the above matters; (6) dealing with other matters as delegated by the Board.

(XIII) Auditors

On 9 May 2014, the 2013 annual general meeting of the Company agreed to continue to engage Ruihua Certified Public Accountants (Special General Partnership) as the domestic auditors of the Company for 2014 and be responsible for domestic auditing of the Company for 2014.

On 15 May 2015, the 2014 annual general meeting of the Company agreed to continue to engage Ruihua Certified Public Accountants (Special General Partnership) as the domestic auditors of the Company for 2015 and be responsible for domestic auditing of the Company for 2015.

On 13 December 2016, the 2016 fourth extraordinary general meeting of the Company agreed to continue to engage Ruihua Certified Public Accountants (Special General Partnership) as the domestic auditors of the Company for 2016 and be responsible for domestic auditing of the Company for 2016.

XI Corporate Governance

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

(XIV) Remuneration for the auditors

The financial statements for 2016 prepared in accordance with Accounting Standards for Business Enterprises by the Group were audited by Ruihua Certified Public Accountants (Special General Partnership). In 2016, the Company paid the auditors in aggregate RMB2,000,000 and RMB600,000 in respect of audit financial statements and non-audit services in relation to internal control respectively. Save the above, no other non-audit fee was incurred during the year.

Ruihua Certified Public Accountants (Special General Partnership) have stated their reporting responsibilities on the financial statements of the Group in XII. Financial Report.

(XV) Supervisors and Supervisory Committee

The Supervisory Committee is accountable to the shareholders. It monitors the financial position of the Company and the performance of the Directors, managers and Senior Management of the Company as to whether they are in accordance with relevant requirements of the laws and regulations to protect the lawful rights of the Company and the shareholders. The Supervisory Committee comprises three shareholder representatives and two staff representatives. The shareholder representatives shall be elected and removed at a general meeting and the staff representatives shall be elected and removed democratically by the staff of the Company.

Details of the work of the Supervisory Committee during the reporting period are set forth in part VII of this section.

(XVI) Company secretary

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

(XVII) Communications with Shareholders

The Company considers effective communication with Shareholders is essential to enable them to have a clear assessment of the Group's performance as well as accountability of the Board. Principal means of communication with Shareholders of the Company are as follows:

Information disclosure on the Company's website

The Company endeavours to disclose all material information about the Group to all interested parties as widely and timely as possible. The Company maintains its website at www.chenmingpaper.com where important information about the Group's activities and corporate matters such as annual reports and interim reports to Shareholders, announcements, business development and operations, corporate governance practices and other information are available for review by Shareholders and other stakeholders.

When announcements are made through the Stock Exchange, the same information will be made available on the Company's website.

XI Corporate Governance

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

(XVII) Communications with Shareholders (*Cont'd*)

General meetings

The Company's Annual General Meeting provides a useful platform for direct communication between the Board and Shareholders. Various resolutions are proposed on each substantially separate issue at the general meetings. Save for the Annual General Meeting held on 18 May 2016 by the Company, four extraordinary general meetings and one class meeting were convened in 2016. The attendance record of Directors at each general meeting is set out below:

Name	Directors attending general meetings in person
2015 Annual General Meeting	Yi Tongyuan, Geng Guanglin and Pan Ailing
2016 First extraordinary general meeting	Yi Tongyuan
2016 Second extraordinary general meeting	Chen Hongguo, Yi Tongyuan, Geng Guanglin and Wang Chunfang
2016 Third extraordinary general meeting	Yi Tongyuan and Geng Guanglin
2016 Fourth extraordinary general meeting	Chen Hongguo, Yi Tongyuan and Geng Guanglin
2016 First domestic and overseas listed share class meeting	Chen Hongguo, Yi Tongyuan, Geng Guanglin and Wang Chunfang

The Company's external auditor also attended the Annual General Meeting.

Code E.1.2 of the code provisions – This code provision requires the chairman to invite the chairmen of the audit, remuneration and nomination committees to attend the Annual General Meeting.

Mr. Chen Hongguo, the chairman of the Company and its strategy committee, Ms. Zhang Hong, the chairman of the audit committee, and Mr. Zhang Zhiyuan, the chairman of the nomination committee, were absent from the annual general meeting due to business commitments.

Code A.6.7 of the code provisions – This code provision requires independent non-executive Directors and other non-executive Directors, as equal board members, should give the Board and any committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. They should also attend general meetings and develop a balanced understanding of the views of shareholders.

Mr. Wang Xiaoqun, Ms. Yang Guihua, Mr. Wang Aiguo, Mr. Zhang Zhiyuan and Ms. Zhang Hong were absent from the 2015 Annual General Meeting due to business commitments.

Mr. Wang Xiaoqun, Ms. Yang Guihua, Mr. Wang Aiguo, Mr. Zhang Zhiyuan, Ms. Zhang Hong and Ms. Pan Ailing were absent from the 2016 first extraordinary general meeting.

Ms. Zhang Hong, Ms. Yang Guihua, Mr. Huang Lei, Ms. Liang Fu, Ms. Wang Fengrong and Ms. Pan Ailing were absent from the 2016 second extraordinary general meeting.

Ms. Zhang Hong, Ms. Yang Guihua, Mr. Huang Lei, Ms. Liang Fu, Ms. Wang Fengrong and Ms. Pan Ailing were absent from the 2016 third extraordinary general meeting.

Ms. Zhang Hong, Ms. Yang Guihua, Mr. Huang Lei, Ms. Liang Fu, Ms. Wang Fengrong and Ms. Pan Ailing were absent from the 2016 fourth extraordinary general meeting.

Ms. Zhang Hong, Ms. Yang Guihua, Mr. Huang Lei, Ms. Liang Fu, Ms. Wang Fengrong and Ms. Pan Ailing were absent from the 2016 First domestic and overseas listed share class meeting.

XI Corporate Governance

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

(XVII) Communications with Shareholders (*Cont'd*)

Voting by poll

Resolutions put to vote at the general meetings of the Company are taken by poll. Procedures regarding the conduct of the poll are explained to the shareholders at the commencement of each general meeting, and questions from shareholders regarding the voting procedures are answered. The poll results are posted on the websites of the Stock Exchange and the Company respectively on the same day.

Shareholders' rights

1. *Procedures for convening an extraordinary general meeting by Shareholders*

Pursuant to Article 90 of the Articles of Association of the Company, Shareholder(s) alone or in aggregate holding 10% or more of the Company's shares shall be entitled to request the Board to convene extraordinary general meetings, provided that such request shall be made in writing. The Board shall, in accordance with provisions of the laws, administrative regulations and the Articles of Association, furnish a written reply stating its agreement or disagreement to the convening of an extraordinary general meeting within ten days after receiving such proposal of the same. In the event that the Board agrees to convene an extraordinary general meeting, the notice of general meeting shall be issued within five days after the passing of the relevant resolution of the Board. Any changes in the original request made in the notice shall require prior approval of Shareholders concerned.

In the event that the Board does not agree to convene an extraordinary general meeting or does not furnish any reply within ten days after receiving such proposal, Shareholder(s) alone or in aggregate holding 10% or more of the Company's Shares shall be entitled to propose to the Supervisory Committee the convening of extraordinary general meeting, provided that such proposal shall be made in writing.

In the event that the Supervisory Committee agrees to convene an extraordinary general meeting, the notice of general meeting shall be issued within five days after receiving such request. Any changes in the original request made in the notice shall require prior approval of Shareholders concerned.

Failure of the Supervisory Committee to issue a notice of general meeting within the stipulated period shall be deemed as failure of the Supervisory Committee to convene and preside over a general meeting, and Shareholder(s) alone or in aggregate holding 10% or more of the Company's shares for ninety consecutive days or more shall be entitled to convene and preside over the meeting on a unilateral basis.

Pursuant to Article 91 of the Articles of Association of the Company, if Shareholders determine to convene a general meeting on their own, they shall give a written notice to the Board and file the same with the local office of CSRC at the place where the Company is located and the stock exchange for records. The shareholding percentage of shareholders who convened shall not be lower than 10% prior to the announcement of resolutions of the general meeting.

Shareholders who convened shall submit relevant certifications to the local office of CSRC at the place where the Company is located and the stock exchange upon the issuance of the notice of general meeting and the announcement of resolutions of the general meeting.

The Board and its secretary shall cooperate with respect to matters relating to general meetings convened by Shareholders on their own. The Board shall provide Shareholder registers as of the date of shareholding register. If a general meeting is convened by Shareholders on their own, all necessary expenses incurred shall be borne by the Company.

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

(XVII) Communications with Shareholders (Cont'd)

Shareholders' rights (*Cont'd*)

2. Procedures for sending shareholders' enquiries to the board

Shareholders may at any time send their enquiries and concerns to the Board of the Company in writing through the Company Secretary/Secretary to the Board whose contact details are as follows:

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

The Company secretary and the secretary to the Board shall forward shareholders' enquiries and concerns to the Board and/or relevant Board Committees of the Company, where appropriate, to answer shareholders' questions.

3. *Procedures for putting forward proposals of Shareholders at general meetings*

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

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

Save for provided above, the Board or Secretary to the Board shall not amend proposals stated in the notice of general meeting or add new proposals therein following the notice of general meeting has been issued.

No voting or resolution shall be effected or adopted at the general meeting for proposals that have not been stated in the notice of general meeting or that do not comply with provisions of the Articles of Association. Extraordinary general meeting shall not resolve issues that are not contained in the notice.

Relationships with investors

The Company recognises its responsibility to explain its activities to those with a legitimate interest and to respond to their questions. Investors are received and visited at appropriate times to explain the Group's business. In addition, questions received from the general public and individual shareholders are answered promptly. In all cases, great care is taken to ensure that no price-sensitive information is disclosed selectively.

XI Corporate Governance

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

(XVIII) Internal Control

For details of internal control of the Company, please refer to IX. Internal Control hereunder.

(XIX) Articles of Association

On 16 April 2016, 25 August 2016, 9 September 2016, 30 September 2016 and 21 October 2016, the Company amended the Articles of Association. The amendments were primarily relating to the issue of preference shares and practice of profit distribution. Memorandum of Association and the amended version of the new Articles of Association of the Company are available on websites of the Company and Stock Exchange.

(XX) Board Diversity

On 21 August 2013, the Company formulated policies to diversify Board members and amended the implementing rules of the nomination committee. Pursuant to the new policies, the nomination committee shall regularly review the Board diversity policy to improve efficiency and ensure interest thereof.

Such policies are summarised as follows:

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

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

The composition of the Board of the Company is diversified basically. For details, please refer to (III) Composition of the Board under section XI.

Yes

I. Basic information on corporate bonds

[illegible]

II. Information on bond custodian and credit rating agency

Bond custodian:

Name	UBS Securities Co., Ltd.	Office address	12/F and 15/F, Winland International Finance Centre, 7 Financial Street, Xicheng District, Beijing	Contact person	Chen Yang	Telephone	of010-5832 8888
						contact person	

Credit rating agency(ies) which conducted rating on corporate bonds during the reporting period:

Name	China Chengxin Securities Office address	8/F, Anji Building, 760 Xizang South Road, Huangpu District, Shanghai
	Valuation Company	
	Limited	

XII Corporate bonds

III. Use of proceeds from corporate bonds

Use of proceeds from corporate bonds and its implementation

The use of proceeds from issuance of corporate bonds has strictly completed relevant application and approval procedures. As at the end of the reporting period, the proceeds from 11 Chenming Bond and 12 Chenming Bond were fully used.

Balance as at the end of the year (RMB'0,000)
Operation of special account for proceeds

0

Special account for proceeds is used for the deposit of special capital from bonds.

Is the use of proceeds consistent with the use of proceeds guaranteed under the prospectus, proposed use of proceeds and other agreement?

Yes

IV. Credit rating of corporate bonds

The credit rating of 11 Chenming Bond and 12 Chenming Bond as granted by China Chengxin Securities Valuation Company Limited remained at AA+, and the rating for the Company was AA+ (stable outlook). The 2011 corporate bond rating report (2016) and 2012 corporate bond rating report (2016) were published on CNINFO on 27 April 2016.

V. Credit enhancement mechanism, repayment plan and other repayment guarantee measures for corporate bonds

There was no change in credit enhancement mechanism, repayment plan and other repayment guarantee measures, which were consistent with relevant commitments as set out in the prospectuses, during the reporting period.

VI. Convening of meeting for bondholders during the reporting period

Not applicable.

VII. Performance of bond custodian during the reporting period

The bond custodian performed its duties in accordance with the agreement during the reporting period.

VIII. Major accounting data and financial indicators of the Company over the past two years as at the end of the reporting period

Unit: RMB'0,000

Item	2016	2015	Year-on-year increase/decrease in percentage
EBITDA	598,014.61	435,954.2	37.17%
Current ratio	76.57%	72.30%	4.27%
Gearing ratio	72.58%	77.86%	-5.28%
Quick ratio	66.16%	61.59%	4.57%
Proportion of EBITDA to total debts	10.01%	9.74%	0.27%
Interest coverage ratio	2.19	1.05	108.57%
Cash interest coverage ratio	1	-7.23	113.76%
EBITDA interest coverage ratio	3.67	3.24	13.27%
Loans payment ratio	100.00%	100.00%	0.00%
Interest payment ratio	100.00%	100.00%	0.00%

Major reason for more than 30% in year-on-year change for the above accounting data and financial indicators

✓ Applicable ☐ Not applicable

EBITDA, interest coverage ratio, cash interest coverage ratio and EBITDA coverage ratio were all better when compared to the prior year due to the improvement in profitability of the whole Group as compared to the prior year.

IX. Interest payment on other bonds, debt and financing instruments during the reporting period

Item	Amount of interest payment
Corporate bonds	2,333,700,000.00
Privately placed bonds	1,587,000,000.00
Medium-term notes	54,010,000.00
Super & short-term commercial papers	13,347,124,455.44
Short-term commercial papers	3,772,573,770.49
Total	21,094,408,225.93

XII Corporate bonds

X. Bank credit obtained, its use and repayment of bank loans during the reporting period

During the reporting period, the Company obtained bank credit of RMB68,400 million, of which RMB36,700 million was utilised with RMB31,700 million outstanding. The Company repaid bank loans of RMB24,431 million.

XI. Performance of relevant agreements or commitments under the prospectus of corporate bonds during the reporting period

Nil.

XII. Matters of significance happened during the reporting period

Nil.

XIII. Is there any guarantor for corporate bonds?

☐ Yes ☒ No

XIII Financial Report

I. Auditors' Report

Type of auditors' opinion	Standard and unqualified opinions
The date of the audit report signed	17 February 2017
Name of the auditor	Ruihua Certified Public Accountants (Special General Partnership)
Reference number of the auditors' report	Rui Hua Shen Zi [2017] No. 37030002
Name of certified public accountant	Zhao Yanmei and Wang Zongpei

Text of the auditors' report

To shareholders of Shandong Chenming Paper Holdings Limited:

I. Auditors' opinions

We have audited the financial statements of Shandong Chenming Paper Holdings Limited (hereinafter as "Chenming Paper Company"), which comprise the consolidated and company balance sheets as at 31 December 2016, the consolidated and company income statements, the consolidated and company cash flow statements and the consolidated and company statements of changes in shareholders' equity for 2016 and notes to the financial statements.

In our opinion, the accompanying financial statements were prepared in accordance with the Accounting Standards for Business Enterprises in all material aspects and give a true and fair view of the consolidated and company financial position of Chenming Paper Company as at 31 December 2016 and of its consolidated and company operating results and cash flows for 2016.

II. Basis of opinions

We have conducted our audit in accordance with the Chinese Auditing Standards issued by the Chinese Institute of Certified Public Accountants. Our responsibilities under those standards are further described in the responsibilities of certified public accountants for the audit of the financial statements section of the auditors' report. We are independent of Chenming Paper Company in accordance with the ethical codes of Chinese certified public accountants, and we have fulfilled our other ethical responsibilities in accordance with the codes. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

III. Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the current period. These matters were addressed in the context of our audit of the financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

(I) Consumable biological assets measured at fair value

1. Details

As at 31 December 2016, the balance of consumable biological assets measured at fair value in the notes to the Consolidated financial statements of Chenming Paper Company amounted to RMB126,002,700. The consumable biological assets belong to the special assets of Chenming Paper Company and are in a large amount. Therefore, we have regarded the measurement of consumable biological assets as one of the key audit matters.

According to the accounting policies of Chenming Paper Company, consumable biological assets without a stock are stated at cost at initial recognition, and subsequently measured at fair value when there is a stock. Changes in fair value shall be recognised as profit or loss for the current period. As there is no active market reference price for the consumable biological assets of Chenming Paper Company, the Company adopted valuation techniques and recognised the fair value of the consumable biological assets which have formed a stock (the "Biological Assets"). For details, please see Note VII. 6 "Inventories".

2. Application for auditing

When addressing the fair value measurement of the Biological Assets, we implemented the auditing procedures mainly including: we assessed the control of Chenming Paper Company relating to the recognition of the Biological Assets, comprehended and evaluated the valuation method of the Biological Assets, and discussed the practical applications of the valuation method with valuation experts, and considered and evaluated the valuation parameters and the discount rate used in the valuation.

(II) Deferred income tax assets related to deductible loss

1. Details

As of 31 December 2016, the deferred income tax assets in the notes to the consolidated financial statements of Chenming Paper Company amounted to RMB497,457,800, of which the deferred income tax assets of RMB260,263,700 were related to deductible loss. When recognising the deferred income tax assets relating to deductible loss, it is probable that all unused tax loss will be recognised as the deferred income tax assets to the extent the management of Chenming Paper Company considered that there will be sufficient taxable profit against which the deductions can be offset. This requires Chenming Paper Company's management to apply numerous judgments to estimate the time and amount generated from the future taxable profits so as to determine the amount of deferred income tax assets with reference to the tax planning strategy. The management is required to make significant judgement to evaluate whether the deferred income tax assets can be realised in the future. The estimation and assumptions of the management also contain uncertainties.

2. Application for auditing

Our audit team includes taxation experts when auditing the relevant taxations. With the support of taxation experts, we implemented the auditing procedures mainly including: we assessed the design and execution of the internal control of Cheming Paper Company relating to taxation; we obtained the income tax filling information relating to the deductible loss and verified the amount of deductible loss with the assistance of taxation experts; we obtained the financial forecast of related subsidiaries for the future periods which was approved by the management, assessed whether the preparation conformed to the overall industrial trends and the conditions of each of the subsidiaries and took into account the impacts of special circumstances, and assessed its feasibility; we reviewed whether the deferred income tax assets were recognised to the extent that it is probable that the taxable profit can be utilised against deductible loss in the future.

(III) Impairment provision for fixed assets

1. Details

As of 31 December 2016, the impairment provision for fixed assets in the consolidated notes of Chenming Paper Company amounted to RMB194,823,200. When making the impairment provisions for fixed assets, Chenming Paper considered the market value of the disposal of fixed assets and rapid realisation factors, and engaged experts to verify the impairment of fixed assets by applying valuation techniques.

2. Application for auditing

During the process of auditing the impairment of fixed assets, we practically investigated the relevant fixed assets, acquired the related assets information, assessed the valuation methods of Chenming Paper Company, and discussed the appropriateness of the valuation application with valuation experts.

Based on the auditing evidence obtained, we came up with an audit conclusion that the impairment provision for fixed assets made by management were reasonable, and the disclosure of related information in Note VII. 13 “Fixed Assets” and Note VII. 21 “Particulars of provision for impairment of assets” was proper.

IV. Other information

The management of Chenming Paper Company is responsible for the other information which comprises all the information in the annual report other than the financial statements and this auditors’ report.

Our audit opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Combining with our audit to the financial statements, our responsibility is to read the other information. During the process, we considered if there is significant inconsistency or there is likely significant misstatement between the other information and the financial statements or the information we obtained during the audit.

As we have performed the work on the other information obtained before the date of our auditors’ report, we shall report if we confirmed there was a significant misstatement among the other information. We have nothing needed to be reported on this case.

V. Responsibilities of the management and governing bodies for the financial statements

The management of Chenming Paper Company is responsible for the preparation of the financial statements that give a true and fair view in accordance with the Accounting Standards for Business Enterprises, and also designing, implementing and maintaining the internal control system as necessary such that the financial statements are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the management is responsible for assessing the Company's ability to continue as a going concern, disclosing the matters related to the going concern basis (if applicable) and using the going concern basis of accounting unless the management either intends to liquidate Chenming Paper Company or to cease operations, or have no realistic alternative but to do so.

The governing bodies are responsible for overseeing the financial reporting process of the Chenming Paper Company.

VI. Responsibilities of certified public accountants for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are generally considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the auditing standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also performed the following works:

- (1) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (2) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- (3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- (4) Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of Chenming Paper Company to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause Chenming Paper Company to cease to continue as a going concern.

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- (5) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- (6) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Chenming Paper Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicated with the governing bodies regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that they identify during the audit.

We also provide the governing bodies with a statement that we had complied with relevant ethical requirements regarding independence, and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence.

From the matters we had discussed with the governing bodies, we confirmed which matters were the most important to the audit of the financial statements for the current period and thus constituted the key audit matters. We set out these matters in the auditors' report. Unless the disclosure of these matters are forbidden by the laws and regulations, or, in rare cases, if it is reasonably expected that the negative impacts caused by discussing certain matters in the auditors' report would be larger than the benefits for public interest, We shall not disclose the matters in the auditors' reports under such circumstances.

Ruihua Certified Public Accountants
(Special General Partnership)
Beijing, China

PRC Certified Public Accountant (Project Partner): Zhao Yanmei
PRC Certified Public Accountant: Wang Zongpei
17 February 2017

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II. Financial Statements

Unless otherwise stated, the unit in the financial statements of the financial report is: RMB

1. Consolidated Balance Sheet

Prepared by: Shandong Chenming Paper Holdings Limited

31 December 2016

Unit: RMB

Item	Closing balance	Opening balance
CURRENT ASSETS:		
Monetary funds	10,109,930,319.49	8,984,326,016.01
Bills receivable	1,590,460,875.23	3,998,782,845.65
Accounts receivable	3,974,065,104.15	3,951,287,979.32
Prepayments	1,511,362,674.64	1,072,990,234.05
Other receivables	1,614,214,645.48	1,469,573,364.01
Inventories	4,862,668,746.90	5,210,917,891.42
Non-current assets due within one year	5,487,376,588.22	2,893,133,653.86
Other current assets	6,616,744,831.28	7,582,839,356.54
Total current assets	35,766,823,785.39	35,163,851,340.86
NON-CURRENT ASSETS:		
Available-for-sale financial assets	1,945,000,000.00	109,000,000.00
Long-term receivables	8,844,262,173.65	9,084,087,143.84
Long-term equity investments	67,251,992.88	70,492,256.38
Investment properties	14,258,675.83	15,996,931.87
Fixed assets	28,811,555,365.39	24,169,725,529.18
Construction in progress	4,115,194,870.23	5,829,619,258.48
Construction materials	18,847,584.79	14,662,116.76
Intangible assets	1,540,959,330.74	1,462,706,060.63
Goodwill	20,283,787.17	20,283,787.17
Long-term prepaid expenses	157,772,100.69	165,686,946.61
Deferred income tax assets	497,457,826.70	613,229,310.48
Other non-current assets	485,687,038.68	1,242,358,865.33
Total non-current assets	46,518,530,746.75	42,797,848,206.73
Total assets	82,285,354,532.14	77,961,699,547.59

Unit: RMB

Item	Closing balance	Opening balance
CURRENT LIABILITIES:		
Short-term borrowings	27,875,506,988.53	24,755,535,672.86
Bills payable	515,301,703.08	3,281,599,412.31
Accounts payable	3,724,266,382.06	2,942,337,386.57
Advance receipts	377,135,566.33	180,504,227.01
Staff remuneration payables	159,968,262.82	205,840,694.03
Taxes payable	236,927,459.78	194,852,483.80
Interest payable	30,731,253.71	150,075,698.23
Other payables	948,919,195.80	1,158,567,353.38
Non-current liabilities due within one year	6,237,021,557.17	5,471,286,735.91
Other current liabilities	6,602,863,069.45	10,293,543,297.00
Total current liabilities	46,708,641,438.73	48,634,142,961.10
NON-CURRENT LIABILITIES:		
Long-term borrowings	6,935,598,781.23	5,169,381,063.83
Bonds payable		3,788,539,249.59
Long-term payables	3,951,368,854.00	344,000,000.00
Special payables	681,039,716.66	176,983,516.66
Deferred income	1,443,846,526.33	1,495,104,889.26
Other non-current liabilities		1,094,621,421.67
Total non-current liabilities	13,011,853,878.22	12,068,630,141.01
TOTAL LIABILITIES	59,720,495,316.95	60,702,773,102.11
OWNERS' EQUITY:		
Share capital	1,936,405,467.00	1,936,405,467.00
Other equity instruments	7,060,300,000.00	2,582,800,000.00
Including: Preference shares	4,477,500,000.00	
Perpetual bonds	2,582,800,000.00	2,582,800,000.00
Capital reserves	6,149,257,784.90	6,149,138,276.81
Other comprehensive income	-805,245,771.89	-345,014,864.26
Surplus reserves	1,132,116,106.40	1,132,116,106.40
Retained profit	6,745,974,781.02	5,416,049,598.87
Total equity attributable to equity holders of the company	22,218,808,367.43	16,871,494,584.82
Minority interest	346,050,847.76	387,431,860.66
Total owners' equity	22,564,859,215.19	17,258,926,445.48
TOTAL LIABILITIES AND OWNERS' EQUITY	82,285,354,532.14	77,961,699,547.59

Legal Representative: Chen Hongguo Financial controller: Hu Jinbao

Head of the financial department:
Dong Lianming

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2. Balance sheet of the Company

Unit: RMB

Item	Closing balance	Opening balance
CURRENT ASSETS:		
Monetary funds	7,934,163,265.76	5,700,832,345.61
Bills receivable	112,943,069.85	1,279,192,805.78
Accounts receivable	84,089,911.81	2,054,668,707.47
Prepayments	1,003,699,885.05	354,158,061.49
Dividend receivable		200,000,000.00
Other receivables	22,848,685,985.74	23,168,599,276.40
Inventories	663,006,714.42	770,515,314.04
Non-current assets due within one year	900,000,000.00	
Other current assets		44,180,954.64
Total current assets	33,546,588,832.63	33,572,147,465.43
NON-CURRENT ASSETS:		
Available-for-sale financial assets	1,909,000,000.00	73,000,000.00
Long-term equity investments	14,558,097,658.49	13,526,953,706.49
Investment properties	14,258,675.83	15,996,931.87
Fixed assets	3,343,366,320.45	3,494,527,564.35
Construction in progress	52,757,799.47	39,945,237.44
Construction materials	71,973.35	1,480,399.83
Intangible assets	300,218,996.05	308,890,444.95
Deferred income tax assets	164,139,190.27	146,800,984.93
Other non-current assets	67,400,000.00	900,000,000.00
Total non-current assets	20,409,310,613.91	18,507,595,269.86
TOTAL ASSETS	53,955,899,446.54	52,079,742,735.29
CURRENT LIABILITIES:		
Short-term borrowings	8,203,392,554.58	7,288,876,600.43
Bills payable	3,057,000,000.00	1,095,500,000.00
Accounts payable	654,411,787.56	952,024,758.38
Advance receipts	537,139,483.60	735,151,335.79
Staff remuneration payables	58,599,576.37	84,950,702.67
Taxes payable	43,087,056.70	37,964,445.54
Interest payable	30,731,253.71	150,075,698.23
Other payables	3,689,371,275.46	4,342,643,198.14
Non-current liabilities due within one year	5,648,861,310.04	4,339,346,982.33
Other current liabilities	6,602,863,069.45	10,293,543,297.00
Total current liabilities	28,525,457,367.47	29,320,077,018.51

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Unit: RMB

Item	Closing balance	Opening balance
NON-CURRENT LIABILITIES:		
Long-term borrowings	1,521,611,382.77	1,051,891,417.64
Bonds payable		3,788,539,249.59
Long-term payables	3,005,178,750.49	
Deferred income	56,572,797.75	61,468,322.53
Other non-current liabilities		1,094,621,421.67
Total non-current liabilities	4,583,362,931.01	5,996,520,411.43
Total liabilities	33,108,820,298.48	35,316,597,429.94
OWNERS' EQUITY:		
Share capital	1,936,405,467.00	1,936,405,467.00
Other equity instruments	7,060,300,000.00	2,582,800,000.00
Including: Preference shares	4,477,500,000.00	
Perpetual bonds	2,582,800,000.00	2,582,800,000.00
Capital reserves	5,938,960,168.19	5,938,840,660.10
Surplus reserves	1,119,926,524.49	1,119,926,524.49
Retained profit	4,791,486,988.38	5,185,172,653.76
TOTAL OWNERS' EQUITY	20,847,079,148.06	16,763,145,305.35
TOTAL LIABILITIES AND OWNERS' EQUITY	53,955,899,446.54	52,079,742,735.29

3. Consolidated Income Statement

Unit: RMB

Item	Amount for the reporting period	Amount for the prior period
I. Total revenue	22,907,118,241.84	20,241,906,131.81
Including: Revenue	22,907,118,241.84	20,241,906,131.81
II. Total operating costs	20,878,998,805.65	19,203,692,799.70
Including: Operating costs	15,787,340,418.80	14,764,663,431.18
Taxes and surcharges	251,439,236.50	133,046,735.23
Sales and distribution expenses	1,166,484,567.20	1,190,961,739.99
General and administrative expenses	1,441,458,586.06	1,384,652,496.82
Finance expenses	1,818,564,890.78	1,669,400,051.76
Loss on impairment of assets	413,711,106.31	60,968,344.72
Plus: Gain on change in fair value ("-" denotes loss)	-20,084,425.90	-19,078,538.02
Investment income ("-" denotes loss)	84,369,949.52	88,715,519.36
Including: Investment income from associates and joint ventures	-3,240,263.50	-15,595,591.74

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Unit: RMB

Item	Amount for the reporting period	Amount for the prior period
III. Operating profit ("-" denotes loss)	2,092,404,959.81	1,107,850,313.45
Plus: Non-operating income	500,566,334.39	311,005,804.35
Including: gains on disposal of non-current assets	5,170,746.88	15,395,550.60
Less: Non-operating expenses	9,804,954.59	8,687,132.75
Including: Loss on disposal of non-current assets	6,707,201.06	6,610,974.07
IV. Total profit ("-" denotes total loss)	2,583,166,339.61	1,410,168,985.05
Less: Income tax expenses	560,560,530.26	432,237,378.20
V. Net profit ("-" denotes net loss)	2,022,605,809.35	977,931,606.85
Net profit attributable to shareholders of the Company	2,063,986,822.25	1,021,224,678.04
Profit or loss of minority interest	-41,381,012.90	-43,293,071.19
VI. Net other comprehensive income after tax	-460,230,907.63	-378,778,032.39
Net other comprehensive income after tax attributable to shareholders of the Company	-460,230,907.63	-378,778,032.39
(I) Other comprehensive income that will not be reclassified to profit and loss in subsequent periods		
(II) Other comprehensive income that will be reclassified to profit and loss in subsequent periods	-460,230,907.63	-378,778,032.39
Exchange differences on translation of foreign operations	-460,230,907.63	-378,778,032.39
VII. Total comprehensive income	1,562,374,901.72	599,153,574.46
Total comprehensive income attributable to shareholders of the Company	1,603,755,914.62	642,446,645.65
Total comprehensive income attributable to minority interest	-41,381,012.90	-43,293,071.19
VIII. Earnings per share:		
(I) Basic earnings per share	0.99	0.50
(II) Diluted earnings per share	0.99	0.50

Legal Representative: Chen Hongguo

Financial controller: Hu Jinbao

Head of the financial department:
Dong Lianming

4. Income statement of the Company

Unit: RMB

Item	Amount for the reporting period	Amount for the prior period
I. Revenue	7,244,440,954.56	7,275,425,648.26
Less: Operating costs	5,754,160,315.51	5,993,094,498.52
Taxes and surcharges	35,657,866.56	30,873,964.20
Selling and distribution expenses	265,529,373.13	279,731,973.48
General and administrative expenses	575,686,201.40	520,809,764.62
Finance expenses	643,728,400.29	1,216,334,728.73
Loss on impairment of assets	-11,742,221.32	8,559,848.69
Plus: Gain on change in fair value ("-" denotes loss)		
Investment income ("-" denotes loss)	229,752,961.82	736,088,507.79
Including: Investment income from associates and joint ventures	143,952.00	-124,825.53
II. Operating profit ("-" denotes loss)	211,173,980.81	-37,890,622.19
Plus: Non-operating income	114,337,947.84	94,645,725.12
Including: gains on disposal of non-current assets	1,970,552.02	8,005,303.35
Less: Non-operating expenses	5,244,685.64	2,752,565.78
Including: Loss on disposal of non-current assets	4,353,687.74	2,049,678.31
III. Total profit ("-" denotes total loss)	320,267,243.01	54,002,537.15
Less: Income tax expenses	-20,108,731.71	-105,767,109.88
IV. Net profit ("-" denotes net loss)	340,375,974.72	159,769,647.03
V. Net other comprehensive income after tax		
(I) Other comprehensive income that will not be reclassified to profit and loss in subsequent periods		
(II) Other comprehensive income that will be reclassified to profit and loss in subsequent periods		
VI. Total comprehensive income	340,375,974.72	159,769,647.03

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5. Consolidated cash flow statement

Unit: RMB

Item	Amount for the reporting period	Amount for the prior period
I. Cash flows from operating activities:		
Cash received from sales of goods and rendering of services	22,452,690,922.41	18,577,236,564.74
Tax rebates received	9,863,432.16	6,453,340.46
Cash received relating to other operating activities	1,177,773,434.44	1,475,411,139.98
Subtotal of cash inflows from operating activities	23,640,327,789.01	20,059,101,045.18
Cash paid for goods and services	15,711,107,188.05	10,916,668,800.35
Cash paid to and for employees	1,094,003,908.09	884,488,245.20
Payments of taxes and surcharges	1,452,433,419.20	1,130,243,926.64
Cash paid relating to other operating activities	3,229,734,003.83	16,849,063,597.29
Subtotal of cash outflows from operating activities	21,487,278,519.17	29,780,464,569.48
Net cash flows from operating activities	2,153,049,269.84	-9,721,363,524.30
II. Cash flows from investing activities		
Cash received from investments	20,000,519.26	400,000,000.00
Cash received from investment income	98,684,481.52	104,311,111.10
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	4,478,976.44	21,902,837.86
Net cash received from disposal of subsidiaries and other business units	1,000,000.00	
Cash received relating to other investing activities	535,936,200.00	115,612,200.00
Subtotal of cash inflows from investing activities	660,100,177.22	641,826,148.96
Cash paid for purchase of fixed assets, intangible assets and other long-term assets	2,477,554,352.96	3,716,411,633.83
Cash paid on investments	1,850,000,000.00	386,000,000.00
Subtotal of cash outflows from investing activities	4,327,554,352.96	4,102,411,633.83
Net cash flows from investing activities	-3,667,454,175.74	-3,460,585,484.87

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Unit: RMB

Item	Amount for the reporting period	Amount for the prior period
III. Cash flows from financing activities:		
Cash received from borrowings	38,340,144,109.70	29,939,346,034.63
Cash received relating to other financing activities	21,326,935,500.86	12,810,727,778.00
Subtotal of cash inflows from financing activities	59,667,079,610.56	42,750,073,812.63
Cash repayments of amounts borrowed	36,965,476,126.70	24,268,356,896.67
Cash paid for dividend and profit distribution or interest payment	2,924,565,741.98	1,821,385,484.85
Cash paid relating to other financing activities	18,147,472,131.53	2,596,657,197.45
Subtotal of cash outflows from financing activities	58,037,514,000.21	28,686,399,578.97
Net cash flows from financing activities	1,629,565,610.35	14,063,674,233.66
IV. Effect of foreign exchange rate changes on cash and cash equivalents	-23,407,152.59	30,285,407.97
V. Net increase in cash and cash equivalents	91,753,551.86	912,010,632.46
Plus: Balance of cash and cash equivalents as at the beginning of the period	1,888,107,493.76	976,096,861.30
VI. Balance of cash and cash equivalents as at the end of the period	1,979,861,045.62	1,888,107,493.76

6. Cash flow statement of the Company

Unit: RMB

Item	Amount for the reporting period	Amount for the prior period
I. Cash flows from operating activities:		
Cash received from sales of goods and rendering of services	8,327,441,977.80	10,435,713,825.07
Cash received relating to other operating activities	1,018,890,721.29	718,326,790.53
Subtotal of cash inflows from operating activities	9,346,332,699.09	11,154,040,615.60
Cash paid for goods and services	2,179,876,627.93	3,904,089,290.80
Cash paid to and for employees	260,230,463.91	216,994,869.89
Payments of taxes and surcharges	320,755,030.84	136,546,983.94
Cash paid relating to other operating activities	933,164,769.74	12,871,669,400.73
Subtotal of cash outflows from operating activities	3,694,026,892.42	17,129,300,545.36
Net cash flows from operating activities	5,652,305,806.67	-5,975,259,929.76

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Unit: RMB

Item	Amount for the reporting period	Amount for the prior period
II. Cash flows from investing activities:		
Cash received from investments	20,000,519.26	600,000,000.00
Cash received from investment income	448,684,481.52	736,213,333.32
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	4,356,816.44	20,880,347.11
Net cash received from disposal of subsidiaries and other business units	1,000,000.00	
Cash received relating to other investing activities		20,482,200.00
Subtotal of cash inflows from investing activities	474,041,817.22	1,377,575,880.43
Cash paid for purchase of fixed assets, intangible assets and other long-term assets	42,989,916.52	189,430,124.60
Cash paid on investments	3,090,000,000.00	1,456,143,400.00
Subtotal of cash outflows from investing activities	3,132,989,916.52	1,645,573,524.60
Net cash flows from investing activities	-2,658,948,099.30	-267,997,644.17
III. Cash flows from financing activities:		
Cash received from borrowings	14,218,918,082.13	11,958,735,442.42
Cash received relating to other financing activities	17,486,500,000.00	12,660,727,778.00
Subtotal of cash inflows from financing activities	31,705,418,082.13	24,619,463,220.42
Cash repayments of amounts borrowed	14,723,402,085.03	13,355,042,909.56
Cash paid for dividend and profit distribution or interest payment	1,215,953,029.42	1,672,364,017.12
Cash paid relating to other financing activities	18,210,806,209.95	3,346,346,021.26
Subtotal of cash outflows from financing activities	34,150,161,324.40	18,373,752,947.94
Net cash flows from financing activities	-2,444,743,242.27	6,245,710,272.48
IV. Effect of foreign exchange rate changes on cash and cash equivalents	-15,474,775.43	6,395,681.07
V. Net increase in cash and cash equivalents	533,139,689.67	8,848,379.62
Plus: Balance of cash and cash equivalents as at the beginning of the period	49,438,736.95	40,590,357.33
VI. Balance of cash and cash equivalents as at the end of the period	582,578,426.62	49,438,736.95

7. Consolidated statement of changes in owners' equity

Amount for the reporting period

Unit: RMB

For the reporting period											
Equity attributable to shareholders of the Company											
Item	Other equity instruments				Other comprehensive income	Special reserves	Surplus reserves	General risk provisions	Retained profit	Minority interest	Total owner's equity
	Share capital	Preference shares	Perpetual bonds	Others							
I. Balance as at the end of the prior year	1,336,405,467.00		2,582,800,000.00			6,149,138,276.81		1,132,116,106.40	5,416,040,598.87	387,431,860.66	17,259,926,445.48
Plus: accounting policy change											
Corrections of prior period errors											
Business combinations under common control											
Others											
II. Balance as at the beginning of the year	1,336,405,467.00		2,582,800,000.00			6,149,138,276.81		1,132,116,106.40	5,416,040,598.87	387,431,860.66	17,259,926,445.48
III. Changes in the period ("+" denotes increase)											
(I) Total comprehensive income											
(II) Capital paid in and reduced by owners											
1. Ordinary shares paid by shareholders		4,477,500,000.00				119,508.09		-480,230,307.63	1,329,925,182.15	-41,381,012.90	5,305,932,769.71
2. Capital paid by holders of other equity instruments		4,477,500,000.00				119,508.09		-480,230,307.63	2,063,986,822.25	-41,381,012.90	1,562,374,901.72
3. Amount of share-based payments recognised in owners' equity		4,477,500,000.00									4,477,500,000.00
4. Others											
(III) Profit distribution											
1. Transfer to surplus reserves											
2. Transfer to general risk provision									-734,061,640.10		119,508.09
3. Distribution to owners (or shareholders)											
4. Others											
(IV) Transfer within owners' equity											
1. Transfer from capital reserve to equity (or share capital)											
2. Transfer from surplus reserve to equity (or share capital)											
3. Transfer from surplus reserve to make up for loss											
4. Others									-734,061,640.10		-734,061,640.10
(V) Special reserves											
1. Appropriated in the period											
2. Used in the period											
(VI) Others											
IV. Balance as at the end of the period	1,336,405,467.00	4,477,500,000.00	2,582,800,000.00			6,149,257,784.90		1,132,116,106.40	6,745,971,781.02	346,050,847.76	22,564,859,215.19

Amount for the prior period

For the prior period Equity attributable to shareholders of the Company													
Item	Other equity instruments					Other			General risk provisions	Retained profit	Minority interest	Total owner's equity	
	Share capital	Preference shares	Perpetual bonds	Others	Capital reserves	Less treasury shares	comprehensive income	Special reserves					Surplus reserves
I. Balance as at the end of the prior year	1,936,405,467.00				6,149,136,873.41		33,763,168.13		1,132,116,106.40		4,665,921,686.21	430,724,931.85	14,346,068,233.00
Plus: accounting policy change													
Corrections of prior period errors													
Business combinations under common control													
Others													
II. Balance as at the beginning of the year	1,936,405,467.00				6,149,136,873.41		33,763,168.13		1,132,116,106.40		4,665,921,686.21	430,724,931.85	14,346,068,233.00
III. Changes in the period ("+" denotes decrease)													
(I) Total comprehensive income													
(II) Capital paid in and reduced by owners					1,403.40		-378,778,032.39				750,127,912.66	-43,293,071.19	2,910,658,212.48
1. Ordinary shares paid by shareholders											1,021,224,678.04	-43,293,071.19	599,153,574.46
2. Capital paid by holders of other equity instruments					1,403.40								2,582,801,403.40
3. Amount of share-based payments recognised in owner's equity					1,403.40								1,403.40
4. Others													2,582,800,000.00
(III) Profit distribution													
1. Transfer to surplus reserves													
2. Transfer to general risk provision													
3. Distribution to owners (or shareholders)											-271,096,765.38		-271,096,765.38
4. Others													
(IV) Transfer within owner's 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													
(V) Special reserves													
1. Appropriated in the period													
2. Used in the period													
(VI) Others													
Balance as at the end of the period	1,936,405,467.00		2,582,800,000.00		6,149,138,276.81		-345,014,864.26		1,132,116,106.40		5,416,049,598.87	387,431,860.66	17,259,926,445.48

8. Statement of changes in equity of shareholders of the Company

Amount for the reporting period

For the reporting period							Unit: RMB		
Other equity instruments									
Item	Share capital	Preference shares	Perpetual bonds	Others	Capital reserves	Less:	Other Comprehensive income	Retained profit	Total owner's equity
						treasury shares			
I. Balance as at the end of the prior year Plus: accounting policy change Corrections of prior period errors Others	1,936,405,467.00		2,582,800,000.00		5,938,840,660.10			5,185,172,653.76	16,768,145,305.35
II. Balance as at the beginning of the year	1,936,405,467.00		2,582,800,000.00		5,938,840,660.10			5,185,172,653.76	16,768,145,305.35
III. Changes in the period ("-" denotes decrease)		4,477,500,000.00			119,508.09			-393,685,665.38	4,083,933,842.71
(I) Total comprehensive income									
(II) Capital paid in and reduced by owners		4,477,500,000.00			119,508.09			340,375,974.72	340,375,974.72
1. Ordinary shares paid by shareholders									4,477,619,508.09
2. Capital paid by holders of other equity instruments		4,477,500,000.00							
3. Amount of share-based payments recognised in owners' equity									4,477,500,000.00
4. Others									
(III) Profit distribution					119,508.09				119,508.09
1. Transfer to surplus reserves								-734,061,640.10	-734,061,640.10
2. Distribution to owners (or shareholders)									
3. Others									
(IV) Transfer within owners' equity								-734,061,640.10	-734,061,640.10
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									
(V) Special reserves									
1. Appropriated in the period									
2. Used in the period									
(VI) Others									
Balance as at the end of the period	1,936,405,467.00	4,477,500,000.00	2,582,800,000.00		5,938,960,168.19			1,119,926,524.49	20,847,079,148.06

Amount for the prior period

Item	Other equity instruments				Prior period			
	Share capital	Preference shares	Perpetual bonds	Others	Capital reserves	Less: treasury shares	Other comprehensive income	Total owner's equity
I. Balance as at the end of the prior year	1,936,405,467.00				5,938,839,256.70			14,291,671,020.30
Plus: accounting policy change								
Corrections of prior period errors								
Others								
II. Balance as at the beginning of the year	1,936,405,467.00				5,938,839,256.70			14,291,671,020.30
III. Changes in the period ("-" denotes decrease)								
(I) Total comprehensive income			2,582,800,000.00		1,403.40			2,471,474,285.05
(II) Capital paid in and reduced by owners								199,769,647.03
1. Ordinary shares paid by shareholders			2,582,800,000.00		1,403.40			2,582,801,403.40
2. Capital paid by holders of other equity instruments					1,403.40			1,403.40
3. Amount of share-based payments recognised in owners' equity			2,582,800,000.00					2,582,800,000.00
4. Others								
(III) Profit distribution								
1. Transfer to surplus reserves								
2. Distribution to owners (or shareholders)							-271,096,765.38	-271,096,765.38
3. Others								
(IV) 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								
(V) Special reserves								
1. Appropriated in the period								
2. Used in the period								
(VI) Others								
IV. Balance as at the end of the period	1,936,405,467.00		2,582,800,000.00		5,938,940,660.10			16,788,145,395.35

III. General Information of the Company

Shandong Chenming Paper Holdings Limited (hereinafter referred to as the “Company”) was incorporated in May 1993 in Shouguang City, Shandong Province, with its headquarters at No. 2199 Nongsheng Road East, Shouguang City, Shandong Province.

The Company and its subsidiaries are principally engaged in 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, marine engineering project investment, hotel service, equipment financial and operating leasing, etc.

The financial statements were considered and approved by the board of directors of the Company on 17 February 2017. According to the Articles of Association, these financial statements will be submitted to the general meeting for its approval.

Subsidiaries of the Company included in the scope of consolidation in 2016 totalled 53. For details, please refer to this Note IX “Equity in other entities”. The scope of consolidation of the Company during the year had 3 companies included and one company excluded compared to the prior year. For details, please refer to this Note VIII “Changes in the scope of consolidation”.

IV. Basis of Preparation of the Financial Statements

1. Basis of preparation

The Company’s financial statements are prepared on a going concern basis and based on actual transactions and events, in accordance with the Accounting Standards for Business Enterprises-Basic Standards promulgated by the Ministry of Finance (Order of Ministry of Finance No. 33, as amended by Order of Ministry of Finance No. 76) and 41 specific accounting standards as promulgated and amended on and after 15 February 2006, the application guidelines of the Accounting Standards for Business Enterprises, interpretations and other related rules of the Accounting Standards for Business Enterprises (hereinafter referred to as “ASBEs”), and the disclosure requirements of the “Regulation on the Preparation of Information Disclosures of Companies Issuing Public Shares, No. 15: General Requirements for Financial Reports” (revised in 2014) of China Securities Regulatory Commission.

The Company’s financial statements have been prepared on an accrual basis in accordance with the ASBEs. Except for certain financial instruments and consumable biological assets, the financial statements are prepared under the historical cost convention. In the event that depreciation of assets occurs, a provision for impairment is made accordingly in accordance with the relevant regulations.

The Company has been implementing the ASBEs since 1 January 2007.

In addition to preparing and issuing financial statements in accordance with the new accounting standards, the Company, as a H-share listed company, also has to provide financial statements for the public in accordance with the Hong Kong Financial Reporting Standards. Pursuant to the relevant requirements under Rule 1 of “Accounting Standards for Business Enterprises Interpretation No. 1”, with respect to the transactions or matters which do not have any difference in terms of standards between the new accounting standards and the Hong Kong Financial Reporting Standards, the Company shall make retrospective adjustments in accordance with Rules 5 to 19 of “Accounting Standards for Business Enterprises No. 38 – First-time Implementation of Accounting Standards for Business Enterprises” (“Standard No. 38”) and other relevant requirements. The Company shall also make retrospective adjustments to the financial statements for the comparable years in respect of the changes in accounting policies due to the implementation of new accounting standards for the transactions and matters other than those attributable to Rules 5 to 19 of Standard No. 38 with reference to the relevant available information based on the financial statements prepared by the Company according to the Hong Kong Financial Reporting Standards.

IV. Basis of Preparation of the Financial Statements (Cont'd)

2. Going concern

No facts or circumstances comprise a material uncertainty about the Company's going concern basis within 12 months since the end of the reporting period.

V. Significant Accounting Policies and Accounting Estimates

Whether the Company needs to comply with the disclosure requirements for specific industries

No

Specific accounting policies and accounting estimates are indicated as follows:

The Company and its subsidiaries are principally engaged in processing and sale of paper products (including machine made paper and paper board), paper making raw materials and machinery. The Company and its subsidiaries formulated certain specific accounting policies and accounting estimates for the transactions and matters such as revenue recognition based on their actual production and operation characteristics pursuant to the requirements under the relevant accounting standards for business enterprises. For details, please refer to this Note V. 25 "Revenue". For the critical accounting judgments and estimates made by the management, please refer to Note V. 33 "Critical accounting judgments and estimates".

1. Statement of compliance with the Accounting Standards for Business Enterprises

The financial statements have been prepared by the Company in conformity with the ASBEs, which truly and fully reflect the consolidated and company's financial position as at 31 December 2016 and relevant information such as the operating results and cash flows for 2016. 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 2014 and the notes thereto.

2. Accounting period

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

3. Operating cycle

Ordinary operating cycle refers to the period from acquisition of assets used for processing by the Company until their realisation in cash or cash equivalents. The operating cycle of the Company lasts for 12 months, and acts as an indicator for classification of liquidity of assets and liabilities.

Our subsidiaries, including Zhanjiang Chenming Arboriculture Co., Ltd., Yangjiang Chenming Arboriculture Co., Ltd., Nanchang Chenming Arboriculture Co., Ltd., Huanggang Chenming Arboriculture Co., Ltd. and Chenming Arboriculture Co., Ltd., were engaged in arboriculture cultivating, plantation and sale. Their ordinary operating cycle lasts for over 1 year.

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

4. Functional currency

The Company and its domestic subsidiaries recognise RMB as their functional currency according to the primary economic environment in which they operate. The functional currency of the Company and its domestic subsidiaries is Renminbi ("RMB"). Overseas subsidiaries of the Company recognise U.S. dollar ("USD" or "US\$"), Japanese yen ("JPY"), Euro ("EUR") and South Korean Won ("KRW") as their respective functional currency according to the general economic environment in which these subsidiaries operate. The Company prepares its financial statements in RMB.

5. Accounting treatment of business combinations under common control and not under common control

Business combinations refer to the transactions or events in which two or more separate enterprises merged as a single reporting entity. Business combinations are divided into business combinations under common control and not under common control.

(1) Business combinations 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 the absorbing party effectively obtains control of the party being absorbed.

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.

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

5. Accounting treatment of business combinations under common control and not under common control (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. Transaction cost attributable to equity or debt securities issued by the acquirer as consideration is included in the initial costs. Contingent consideration involved is charged to the combination cost at its fair value on the acquisition date, in the event that adjustment on the contingent consideration is required as a result of new or additional evidence in relation to circumstances existed on the acquisition date emerges within twelve months from the acquisition date, the combination goodwill shall also be adjusted. The combination cost incurred by the acquirer and the identifiable net assets acquired from the combination are measured at their fair values on the acquisition date. 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.

In relation to the deductible temporary difference acquired from the acquiree, which was not recognised as deferred tax assets due to non-fulfilment of the recognition criteria at the date of the acquisition, if new or further information that is obtained within 12 months after the acquisition date indicates that related conditions at the acquisition date already existed, and that the implementation of the economic benefits brought by the deductible temporary difference of the acquiree can be expected, the relevant deferred tax assets shall be recognised and goodwill shall be deducted. When the amount of goodwill is less than the deferred tax assets that shall be recognised, the difference shall be recognised in the profit or loss of the period. Except for the above circumstances, deferred tax assets in relation to business combination are recognised in the profit or loss of the period.

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

5. Accounting treatment of business combinations under common control and not under common control (Cont'd)

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

For combination of business not under common control achieved by several transactions, these several transactions will be judged whether they belong to “transactions in a basket” in accordance with the judgement standards on “transactions in a basket” as set out in the Notice of the Ministry of Finance on Issuing Accounting Standards for Business Enterprises Interpretation No. 5 (Cai Kuai [2012] No. 19) and Rule of 51 to “Accounting Standard for Business Enterprises No. 33 – Consolidated Financial Statements”(see Note V. 6 (2)). If they belong to “transactions in a basket”, they are accounted for with reference to the descriptions as set out in the previous paragraphs of this section and Note V. 14 “Long-term equity investments”, and if they do not belong to “transactions in a basket”, they are accounted for in separate financial statements and consolidated financial reports:

In separate financial statements, the initial equity investment cost is the aggregate of the carrying amount of the equity investment in the acquiree held prior to the acquisition date and the investment cost newly added as at the acquisition date. In respect of any other comprehensive income attributable to the equity interest in the acquiree prior to the acquisition date, other comprehensive income is accounted for on the same accounting treatment as direct disposal of relevant asset or liability by the acquiree at the time of disposal (i.e. to be transferred to investment income for the period, except for the changes arising from re-measuring net assets or net liabilities of defined benefit plan using the equity method attributable to the acquiree).

In consolidated financial statements, the equity interest in the acquiree held prior to the acquisition date is remeasured at fair value as at the acquisition date, and the difference between the fair value and the carrying amount is recognised as investment income for the current period. In respect of any other comprehensive income attributable to the equity interest in the acquiree held prior to the acquisition date, other comprehensive income is accounted for on the same accounting treatment as direct disposal of relevant asset or liability by the acquiree (i.e. to be transferred to investment income at the acquisition date, except for the changes arising from re-measuring net assets or net liabilities of defined benefit plan using the equity method attributable to the acquiree) is transferred to investment income in the period of the acquisition date.

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

6. Preparation of consolidated financial statements

(1) Basis for principle of determining the scope of consolidated financial statements

The scope of consolidation of the consolidated financial statements is determined on the basis of control. The term “control” refers to the fact that the Company has power over the investee and is entitled to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of those returns. The scope of consolidation includes the Company and all of its subsidiaries. A subsidiary is an entity controlled by the Company.

The Company will conduct reassessment in the event there are changes in actual condition and situation causing changes in relevant elements involved in the definition of control above.

(2) Basis for preparation of the consolidated financial statements

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

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

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

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

6. Preparation of consolidated financial statements (Cont'd)

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

The shareholders' equity and the portion of the profit or loss for the period of the subsidiaries that are not attributable to the Company are presented under shareholders' equity and net profit in the consolidated financial statements as minority interests and net profit of minority interest respectively. The portion of net profit or loss of subsidiaries for the period attributable to minority interest is presented in the consolidated income statement under the "profit or loss of minority interest". 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 interest.

For the loss of control over a subsidiary due to disposal of a portion of the equity investment or other reasons, the remaining equity is measured at fair value on the date when the control is lost. The difference arising from the sum of consideration received for disposal of equity interest and the fair value of remaining equity interest over the share of net assets of the former subsidiary calculated continuously since the purchase date based on the shareholding percentage before disposal are recognised as investment income in the period when the control is lost. Other comprehensive income related to equity investment in the subsidiary is accounted for on the same accounting treatment as direct disposal of relevant asset or liability by the acquiree at the time when the control is lost (i.e. to be transferred to investment income, except for the changes arising from re-measuring net assets or net liabilities of defined benefit plan of the subsidiary using the equity method). The remaining equity interests are measured subsequently according to "Accounting Standard for Business Enterprises No. 2 – Long-term Equity Investments" or "Accounting Standard for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments". See Note V. 14 "Long-term equity investments" or Note V. 10 "Financial instruments" for details.

When the Company disposes of equity investment in a subsidiary by a stage-up approach with several transactions until the control over the subsidiary is lost, it shall determine whether these several transactions related to the disposal of equity investment in a subsidiary until the control over the subsidiary is lost belong to "transactions in a basket". Usually, these several transactions related to the disposal of equity investment in a subsidiary are accounted for as transactions in a basket when the terms, conditions and economic impacts of these several transactions meet the following one or more conditions: ① these transactions are entered into at the same time or after considering their impacts on each other; ② these transactions as a whole can reach complete business results; ③ the occurrence of a transaction depends on at least the occurrence of another transaction; ④ an individual transaction is not deemed as economic, but is deemed as economic when considered with other transactions. If they are not transactions in a basket, each of which are accounted for in accordance with applicable rules in "partial disposal of long-term equity investment of a subsidiary without losing control over a subsidiary" (see Note V. 14 (2) ④) separately, and "the control over a subsidiary is lost due to partial disposal of equity investment or other reasons" (see the preceding paragraph). When several transactions related to the disposal of equity investment in a subsidiary until the control over the subsidiary is lost belong to transactions in a basket, each of which is accounted for as disposal of a subsidiary with a transaction until the control over a subsidiary is lost; however, the difference between the amount of disposal prior to the loss of control and the net assets of a subsidiary attributable to the disposal investment shall be recognised as other comprehensive income in consolidated financial statements and transferred to profit or loss at the time when the control is lost.

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

7. Classification of joint arrangements and accounting treatment for joint ventures

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

The Company treats investments in joint ventures by using the equity method of accounting in accordance with accounting policies as set out in Note V. 14 (2) ② "long-term equity investments by using equity method of accounting".

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

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

8. 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 amount of cash and which are subject to insignificant risk of value change.

9. 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 the functional currency at the prevailing spot exchange rate on the date of exchange, i.e. the middle price of RMB exchange rate published by the People's Bank of China on that date in general and the same hereinafter, while the foreign currency exchange operations and transactions in connection with foreign currency exchange shall be translated into the functional currency at the exchange rate actually adopted.

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

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

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

On the balance sheet date, foreign currency monetary items shall be translated at the spot exchange rate on the balance sheet date. All differences are included in the profit or loss in the period, except for: ① the differences arising from foreign currency borrowings related to the acquisition or construction of fixed assets that are qualified for capitalisation will be accounted for according to the principle of capitalisation; and ② exchange difference arising from change in balance of carrying amount other than amortised cost of available for sale foreign monetary items will be included in other comprehensive income.

Exchange differences arising from change in exchange rate where the preparation of consolidated financial statements relates to foreign operations and foreign currency monetary items materially constitute net investment in foreign operations shall be recorded into "other comprehensive income"; disposal of foreign operations shall be included into profits and losses on disposal in the current period.

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 the functional 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 comprehensive income.

(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 foreign operations and foreign currency monetary items materially constitute net investment in foreign operations shall be recorded into "other comprehensive income" under "translation reserve"; disposal of foreign operations 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 compliance with the following requirements: 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 comprehensive income. 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 operations 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.

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

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

(3) Basis for translation of foreign currency financial statements (Cont'd)

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

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

On disposal of the entire owners' equity in a foreign operation of the Company, or upon a loss of control over a foreign operation due to disposal of certain equity investment or other reasons, the Company transfers the exchange differences arising on translation of financial statements of this foreign operation attributable to owners' equity of parent company presented under owners' equity in the balance sheet, to profit or loss in the period in which the disposal took place.

In case of partial disposal of equity investment or other reason that result in reduction in shareholding in a foreign operation without losing control over it, the proportionate share of exchange differences arising from the translation of financial statements will be attributable to minority interests and will not recognised in profit or loss. For partial disposals of equity interests in foreign operations which are associates or joint ventures, the proportionate share of the exchange differences arising from the translation of financial statements of foreign operations is reclassified to profit or loss.

10. Financial instruments

Financial asset or financial liability will be recognised when the Company became one of the parties under a financial instrument contract. Financial assets and financial liabilities are initially recognised at fair value, except for equity instruments that are not quoted in an active market, the fair value of which cannot be reliably measured and over relevant investees of which the Company does not have control, joint control or significant influence, and debt financing instruments subsequently measured at amortised cost using the effective interest method. For financial assets and financial liabilities measured at fair value and whose changes are carried through profit or loss, relevant transaction costs are directly recognised in profit or loss for the period. For financial assets and financial liabilities classified as other categories, relevant transaction costs are included in the amount initially recognised.

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

The fair value refers to the price that will be received when selling an asset or the price to be paid to transfer a liability in an orderly transaction between market participants on the date of measurement. Financial instruments exist in an active market. Fair value is determined based on the quoted price in such market. An active market refers to where pricing is easily and regularly obtained from exchanges, brokers, industrial organisations and price fixing service organisations, representing the actual price of a market transaction that takes place in a fair deal. While financial instruments do not exist in an active market, the fair value is determined using valuation techniques. Valuation technologies include reference to be familiar with situation and prices reached in recent market transactions entered into by both willing parties, reference to present fair values of similar other financial instruments, cash flow discounting method and option pricing models.

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

10. Financial instruments (Cont'd)

(2) Classification, recognition and measurement of financial assets

Conventionally traded financial assets shall be recognised and derecognised at the trading date. Financial assets shall be classified into loans and accounts receivable, available-for-sale financial assets and others for initial recognition.

① Loans and receivables

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

Loans and receivables are measured subsequently at the amortised cost by using the effective interest rate method. Gains or losses incurred at the time of derecognition, impairment or amortisation are charged to profit or loss in the current period.

② Available-for-sale financial assets

Available-for-sale financial assets represent equity instruments over relevant investees of which the Company does not have control, joint control or significant influence.

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, 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. However, for equity investment of which the Company does not have control, joint control or significant influence, not quoted in an active market and the fair value of which cannot be measured reliably, their fair values are subsequently measured at cost.

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

The Company reviews the carrying amount of financial assets on each balance sheet date and provides for impairment where there is objective evidence that financial assets are impaired.

For a financial asset that is individually significant, the Company assesses the asset individually for impairment. For a financial asset that is not individually significant, the Company assesses 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.

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

10. Financial instruments (Cont'd)

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

① Impairment of loans and receivables

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

② Impairment of available-for-sale financial assets

In the event that decline in fair value of the available-for-sale equity instrument or fair value of the interest in the investee's identifiable net assets is regarded as "severe decline" or "non-temporary decline" on the basis of comprehensive related factors, it indicates that there is impairment loss of the available-for-sale equity instrument. In particular, "severe decline" refers to decline of over 20% in such fair value. "Non-temporary decline" refers to such fair value decreased continuously for more than 12 months. The continuous decreasing period is determined on the basis of the drop of such fair value accumulated over 10%.

When the available-for-sale financial assets impair, the accumulated loss originally included in the other comprehensive income arising from the decrease in fair value was transferred out and included in the profit or loss for the period. The accumulated loss that transferred out is the balance of the initial acquisition 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 comprehensive 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.

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

10. Financial instruments (Cont'd)

(4) Recognition and measurement of transfers of financial asset

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

When the entity does not either assign or maintain substantially all the risk and return arising from the ownership of the financial asset and does not give up the control on such financial asset, to the extent of its continuous involvement in the financial asset, the entity recognises such financial asset and 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.

If all criteria of recognition of transfer of financial assets are satisfied, the difference between the carrying amount of the financial assets transferred and the sum of the consideration received from the transfer and the accumulated changes in fair value originally included in other comprehensive income shall be recognised in the profit or loss for the period.

If a part of the financial assets is qualified 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.

For financial assets that are sold or transferred with recourse or endorsement, the Company needs to determine whether the risk and rewards of ownership of the financial asset have been substantially transferred. If the risk and rewards of ownership of the financial asset have been substantially transferred, the financial assets shall be derecognised. If the risk and rewards of ownership of the financial asset have been retained, the financial assets shall not be derecognised. If the Company neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the Company shall assess whether the control over the financial asset is retained, and the financial assets shall be accounting for according to the above paragraphs.

(5) Classification and measurement of financial liabilities

Financial liabilities are classified at initial recognition: financial liabilities recognised at fair value with changes carried through profit or loss and other financial liabilities. For financial liabilities measured at fair value with changes recognised in profit or loss of the current period, relevant transaction costs are directly recognised in profit or loss for the period. The amount is recognised initially at fair value and the subsequent changes in fair value will be recognised in profit or loss for the period. For other financial liabilities, relevant transaction costs are included in the amount initially recognised and subsequently measured at amortised cost using the effective interest method, and relevant gain or loss arising from derecognition or amortisation are included in current profit or loss.

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

10. Financial instruments (Cont'd)

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

(7) Offset of Financial Assets and Financial Liabilities

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

(8) Equity instruments

Equity instruments are any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The issuance (including refinancing), repurchase, sale or cancellation of equity instruments by the Company is accounted for movement in equity. The Company does not recognise the movement in fair value of equity instruments. Transaction costs related to equity transactions are deducted from equity.

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

11. Accounts receivable

Accounts receivable include accounts receivable, other receivables, long-term receivables, etc. For the recognition and measurement of long-term receivables, please refer to Note V. 28.

(1) Basis for recognition and measurement of bad debt provision

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

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

11. Accounts receivable (Cont'd)

(2) Method for making bad debt provision

- ① Recognition standard and method for making bad debt provision individually for individually significant accounts receivable

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

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

- ② Determination and method for making bad debt provision for accounts receivable provided for bad debt by credit risk portfolio

A. Basis for determining the credit risk portfolio

The Company classifies its individually insignificant accounts receivable and individually significant but not impaired accounts receivable in accordance with their credit risk characteristics and relevance of financial assets. These credit risks usually reflect the ability of debtor in repaying all debts due based on the contracted terms of relevant assets, and are related to the forecast on future cash flows of asset under assessment.

Portfolios are determined according to the following basis:

Portfolio	Basis for determining the portfolio
Specific fund portfolio	A portfolio which is classified as a category on the basis of accounts receivable related to authority units and related parties
Ageing portfolio	A portfolio which is classified as a category on the basis of credit risk features such as ageing

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

11. Accounts receivable (Cont'd)

(2) Method for making bad debt provision (Cont'd)

- ② Determination and method for making bad debt provision for accounts receivable provided for bad debt by credit risk portfolio (Cont'd)

B. Method for making bad debt provision according to credit risk characteristics

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 characteristics (debtors' ability to settle outstanding amounts based on contracted terms), taking into account historical experience of losses, prevailing economic condition and losses that are expected to incur in the group of accounts receivable.

Method for making bad debt provision for different portfolio:

Portfolio	Method for making provision
Specific fund portfolio	No bad debt provision provided
Ageing portfolio	Ageing analysis

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

Ageing	Ratio of accounts receivable provision (%)	Ratio of other accounts receivable provision (%)
Within 1 year (including 1 year)	5	5
1-2 years	10	10
2-3 years	20	20
Over 3 years	100	100

- ③ Accounts receivable individually insignificant but provided for bad debt separately

Accounts receivable which are individually insignificant but have the following features are subject to impairment tests separately by the Company. If there is objective evidence indicating that the accounts receivable are impaired, then impairment loss will be recognised and bad debts will be provided according to the difference when the present value of future cash flow is lower than its carrying amount, such as 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.

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

11. Accounts receivable (Cont'd)

(3) Reversal of provision for bad debts

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

12. Inventories

Whether the Company needs to comply with the disclosure requirements for specific industries

No

(1) Classification of inventories

Inventories mainly include raw materials, work in progress, goods in stock, developing products and consumable biological assets etc.

(2) Pricing of inventories 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 with weighted average method.

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

Consumable biological assets refer to biological assets held-for-sale which include growing timber. Consumable biological assets without a stock are stated at cost at initial recognition, and subsequently measured at fair value when there is a stock. Changes in fair values shall be recognised as profit or loss in the current period. The cost of self-planting, self-cultivating consumable biological assets is the necessary expenses directly attributable to such assets prior to canopy closure, including borrowing costs eligible for capitalisation. Subsequent expenses such as maintenance cost 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 amount using the batch averaging method.

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

12. Inventories (Cont'd)

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

Net realisable value refers to the amount of the estimated price of inventories less the estimated cost incurred upon completion, estimated sales expenses and taxes 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.

At the balance sheet date, inventories are calculated at the lower of cost and net realisable value. Usually, 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. For large quantity and low value items of inventories, provision may be made based on categories of inventories. For items of inventories relating to a product line that is produced and marketed in the same geographical area and with the same or similar end uses or purposes, which cannot be practicably evaluated separately from other items in that product line, provision for decline in value of inventories may be determined on an aggregate basis.

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.

(4) We implement permanent inventory system as our inventory stock taking system.

(5) Low-value consumables and packaging materials are amortised when issued for use.

13. Classified as assets held-for-sale

When a non-current asset can be sold immediately under the circumstances by the common practice, and the Company has passed a resolution to dispose of a non-current asset, and has signed an irrevocable contract with the transferee, and the transfer will be completed within a year, the non-current asset shall be accounted for as an asset held-for-sale, which will not be depreciated or amortised starting from the date of re-classification, and is stated at the lower of its carrying amount or its fair value less costs to dispose of. Non-current assets held-for-sale include an individual asset and disposal group. If a disposal group is a group of assets, and the goodwill arising from business combinations is allocated to the group of assets in accordance with "Accounting Standards for Business Enterprises No. 8 – Impairment of Assets", or the disposal group is an operation operating in such asset group, then the disposal group includes the goodwill arising from business combinations.

A single non-current asset classified as an asset held-for-sale or assets grouped in a disposal group should be listed separately in the balance sheet under current assets. Liabilities grouped in a disposal group and relating to transferring assets should be listed separately in the balance sheet under current liabilities.

When an asset or a disposal group previously recognised under assets held-for-sale no longer satisfy the conditions to be regarded as assets held-for-sale, the Company ceases to account for the asset as assets held-for-sale, and the asset is measured at the lower of: (1) the carrying amount of the asset or the disposal group prior to be classified as assets held-for-sale, adjusted for depreciation, amortisation or impairment as if it was not classified as assets held-for-sale; or (2) the recoverable amount of the asset or the disposal group on the date when the decision of not disposing of the asset or the disposal group is made.

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

14. Long-term equity investments

Long-term equity investments under this section refer to long-term equity investments in which the Company has control, joint control or significant influence over the investee. Long-term equity investment without control or joint control or significant influence of the Company is accounted for as available-for-sale financial assets or financial assets measured at fair value with any change in fair value charged to profit or loss. Details on its accounting policy please refer to Note V. 10. "Financial instruments".

Joint control is the Company's contractually agreed sharing of control over an arrangement, which relevant activities of such arrangement must be decided by unanimously agreement from parties who share control. Significant influence is the power of the Company to participate in the financial and operating policy decisions of an investee, but to fail to control or joint control the formulation of such policies together with other parties.

(1) Determination of investment cost

For a long-term equity investment acquired through a business combination involving enterprises under common control, the initial investment cost of the long-term equity investment shall be the absorbing party's share of the carrying amount of the owner's equity under the consolidated financial statements of the ultimate controlling party on the date of combination. The difference between the initial cost of the long-term equity investment and the cash paid, non-cash assets transferred as well as the carrying amount of the debts borne by the absorbing party shall offset against the capital reserve. If the capital reserve is insufficient to offset, the retained earnings shall be adjusted. If the consideration of the merger is satisfied by issue of equity securities, 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 under the consolidated financial statements of the ultimate controlling party on the date of combination. With the total face value of the shares issued as share capital, the difference between the initial cost of the long-term equity investment and total face value of the shares issued shall be used to offset against the capital reserve. If the capital reserve is insufficient to offset, the retained earnings shall be adjusted. For business combination resulted in an enterprise under common control by acquiring equity of the absorbing party under common control through a stage-up approach with several transactions, these transactions will be judged whether they shall be treat as "transactions in a basket". If they belong to "transactions in a basket", these transactions will be accounted for a transaction in obtaining control. If they do not belong to "transactions in a basket", 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 under the consolidated financial statements of the ultimate controlling party on the date of combination. The difference between the initial cost of the long-term equity investment and the aggregate of the carrying amount of the long-term equity investment before merging and the carrying amount the additional consideration paid for further share acquisition on the date of combination shall offset against the capital reserve. If the capital reserve is insufficient to offset, the retained earnings shall be adjusted. Other comprehensive income recognised as a result of the previously held equity investment accounted for using equity method on the date of combination or recognised for available-for-sale financial assets will not be accounted for.

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

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

(1) Determination of investment cost (Cont'd)

For a long-term equity investment acquired through a business combination involving enterprises not under common control, the initial investment cost of the long-term equity investment shall be the cost of combination on the date of acquisition. Cost of combination includes the aggregate fair value of assets paid by the acquirer, liabilities incurred or borne and equity securities issued. For business combination resulted in an enterprise not under common control by acquiring equity of the acquiree under common control through a stage-up approach with several transactions, these transactions will be judged whether they shall be treat as “transactions in a basket”. If they belong to “transactions in a basket”, these transactions will be accounted for a transaction in obtaining control. If they do not belong to “transactions in a basket”, the initial investment cost of the long-term equity investment accounted for using cost method shall be the aggregate of the carrying amount of equity investment previously held by the acquiree and the additional investment cost. For previously held equity accounted for using equity method, relevant other comprehensive income will not be accounted for. For previously held equity investment classified as available-for-sale financial asset, the difference between its fair value and carrying amount, as well as the accumulated movement in fair value previously included in the other comprehensive income shall be transferred to profit or loss for the current period.

Agent fees incurred by the absorbing party or acquirer for the acquisition such as audit, legal service, and valuation and consultation fees, and other related administration expenses are charged to profit or loss in the current period at the time such expenses incurred.

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 Company, the fair value of equity securities issued by the Company, the agreed value of investment contract or agreement, the fair value or original carrying amount of the non-monetary asset exchange transaction which the asset will be transferred out of the Company, 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. For additional equity investment made in order to obtain significant influence or common control over investee without resulted in control, the relevant cost for long-term equity investment shall be the aggregate of fair value of previously held equity investment and additional investment cost determined according to “Accounting Standard for Business Enterprises No. 22 – Recognition and measurement of Financial Instruments”.

(2) Subsequent measurement and method for profit or loss recognition

Long-term equity investments with joint control (excluding those constitute joint ventures) or significant influence on the investee are accounted for using equity method. 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. The cost for long-term equity investment is adjusted in the event of additional investment or investment recovery. 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.

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

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

(2) Subsequent measurement and method for profit or loss recognition (Cont'd)

② Long-term equity investments accounted for using the equity method

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

Under the equity method, investment gain and other comprehensive income shall be recognised based on the Company's share of the net profits or losses and other comprehensive income made by the investee, respectively. Meanwhile, the carrying amount of long-term equity investment shall be adjusted. The carrying amount of long-term equity investment shall be reduced based on the Company's share of profit or cash dividend distributed by the investee. In respect of the other movement of net profit or loss, other comprehensive income and profit distribution of investee, the carrying amount of long-term equity investment shall be adjusted and included in the capital reserves. The Company 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 the event of inconformity between the accounting policies and accounting periods of the investee and the Company, the financial statements of the investee shall be adjusted in conformity with the accounting policies and accounting periods of the Company. Investment gain and other comprehensive income shall be recognised accordingly. In respect of the transactions between the Company and its associates and joint ventures in which the assets disposed of or sold are not classified as operation, the share of unrealised gain or loss arising from internal transactions shall be eliminated by the portion attributable to the Company. Investment gain shall be recognised accordingly. However, any unrealised loss arising from internal transactions between the Company and an investee is not eliminated to the extent that the loss is impairment loss of the transferred assets. In the event that the Company disposed of an asset classified as operation to its joint ventures or associates, which resulted in acquisition of long-term equity investment by the investor without obtaining control, the initial investment cost of additional long-term equity investment shall be the fair value of disposed operation. The difference between initial investment cost and the carrying amount of disposed operation will be fully included in profit or loss for the current period. In the event that the Company sold an asset classified as operation to its associates or joint ventures, the difference between the carrying amount of consideration received and operation shall be fully included in profit or loss for the current period. In the event that the Company acquired an asset which formed an operation from its associates or joint ventures, relevant transaction shall be accounted for in accordance with "Accounting Standards for Business Enterprises No. 20 - Business combination". All profit or loss related to the transaction shall be accounted for.

The Company'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 Company 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 Company 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 Company 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.

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

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

(2) Subsequent measurement and method for profit or loss recognition (Cont'd)

③ Acquisition of minority interest

Upon the preparation of the consolidated financial statements, capital reserve is adjusted based on the difference between the additional long term equity investment from acquisition of minority interest and the share of net assets of the subsidiary attributable to the additional shareholding from the date of acquisition (or date of combination). In the case of insufficient capital surplus to offset impairment, retained earnings shall be adjusted.

④ Disposal of long-term equity investments

In these consolidated financial statements, for disposal of a portion of the long-term equity investments in a subsidiary without loss of 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 loss in control, it shall be accounted for in accordance with the relevant accounting policies as described in Note V. 6. (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.

In respect of long-term equity investment accounted for using equity method with the remaining equity interest after disposal also accounted for using equity method, other comprehensive income previously under owners' equity shall be accounted for in accordance with the same accounting treatment for direct disposal of relevant asset or liability by investee on pro rata basis at the time of disposal. The owners' equity recognised for the movement of other owners' equity (excluding net profit or loss, other comprehensive income and profit distribution of investee) shall be transferred to profit or loss for the current period on pro rata basis.

In respect of long-term equity investment accounted for using cost method with the remaining equity interest after disposal also accounted for using cost method, other comprehensive income recognised using equity method or the recognition and measurement standard of financial instruments before obtaining control over the investee shall be accounted for in accordance with the same accounting treatment for direct disposal of relevant asset or liability by investee, and transferred to profit or loss for the current period on pro rata basis. Movement of other owners' equity (excluding net profit or loss, other comprehensive income and profit distribution under net asset of investee accounted for and recognised using equity method) shall be transferred to profit or loss for the current period on pro rata basis.

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

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

(2) Subsequent measurement and method for profit or loss recognition (Cont'd)

④ Disposal of long-term equity investments (*Cont'd*)

In the event of loss of control over investee due to partial disposal of equity investment by the Company, in preparing separate financial statements, the remaining equity interest which can apply common control or impose significant influence over the investee after disposal shall be accounted for using equity method. Such remaining equity interest shall be treated as accounting for using equity method since it is obtained and adjustment was made accordingly. For the remaining equity interest which cannot apply common control or impose significant influence over the investee after disposal, it shall be accounted for using the recognition and measurement standard of financial instruments. The difference between its fair value and carrying amount as at the date of losing control shall be included in profit or loss for the current period. In respect of other comprehensive income recognised using equity method or the recognition and measurement standard of financial instruments before the Company obtained control over the investee, it shall be accounted for in accordance with the same accounting treatment for direct disposal of relevant asset or liability by investee at the time when the control over investee is lost. Movement of other owners' equity (excluding net profit or loss, other comprehensive income and profit distribution under net asset of investee accounted for and recognised using equity method) shall be transferred to profit or loss for the current period at the time when the control over investee is lost. Of which, for the remaining equity interest after disposal accounted for using equity method, other comprehensive income and other owners' equity shall be transferred on pro rata basis. For the remaining equity interest after disposal accounted for using the recognition and measurement standard of financial instruments, other comprehensive income and other owners' equity shall be fully transferred.

In the event of loss of common control or significant influence over investee due to partial disposal of equity investment by the Company, the remaining equity interest after disposal shall be accounted for using the recognition and measurement standard of financial instruments. The difference between its fair value and carrying amount as at the date of losing common control or significant influence shall be included in profit or loss for the current period. In respect of other comprehensive income recognised under previous equity investment using equity method, it shall be accounted for in accordance with the same accounting treatment for direct disposal of relevant asset or liability by investee at the time when equity method was ceased to be used. Movement of other owners' equity (excluding net profit or loss, other comprehensive income and profit distribution under net asset of investee accounted for and recognised using equity method) shall be transferred to profit or loss for the current period at the time when equity method was ceased to be used.

The Company disposes its equity investment in subsidiary by a stage-up approach with several transactions until the control over the subsidiary is lost. If the said transactions belong to “transactions in a basket”, each transaction shall be accounted for as a single transaction of disposing equity investment of subsidiary and loss of control. The difference between the disposal consideration for each transaction and the carrying amount of the corresponding long-term equity investment of disposed equity interest before loss of control shall initially recognised as other comprehensive income, and subsequently transferred to profit or loss arising from loss of control for the current period upon loss of control.

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

15. Investment Property

Investment property refers to real estate held to earn rentals or for capital appreciation, or both.

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 Company 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 Company adopts cost method for subsequent measurement of investment property, which is depreciated using the same policy as that for buildings.

The method for impaired test of investment property and measurement of impairment provision are detailed in Note V. 20 "Impairment of long-term assets".

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

In the event that an investment property is converted to an owner-occupied property, such property shall become fixed assets or intangible assets since the date of its conversion. In the event that an owner-occupied property is converted to real estate held to earn rentals or for capital appreciation, such fixed assets or intangible assets shall become an investment property since the date of its conversion. Investment property is measured at cost during its conversion. Upon the conversion, the property shall be stated at the carrying amount prior to the conversion.

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

16. Fixed assets

(1) Conditions for recognition

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. Fixed assets are recognised only if the Company is very likely to receive economic benefits from the asset and its cost can be measured reliably. A fixed asset shall be initially measured at cost and the effect of any expected costs of abandoning the asset at the end of its use.

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

16. Fixed assets (Cont'd)

(2) Depreciation method

A fixed asset is depreciated over its useful life using the straight-line method since the month subsequent to the one in which it is ready for intended use. The useful life, estimated net residual value rate and annual depreciation rate of each category of fixed assets are as follows:

Category	Depreciation method	Useful lives of depreciation (Year)	Estimated residual value (%)	Annual depreciation rate (%)
Housing and building structure	Straight-line method	20-40	5-10	2.25-4.75
Machinery and equipment	Straight-line method	8-20	5-10	4.50-11.88
Transportation equipment	Straight-line method	5-8	5-10	11.25-19.00
Electronic equipment and others	Straight-line method	5	5-10	18.00-19.00

Estimated net residual value of a fixed asset is the estimated amount that the Company 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) Methods of impairment test and provision of fixed assets

The method for impaired test of fixed assets and measurement of impairment provision are detailed in Note V. 20 "Impairment of long-term assets".

(4) Recognition, accounting and depreciation method of fixed assets acquired under finance leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of asset ownership to the lessee and titles to the assets may or may not eventually be transferred. For fixed assets acquired under finance leases, the basis for provision of leased assets depreciation is the same as that of self-owned fixed assets. When it can be reasonably determined that the ownership of a leased asset will be transferred at the end of the lease term, it is depreciated over the period of expected use; otherwise, the lease asset is depreciated over the shorter period of the lease term and the period of expected use.

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

16. Fixed assets (Cont'd)

(5) Explanation on other matters

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

Fixed assets are derecognised when there is no economic benefit arising from disposal or expected use or disposal of fixed assets. When a fixed asset is sold, transferred, retired or damaged, the Company 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 Company 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.

17. Construction in progress

Whether the Company needs to comply with the disclosure requirements for specific industries

No

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 reclassified 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 V. 20 "Impairment of long-term asset".

18. 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 Company 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.

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

18. Borrowing costs (Cont'd)

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

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

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

19. Intangible assets

(1) Intangible assets

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

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 Company and the cost of the asset can be measured reliably. Other expenditures on an item asset shall be charged to profit or loss when incurred.

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

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

The Company shall review the useful life of intangible asset with a finite useful life and the amortisation method applied at least at each financial year-end. A change in the useful life or amortisation method used shall be accounted for as a change in accounting estimate. For an intangible asset with an indefinite useful life, the Company 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.

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

19. Intangible assets (Cont'd)

(2) Research and development expenditure

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

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

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

- ① it is technically feasible that the intangible asset can be used or sold upon completion;
- ② there is intention to complete the intangible asset for use or sale;
- ③ the intangible asset can produce economic benefits, including there is evidence that the products produced using the intangible asset has a market or the intangible asset itself has a market; and if the intangible asset is for internal use, there is evidence that there exists usage for the intangible asset;
- ④ there is sufficient support in terms of technology, financial resources and other resources in order to complete the development of the intangible asset, and there is capability to use or sell the intangible asset;
- ⑤ the expenses attributable to the development phase of the intangible asset can be measured reliably.

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

(3) Methods of impairment test and provision of intangible assets

The method for impaired test of intangible assets and measurement of impairment provision are detailed in Note V. 20 "Impairment of long-term assets".

20. Impairment of long-term asset

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

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

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

20. Impairment of long-term asset (Cont'd)

For the purpose of impairment testing, the carrying amount of goodwill presented separately in the financial statements shall be allocated to the asset groups or group of assets benefiting from synergy of business combination. If the recoverable amount is less than the carrying amount, the Company 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.

21. Long-term prepaid expenses

Long-term prepaid expenses are expenditures and other expenses which have incurred but that shall be amortised over the current period and subsequent periods of more than one year. Long-term prepaid expenses of the Company mainly include expenses on improvement of fixed assets and woodland rent. Long-term prepaid expenses are amortised over the estimated benefit period using the straight-line method.

22. Employee benefits

Staff remuneration of the Company mainly includes short-term staff remuneration, post-employment benefits and termination benefits, in which:

Short-term remuneration mainly includes salaries, bonuses, allowance and subsidies, staff welfare, medical insurance premium, maternity insurance premium, work-related injury insurance premium, housing provident funds, union operation costs and employee education costs and non-monetary welfare etc. Short-term remuneration incurred during the accounting period in which the Company's staff provided services for the Company is recognised as liability, and included in profit or loss for the current period or related asset costs. Of which, non-monetary welfare is measured at fair value.

Post-employment benefits mainly include pension insurance premium and unemployment insurance premium. Post-employment benefits mainly adopt defined contribution plan. Relevant contribution amount is included in related asset costs or profit or loss for the current period during the period in which the expenses incurred.

When the Company terminates the employment relationship with employees before the end of the employment contracts or provides compensation as an offer to encourage employees to accept voluntary redundancy, the Company shall recognise employee compensation liabilities arising from compensation for staff dismissal and included in profit or loss for the current period, when the Company cannot revoke unilaterally compensation for dismissal due to the cancellation of labour relationship plans and employee redundant proposals; and the Company recognise cost and expenses related to payment of compensation for dismissal and restructuring, whichever is earlier. However, if the compensation for termination of employment is not expected to be fully paid within 12 months from the reporting period, it shall be accounted for other long-term staff remuneration.

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

The Company does not provide any other long-term employee benefit for its staff.

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

23. 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 Company; (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.

24. Preference shares, perpetual bonds and other financial instruments

(1) Classification of perpetual bonds and preference shares

Perpetual bonds, preference shares and other financial instruments issued by the Company are classified as equity instruments when all of the following conditions are satisfied:

- ① The financial instruments have no contractual obligation to pay in cash or other financial assets to other parties nor to exchange financial assets or financial liabilities under potential adverse condition with other parties;
- ② If the financial instrument will or may be settled in the entity's own equity instruments, it is a non-derivative instrument that includes no contractual obligations to deliver a variable number of its own equity instruments; or a derivative that will be settled only by the Company exchanging a fixed amount of cash or other financial asset for a fixed number of its own equity instruments.

Other than financial instruments classified as equity instruments according to the above conditions, other financial instruments issued by the Company shall be classified as financial liabilities.

The financial instruments issued by the Company which are compound financial instruments are recognised as a liability based on the fair value of the liability component, and the amount net of the fair value of the liability component from the actual amount received is recognised as "other equity instruments". Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of gross proceeds.

(2) Accounting treatment of perpetual bonds and preference shares

For financial instruments classified as financial liabilities (such as perpetual bonds and preference shares), except borrowing costs qualifying for capitalisation (please refer to this Note V. 18 "Borrowing costs"), its related interest, dividends, gains or losses, and gains or losses arising from redemption or refinancing are credited to profit or loss for the current period.

For financial instruments classified as equity instruments (such as perpetual bonds and preference shares), its issue (including refinancing), repurchase, sale or cancellation are treated by the Company as changes in equity, with related transaction costs deducted from equity. The Company's distribution to holders of equity instruments are treated as a distribution of profits.

Changes in the fair value of equity instruments are not recognised by the Company.

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

25. Revenue

Whether the Company needs to comply with the disclosure requirements for specific industries

No

(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. Confirmation time for sales revenue: In terms of domestic sales, confirmation will be made on the day when goods are delivered to the clients. While in terms of overseas sales, confirmation will be made on the day when goods are loaded on board and declared.

(2) 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 Company; 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 Company includes sales of goods and rendering of services, if sales of goods and rendering of services can be differentiated and separately measured, they will be recognised respectively. If sales of goods and rendering of services cannot be differentiated or cannot be separately measured, they will be recognised as sales of goods in full.

(3) Revenue from rendering of services

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

(4) Interest income

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

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

26. Government grants

Government grants are transfer of monetary assets or non-monetary assets from the government to the Company at no consideration, excluding capital considerations from the government as an owner of the Company. Government grants are classified into government grants related to assets and government grants related to income. Government grants obtained for acquisition or construction of long-term assets or other forms of long-term asset formation are classified as related to assets. Other government grants are classified as related to revenue. If related government documents do not specify the objective of the grants, the grants are classified as related to assets or income as follows: (1) In case a project for which the grants are granted is specified in such documents, the grants are classified as related to assets and income based on the budgeted ratio of the expenditure on asset formation and the expenditure recorded as expenses, where such ratio should be reviewed and, if necessary, changed on each balance sheet date; and (2) in case of general description without specifying any project in such documents, the grants are classified as related to income.

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

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

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

27. 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.

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

27. Deferred income tax assets/deferred income tax liabilities (Cont'd)

(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 Company 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 Company is 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 Company recognises the corresponding deferred income tax asset for deductible temporary differences associated with investments in subsidiaries, associates and joint ventures to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilised, except when both of the following conditions are satisfied: it is not probable that the temporary difference will reverse in the foreseeable future; and it is not probable that taxable profits will be available in the future, against which the temporary difference can be utilised.

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

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

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

(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.

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

27. Deferred income tax assets/deferred income tax liabilities (Cont'd)

(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 Company, at the same time, records the net amount after offsetting its current income tax assets and current income tax liabilities.

The Company 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 Company records the net amount after offsetting its current income tax assets and current income tax liabilities.

28. Lease

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

(1) Operating lease business with the Company 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 Company 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) Financing lease business with the Company recorded as lessee

On the beginning date of the lease, the entry value of leased asset shall be at the lower of the fair value of the leased asset and the present value of minimum lease payment at the beginning date of the lease. Minimum lease payment shall be the entry value of long-term accounts payable, with difference recognised as unrecognised financing expenses. In addition, initial direct costs attributable to leased items incurred during the process of lease negotiation and signing of lease agreement shall be included in the value of leased assets. The balance of minimum lease payment after deducting unrecognised financing expenses shall be accounted for long-term liability and long-term liability due within one year.

Unrecognised financing expenses shall be recognised as financing expenses for the current period using effective interest method during the leasing period. Contingent rent shall be included in profit or loss for the current period at the time it incurred.

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

28. Lease (Cont'd)

(4) Financing lease business with the Company recorded as lessor

On the beginning date of the lease, the entry value of lease receivable shall be the aggregate of minimum lease receivable and initial direct costs at the beginning date of the lease. The unsecured balance shall be recorded. The aggregate of minimum lease receivable, initial direct costs and unsecured balance and the different between their present values shall be recognised as unrealised financing income. The balance of lease receivable after deducting unrecognised financing income shall be accounted for long-term debt and long-term debt due within one year.

Unrecognised financing income shall be recognised as financing income for the current period using effective interest method during the leasing period. Contingent rent shall be included in profit or loss for the current period at the time it incurred.

(5) The debts arising from the financing lease business shall be provided for impairment at 0.5% to 1%.

29. Discontinued operation

Discontinued operation refers to the operation disposed or classified as held-for-sale by the Company and presented separately under operation segments and financial statements, which has fulfilled one of the following criteria: ① it represents an independent key operation or key operating region; ② it is part of the proposed disposal plan on an independent key operation or proposed disposal in key operating region; or ③ it only establishes for acquisition of subsidiary through disposal.

30. Repurchase of shares

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

In respect of transfer of treasury shares, the difference between the actual amount received and the carrying amount of treasury shares shall be included in capital reserve. When insufficient to dilute, capital reserve will be offset against the surplus reserve and retained profits. Treasury shares are cancelled at par value and by the number of shares cancelled to reduce the share capital. The difference between the book balance and the nominal value of the treasury shares shall be offset against the capital reserve. When insufficient to dilute, capital reserve will be offset against the surplus reserve and retained profits.

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

31. Changes in Significant Accounting Policies and Estimates

(1) Changes in significant accounting policies

☐ Applicable ☒ Not applicable

(2) Changes in significant accounting estimates

☒ Applicable ☐ Not applicable

Details and reason of change in accounting estimates	Procedure for approval	Effective upon	Remarks
The debts arising from the financial leasing business of the Company's subsidiary shall be provided for bad debts at 5% to 10%.	Board resolution of Shandong Chenming Financial Leasing Co., Ltd.	1 November 2016	The affected items in the financial statements are a decrease in long-term receivables of RMB 76,749,009.47, an increase in loss on impairment of assets of RMB151,662,350.81, a decrease in non-current assets due within one year of RMB 36,994,972.49 and a decrease in other current assets of RMB 37,918,368.85.

32. Comparative figures

Certain comparative figures for prior periods have been restated in conformity with the current year's financial statement presentation.

33. Critical accounting judgments and estimates

The Company needs to make judgments, estimates and assumptions as to the carrying amount of statement items which cannot be accurately calculated during the application of the Company's accounting policies. Such judgments, estimates and assumptions are made based on the historical experiences of the Company'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 different from the current estimation of the Company's management, which may cause critical adjustment to the carrying amount of assets or liabilities which may be affected in the future.

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

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

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

33. Critical accounting judgments and estimates (Cont'd)

(1) Classification of leases

The Company classifies its leases as operating lease and financing lease in accordance with “Accounting Standard for Business Enterprises No. 21 – Leases”. When classifying leases, the management needs to analyse and judge whether all risks and returns relating to the ownership of leased out assets have transferred to the lessee, or whether the Company has obliged to all risks and returns relating to the ownership of leased assets.

(2) Provision for bad debts

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

(3) Allowance for inventories

Under the accounting policies of inventories and by measuring at the lower of cost and net realisable value, the Company 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 sale ability of the evaluated inventory and their net realisable values. Given the management’s judgments and estimates required for inventory impairment on the basis of definite evidence, purpose of holding the inventories and other factors, the difference between the actual outcome and original estimate will affect the carrying amount of inventories and provision and reversal of bad debts of inventories allowance during the estimate revision period.

(4) Fair value of consumable biological assets

A consumable biological asset is measured at fair value when there is a stock. A stock is judged to be formed when the consumable biological asset - timber survives well after a growth period and the merchantable timber exceeds 0.8 cubic metres.

The fair value of a consumable biological asset is discounted using expected cash flow and estimated and measured using income approach.

(5) Impairment of available-for-sale financial assets

In respect of impairment of available-for-sale financial assets, whether impairment loss shall be recognised in income statement significantly depends on the judgments and assumptions of the management. While making judgments and assumptions, the Company shall assess the excess of cost of the investee’s identifiable net assets attributable to the investment over fair value and the duration.

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

33. Critical accounting judgments and estimates (Cont'd)

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

At the balance sheet date, the Company makes its judgment as to whether there is any evidence indicating potential impairment of non-current assets other than financial assets. Intangible assets with indefinite useful life shall be tested for impairment when there is any indication of impairment in addition to the annual impairment testing. Other non-current assets other than financial assets shall be tested for impairment if there is any evidence indicating that their carrying amount cannot be recovered.

When the carrying amount of an asset or asset groups is higher than the recoverable amount, being the higher of its fair value less costs of disposal and the present value of the future cash flows expected to be derived from the asset, it indicates impairment.

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

In projecting the present value of the future cash flows, critical judgments shall be made to the output, selling price and relevant operating costs of such assets (or asset groups) and the discount rate applied in calculating the discount. In estimating the recoverable amount, the Company 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 Company 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.

(7) Depreciation and amortisation

The Company 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 Company 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 Company 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.

(8) 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 Company's management to apply numerous judgments to estimate the time and amount generated from the future taxable profits so as to determine the amount of deferred income tax assets with reference to the tax planning strategy.

(9) Income tax

There are some uncertainties in tax treatment and calculation for some transactions of the Company during its ordinary course of business. The approval from the tax authority is required for pre-tax expending 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.

VI. Taxation

1. Main Tax Types and Tax Rates

Tax type	Tax rate
Value added tax	17% for general, 13% for sales of gas and water and 6% for the service industry. Value-added tax is computed on the difference after deduction of input value-added tax
Business tax	3%-5% of taxable revenue (before 30 April 2016)
Urban maintenance and construction tax	7% of actual payment of turnover tax
Enterprise income tax	25% of taxable income; for the companies which are subject to preferential policies, please refer to Note V. 2(1); the overseas companies shall pay taxes at the tax rate pursuant to the requirements of the countries or regions where the companies are located
Educational surcharges	3% of actual payment of turnover tax
Local educational surcharges	2% of actual payment of turnover tax

2. Tax Incentives

(1) Enterprise Income Tax

On 10 December 2015, the Company received a high and new technology enterprise certificate with a certification number of GR201537000611. Pursuant to the requirements under the Law of the People's Republic of China on Enterprise Income Tax and the relevant policies, the Company is subject to a corporate income tax rate of 15% of taxable income, and is entitled to the preferential treatment from 2016 to 2018.

Shouguang Meilun Paper Co., Ltd., a subsidiary of the Company, received a high and new technology enterprise certificate with a certification number of GR201537000228 on 10 December 2015. Pursuant to the requirements under the Law of the People's Republic of China on Enterprise Income Tax and the relevant policies, Shouguang Meilun is subject to a corporate income tax rate of 15% of taxable income, and is entitled to the preferential treatment from 2016 to 2018.

Zhanjiang Chenming Pulp & Paper Co., Ltd., a subsidiary of the Company, received a high and new technology enterprise certificate with a certification number of GR201544000146 on 30 September 2015. Pursuant to the requirements under the Law of the People's Republic of China on Enterprise Income Tax and the relevant policies, Zhanjiang Chenming is subject to a corporate income tax rate of 15% of taxable income, and is entitled to the preferential treatment from 2016 to 2018.

Jilin Chenming Paper Co., Ltd., a subsidiary of the Company, received a high and new technology enterprise certificate with a certification number of GR201622000039 on 1 November 2016. Pursuant to the requirements under the Law of the People's Republic of China on Enterprise Income Tax and the relevant policies, Jilin Chenming is subject to a corporate income tax rate of 15% of taxable income, and is entitled to the preferential treatment from 2016 to 2018.

VI. Taxation (Cont'd)

2. Tax Incentives (Cont'd)

(1) Enterprise Income Tax (Cont'd)

Pursuant to the requirements of Rule 27 of Law of the People's Republic of China on Enterprise Income Tax (《中華人民共和國企業所得稅法》) and Rule 86 of Regulations for the Implementation of Law of the People's Republic of China on Enterprise Income Tax (《中華人民共和國企業所得稅法實施條例》), subsidiaries of Chenming Paper, namely, Zhanjiang Chenming Arboriculture Co., Ltd., Yangjiang Chenming Arboriculture Co., Ltd., Nanchang Chenming Arboriculture Co., Ltd., Huanggang Chenming Arboriculture Co., Ltd. and Chenming Arboriculture Co., Ltd. are engaged in arboriculture cultivating and thus exempt from corporate income tax.

Pursuant to the "Revenue Bill 2008" passed by The Legislative Council of the Hong Kong Special Administrative Region on 26 June 2008, Chenming (HK) Limited, a subsidiary of Chenming Paper, has been subject to a corporate income tax rate of 16.5% commencing 2008, and the applicable tax rate for 2016 was 16.5%.

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

(2) Value-added Tax ("VAT") incentives

Pursuant to the Notice on Issuing the Value-added Tax Preferential Catalogue on Products and Services Applying Integrated Use of Resources by the Ministry of Finance and the State Administration of Taxation (Cai Shui [2015] No. 78), Zhanjiang Chenming New-style Wall Materials Co., Ltd., a subsidiary of the Company, produces bricks and blocks using waste residues and is therefore subject to a preferential policy of an immediate VAT refund of 70% in 2016.

Pursuant to the Notice on Issuing the Value-added Tax Preferential Catalogue on Products and Services Applying Integrated Use of Resources by the Ministry of Finance and the State Administration of Taxation (Cai Shui [2015] No. 78), Shandong Chenming Panels Co., Ltd., a subsidiary of the Company, produces products that apply integrated use of resources and is therefore subject to a preferential policy of an immediate VAT refund of 70%.

3. Effect of Business Tax to Value-added Tax

From 1 May 2016 onwards, business tax to value-added tax policy is fully implemented in the architectural, real estate, financial and daily life services sectors and the value-added tax under any additional real estate of the enterprise shall become deductible. For the subsidiaries of the Company which belong to the production segment, input tax for items including additional real estate, construction and installation services, directly-charged financial services, modern services and certain daily life services shall be deductible, thereby reducing tax burden. For the hotel segment, input tax for items including purchase of agricultural products shall be deductible, thereby reducing tax burden. The Finance Company which belongs to the financial segment shall pay tax at a VAT rate of 6% instead of the original business tax rate of 5%, and there is no additional deductible item for input tax, causing tax burden to increase. The leaseback business of the Financial Leasing Company shall be taxed as loan services, but there is no deductible item for input tax, causing tax burden to increase.

VII. Notes to items of the Consolidated Financial Statements

1. Monetary funds

Unit: RMB

Item	Closing balance	Opening balance
Treasury cash	1,920,226.94	1,869,583.60
Bank deposit	1,977,940,818.68	1,886,237,910.16
Other monetary funds	8,130,069,273.87	7,096,218,522.25
Total	10,109,930,319.49	8,984,326,016.01
Of which: Total deposits in overseas banks	142,776,755.56	270,967,129.46

Note:

- ① Other monetary funds of RMB2,451,941,798.13 (31 December 2015: RMB2,647,639,732.52) were the guarantee deposit for the application for bank acceptance with the banks by the Company.
- ② Other monetary funds of RMB1,017,170,039.57 (31 December 2015: RMB1,146,136,561.08) were the guarantee deposit for the application for letter of credit with the banks by the Company.
- ③ Other monetary funds of RMB 4,022,026,785.91 (31 December 2015: RMB2,982,301,007.86) were the guarantee deposit for the application for guarantees with the banks by the Company
- ④ Other monetary funds of RMB 372,430,650.26 (31 December 2015: RMB87,691,220.79) were the guarantee deposit for the application for loans with the banks by the Company
- ⑤ Other monetary funds of RMB 266,500,000.00 (31 December 2015: RMB232,450,000.00) were the statutory reserve deposit at the People's Bank of China by Shandong Chenming Group Finance Co., Ltd., a subsidiary of the Company

2. Bills receivable

(1) Classification of bills receivable

Unit: RMB

Item	Closing balance	Opening balance
Bank acceptance bills	1,590,460,875.23	3,946,782,845.65
Commercial acceptance bills		52,000,000.00
Total	1,590,460,875.23	3,998,782,845.65

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

2. Bills receivable (Cont'd)

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

Unit: RMB

Item	Pledged amount at the end of the period
Bank acceptance bills	637,871,869.25
Total	637,871,869.25

(3) Outstanding bills receivable endorsed or discounted by the Company as at the end of the period

Unit: RMB

Item	Derecognised amount as at the end of the period	Recognised amount as at the end of the period
Bank acceptance bills	3,756,670,064.58	
Total	3,756,670,064.58	

(4) Other explanation

As at 31 December 2016, bills with carrying amount of RMB399,133,608.25 (31 December 2015: RMB389,088,621.98) were pledged in exchange for short-term borrowings of RMB398,138,741.00. As at 31 December 2016, bills with carrying amount of RMB238,738,261.00 (31 December 2015: RMB786,353,404.24) were pledged for the issuance of acceptance bills amounted to RMB239,150,850.00.

As at 31 December 2016, the accumulated bank acceptance bills issued by the Group to banks amounted to RMB2,690,129,296.16 (2015: RMB3,861,622,115.19), with discount expenses incurred of RMB35,548,679.42 (2015: RMB65,559,613.69). As at 31 December 2016, outstanding discounted bills receivable amounted to RMB1,489,320,047.19 (2015: RMB1,296,249,121.66).

3. Accounts receivable

Unit: RMB

	Closing balance				Opening balance				
	Book balance		Bad debts provision		Carrying amount	Book balance	Bad debts provision		Carrying amount
Category	Amount	Percentage	Amount	Percentage		Amount	Percentage	Amount	Percentage
① Accounts receivable that are individually significant and provided for bad debts separately	38,728,887.83	0.90%	38,728,887.83	100.00%		40,000,101.94	0.94%	40,000,101.94	100.00%
② Accounts receivable that are provided for bad debts on portfolio basis									
Specific fund portfolio	323,943,897.93	7.51%			323,943,897.93	168,599,199.95	3.96%		168,599,199.95
Ageing portfolio	3,951,685,909.46	91.59%	301,764,703.24	7.64%	3,650,121,206.22	4,047,626,468.05	95.10%	264,937,689.68	6.55%
Accounts receivable that are provided for bad debts on credit risk features portfolio basis	4,275,829,807.39	99.10%	301,764,703.24	7.06%	3,974,065,104.15	4,216,225,669.00	99.06%	264,937,689.68	6.28%
③ Receivables that are individually insignificant and are provided for bad debts separately	107,640.12	0.00%	107,640.12	100.00%					
Total	4,314,666,335.34	100.00%	340,601,231.19	7.89%	3,974,065,104.15	4,256,225,770.94	100.00%	304,937,791.62	7.16%

√ Applicable ☐ Not applicable

Unit: RMB

Receivable (by entity)	Accounts receivable	Closing balance		Reason for provision
		Bad debt provision	Percentage	
FOSHAN SHUNDE XINGCHEN PAPER CO., LTD.	26,236,528.70	26,236,528.70	100.00%	Unlikely to be recovered
BEIJING HUAXIA CULTURE MEDIA CO., LTD.	9,072,165.42	9,072,165.42	100.00%	Unlikely to be recovered
JIANGXI LONGMING ENTERPRISE CO., LTD.	1,763,987.74	1,763,987.74	100.00%	Unlikely to be recovered
NANCHANG XINGBO PAPER CO., LTD.	1,656,205.97	1,656,205.97	100.00%	Unlikely to be recovered
Total	38,728,887.83	38,728,887.83	—	—

√ Applicable ☐ Not applicable

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

3. Accounts receivable (Cont'd)

(1) Disclosure of accounts receivable by category (Cont'd)

Unit: RMB

Ageing	Closing balance		Opening balance	
	Accounts receivable	Bad debt provision	Accounts receivable	Bad debt provision
Within 1 year				
Of which: within 3 months	2,976,158,221.58	148,807,912.28	3,306,839,885.37	165,341,994.28
Within 4-6 months	480,825,401.73	24,041,270.08	380,674,785.23	19,033,739.27
7-12 months	198,303,348.10	9,915,167.40	170,204,569.13	8,510,228.46
Sub-total for within 1 year	3,655,286,971.41	182,764,349.76	3,857,719,239.73	192,885,962.01
1-2 years	150,654,880.50	15,065,488.04	76,099,685.79	7,609,968.58
2-3 years	52,511,490.13	10,502,298.02	61,707,230.54	12,341,446.10
Over 3 years	93,432,567.42	93,432,567.42	52,100,312.99	52,100,312.99
Total	3,951,885,909.46	301,764,703.24	4,047,626,469.05	264,937,689.68

Accounts receivable using percentage of balance for making bad debt provision in the portfolio:

☐ Applicable ☒ Not applicable

(2) Provision, recovery or reversal of bad debt provision for the year

Bad debt provision for the current year amounted to RMB39,558,501.62. The amount for bad debt provision reversed during the current year was RMB405,792.04. There is no bad debt provision reversed or recovered for the current year.

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

3. Accounts receivable (Cont'd)

(3) Accounts receivable actually written off during the reporting period.

Item					Account written off
Accounts receivable actually written off					3,489,270.01
Particulars of significant accounts receivable written off:					
Unit: RMB					
Name of entity	Nature	Amount written off	Reason for written off	Written off procedure performed	Whether the amount is arising from connected transaction
HEBEI PRINTING HOUSE OF PEOPLE'S DAILY	Payment for goods	534,612.10	Overdue for a prolonged period and unlikely to be recovered	Approved by general manager	No
JILIN CHANGCHUN POKER PLANT	Payment for goods	1,099,418.13	Overdue for a prolonged period and unlikely to be recovered	Approved by general manager	No
JINAN HANZHANG PRINTING CO. LTD.	Payment for goods	273,586.00	Overdue for a prolonged period and unlikely to be recovered	Approved by general manager	No
Total	—	1,907,616.23	—	—	—

(4) Top five accounts receivable according to closing balance of debtors

The total amount of top five accounts receivable according to closing balance of debtors of the Company for the current year was RMB369,574,609.56, which was 8.58% of closing balance of total receivables. The closing balance of corresponding bad debt provisions amounted to RMB18,478,730.48.

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

4. Prepayments

(1) Presentation of prepayments stated according to ageing analysis

Unit: RMB

Ageing	Closing balance		Opening balance	
	Amount	Percentage	Amount	Percentage
Within 1 year	1,426,710,882.76	94.40%	811,178,883.71	75.60%
1-2 years	84,651,791.88	5.60%	261,811,350.34	24.40%
Total	1,511,362,674.64	—	1,072,990,234.05	—

(2) Top five prepayment according to closing balance of prepaid parties

Name of entity	Amount	Percentage (%)	Term	Reason for being unsettled
GUANGDONG LEPENG TRADING CO., LTD.	103,137,562.68	6.82	Within 1 year	Prepayments for goods according to the agreed contract
ZHANJIANG MINGLI TRADING CO., LTD.	88,864,426.46	5.88	Within 1 year	Prepayments for goods according to the agreed contract
HENAN XINYU INTERNATIONAL PULP AND PAPER CO., LTD.	41,955,033.07	2.78	Within 1 year	Prepayments for goods according to the agreed contract
JIANGXI PROVINCE ZHONGLIAN ENERGY DEVELOPMENT CO., LTD., Nanchang branch company	69,159,057.12	4.58	Within 1 year	Prepayments for goods according to the agreed contract
ASIA SYMBOL (SHANDONG) PULP AND PAPER CO., LTD.	30,518,419.93	2.02	Within 1 year	Prepayments for goods according to the agreed contract
Total	333,634,499.26	22.08		

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

5. Other receivables

(1) Disclosure of other receivables according to category

Unit: RMB

Category	Book balance		Closing balance		Book balance		Opening balance		Book balance
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	
① Receivables that are individually significant and are provided for bad debts separately	15,121,825.16	0.89%	15,121,825.16	100.00%	8,686,748.70	0.56%	8,686,748.70	100.00%	
② Accounts receivable collectively provided for bad debt									
Specific fund portfolio	1,492,482,538.46	87.86%			1,492,482,538.46	1,325,837,774.31	85.22%		1,325,837,774.31
Ageing portfolio	190,650,055.29	11.20%	68,917,948.27	36.15%	121,732,107.02	210,684,740.27	13.54%	66,949,150.57	31.78%
Accounts receivable that are provided for bad debts on credit risk features portfolio basis	1,683,132,593.75	98.86%	68,917,948.27	4.09%	1,614,214,645.48	1,536,522,514.58	98.76%	66,949,150.57	4.36%
③ Receivables that are individually insignificant and are provided for bad debts separately	4,335,364.21	0.25%	4,335,364.21	100.00%	10,514,189.79	0.68%	10,514,189.79	100.00%	
Total	1,702,589,783.12	100.00%	88,375,137.64	5.19%	1,614,214,645.48	1,555,723,453.07	100.00%	86,150,089.06	5.54%

(2) Presentation of other receivables according to ageing analysis

Item	Closing balance		Opening balance	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	719,754,475.07	42.27	490,423,341.96	31.52
1-2 years	436,812,690.03	25.66	462,643,415.78	29.74
2-3 years	405,725,357.74	23.83	484,552,388.25	31.15
Over 3 years	140,297,260.28	8.24	118,104,307.08	7.59
Total	1,702,589,783.12	100.00	1,555,723,453.07	100.00

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

5. Other receivables (Cont'd)

Other receivables that are individually significant and are provided for bad debts separately as at the end of the period:

√ Applicable □ Not applicable

Unit: RMB

Other receivable (by entity)	Other Receivables	Closing balance		Reason for provision
		Bad debt provision	Percentage	
AHLSTROM FINLAND	2,820,742.72	2,820,742.72	100.00%	Unlikely to be recovered
GUANGDONG PETRO-TRADE DEVELOPMENT CORPORATION	1,396,048.80	1,396,048.80	100.00%	Unlikely to be recovered
QINGDAO SECOND AUTOMOTIVE AND TRANSPORTATION LOGISTICS BRANCH COMPANY	1,137,295.16	1,137,295.16	100.00%	Unlikely to be recovered
CHUAN HUA PRECISION CORPORATION OF TAIWAN	2,253,993.04	2,253,993.04	100.00%	Unlikely to be recovered
ZIBO KAIHONG ENERGY CO., LTD.	1,130,000.00	1,130,000.00	100.00%	Unlikely to be recovered
JIEERGU COMPANY	1,685,806.12	1,685,806.12	100.00%	Unlikely to be recovered
ZHENGZHOU SHUNFA COAL SALES CO., LTD.	2,871,239.32	2,871,239.32	100.00%	Unlikely to be recovered
CMH HOLDING AG	1,826,700.00	1,826,700.00	100.00%	Unlikely to be recovered
Total	15,121,825.16	15,121,825.16	—	—

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

5. Other receivables (Cont'd)

(3) Provision for bad debts (Cont'd)

Other receivables using ageing analysis for making bad debt provision in the portfolio:

☒ Applicable ☐ Not applicable

Unit: RMB

Ageing	Closing balance		Opening balance	
	Other receivables	Bad debt provision	Other receivables	Bad debt provision
Within 1 year	81,409,109.95	4,070,455.52	78,974,214.15	3,948,710.71
1-2 years	18,787,465.41	1,878,746.55	53,963,699.53	5,396,369.95
2-3 years	34,355,917.14	6,871,183.41	25,178,445.85	5,035,689.17
Over 3 years	56,097,562.79	56,097,562.79	52,568,380.74	52,568,380.74
Total	190,650,055.29	68,917,948.27	210,684,740.27	66,949,150.57

Explanation on the basis of recognition of the portfolio:

Other receivables using percentage of balance for making bad debt provision in the portfolio:

☐ Applicable ☒ Not applicable

Other receivables individually insignificant but provided for bad debt separately

Other receivables	Book balance	Bad debt provision	Percentage (%)	Reason for provision
Open credit	4,335,364.21	4,335,364.21	100.00	Overdue for over three years and are unlikely to be recovered
Total	4,335,364.21	4,335,364.21	100.00	

(4) Provision, recovery or reversal of bad debt provision for the period

Bad debt provision for the year amounted to RMB18,001,977.51. The amount for bad debt provision recovered or reversed during the year was RMB14,666,636.14. There is no significant reversal of bad debt provision.

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

5. Other receivables (Cont'd)

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

Other accounts receivable actually written off during the reporting period amounted to RMB1,110,292.79, whereas: major other accounts receivable written off are as follows

Unit: RMB

Name of entity	Nature	Amount written off	Reason for written off	Written off procedure performed	Whether the amount is arising from connected transaction
WUHAN TONGDA SHIPBUILDING CO., LTD.	Payment for goods	797,360.00	Overdue for a prolonged period and unlikely to be recovered	Approved by general manager	No
EZHOU WENCHANG CONSTRUCTION AND INSTALLATION CO., LTD.	Payment for goods	257,092.24	Overdue for a prolonged period and unlikely to be recovered	Approved by general manager	No
Total	—	1,054,452.24	—	—	—

(6) Top five other receivables according to closing balance of debtors

Unit: RMB

Name of entity	Nature	Closing balance	Ageing	Percentage of closing balance of total other receivables	Closing balance of bad debt provision
WUHAN CHENMING WAN XING REAL ESTATE CO., LTD.	Open credit	1,284,982,919.14	Within 1 year, 1-2 years, 2-3 years and 3-4 years	75.36%	
XIASHAN CUSTOMS OF THE PRC	Prepaid duties	87,310,538.89	Within 1 year	5.12%	4,365,526.94
ZHANJIANG CHENMING PULP PROJECT CONSTRUCTION COMMAND OFFICE	Prepayments for construction	17,731,500.00	Within 1 year	1.04%	886,575.00
ZHANJIANG CUSTOMS XIASHAN OFFICE	Prepaid duties	16,450,000.00	Within 1 year	0.96%	822,500.00
GUANGDONG ZHONGTUO CONSTRUCTION CO., LTD.	Open credit	15,200,000.00	2-3 years	0.89%	3,040,000.00
Total	—	1,421,674,958.03	—	83.37%	9,114,601.94

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

6. Inventories

Does the Company need to comply with the disclosure requirements for specific industries

No

(1) Categories of inventories

Unit: RMB

Item	Book balance	Closing balance		Book balance	Opening balance	
		Impairment provision	Carrying amount		Impairment provision	Carrying amount
Raw materials	1,791,864,383.60	8,138,005.87	1,783,726,377.73	1,821,711,468.69		1,821,711,468.69
Work-in-process products	67,947,038.81	1,835,271.09	66,111,767.72	51,138,043.50		51,138,043.50
Goods in stock	1,069,500,932.31		1,069,500,932.31	1,520,091,660.50		1,520,091,660.50
Consumable biological assets	1,633,513,994.28		1,633,513,994.28	1,509,964,711.87		1,509,964,711.87
Developing products	309,815,674.86		309,815,674.86	308,012,006.86		308,012,006.86
Total	4,872,642,023.86	9,973,276.96	4,862,668,746.90	5,210,917,891.42		5,210,917,891.42

Notes: ① Change in consumable biological assets.

Item	Opening balance	Increase for the period		Decrease for the period		Closing balance
		Increase in purchase	Increase in breeding	Decrease in fair value	Decrease in sales	
Consumable biological assets measured at cost	239,909,866.69	10,669,503.70	122,907,223.18			373,486,593.57
Consumable biological assets measured at fair value.	1,270,054,845.18		95,487,415.00	20,084,425.90	85,430,433.57	1,260,027,400.71
Total	1,509,964,711.87	10,669,503.70	218,394,638.18	20,084,425.90	85,430,433.57	1,633,513,994.28

The fair value was determined based on the valuation of Beijing Guo You Da Zheng Appraisal Co., Ltd..

According to the cutting arrangement of the Company, the realised amount of the consumable biological assets to be cut after a year amount to approximately RMB1.5 billion

(2) Impairment provision for inventories

Unit: RMB

Item	Increase for the period			Decrease for the period		Closing balance
	Opening balance	Provision	Others	Reversal or transfer	Others	
Raw materials		8,138,005.87				8,138,005.87
Work in progress		1,835,271.09				1,835,271.09
Total		9,973,276.96				9,973,276.96

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

7. Non-current assets due within one year

Unit: RMB

Item	Closing balance	Opening balance
Long-term receivables due within one year	4,587,376,588.22	2,893,133,653.86
Entrusted loans due within one year	900,000,000.00	
Total	5,487,376,588.22	2,893,133,653.86

8. Other current assets

Unit: RMB

Item	Closing balance	Opening balance
VAT proceeds recoverable	905,435,684.67	1,371,201,848.52
Prepaid tax	90,837.12	50,700,246.25
Receivables under financial lease due within one year	5,711,218,309.49	6,160,937,261.77
Total	6,616,744,831.28	7,582,839,356.54

9. Available-for-sale financial assets

(1) Particulars of available-for-sale financial assets

Unit: RMB

Item	Closing balance			Opening balance		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Available-for-sale equity instruments:						
At cost	1,946,450,000.00	1,450,000.00	1,945,000,000.00	110,450,000.00	1,450,000.00	109,000,000.00
Total	1,946,450,000.00	1,450,000.00	1,945,000,000.00	110,450,000.00	1,450,000.00	109,000,000.00

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

9. Available-for-sale financial assets (Cont'd)

(2) Available-for-sale financial assets measured at cost as at the end of the period

Unit: RMB

		Book balance				Provision for impairment			Equity interest in the investee	
Investee	Opening balance	Increase for the period	Decrease for the period	Closing balance	Opening balance	Increase for the period	Decrease for the period	Closing balance	held by the Company	Cash dividends for the period
Qingzhou Chenming Denaturation Amylum Co., Ltd. (Note ①)	900,000.00			900,000.00	900,000.00			900,000.00	30.00%	
Shandong Paper Making & Printing Enterprises Corporation	200,000.00			200,000.00	200,000.00			200,000.00	2.00%	
Jinan Shangyou Commercial Company Limited	350,000.00			350,000.00	350,000.00			350,000.00	5.00%	
Zhejiang Guangyu Idal Print Co., Ltd.	2,000,000.00			2,000,000.00					1.67%	
Shouguang Mine Water Company Limited	20,000,000.00		20,000,000.00							
Anhui Time Source Corporation	1,000,000.00			1,000,000.00					10.00%	
Shandong Hongqiao Venture Capital Co., Ltd.	50,000,000.00			50,000,000.00					16.67%	
Lide Technology Co., Ltd.	36,000,000.00			36,000,000.00					3.00%	
Shanghai Hengzheng Venture Investment Center (Limited Partnership)		6,000,000.00		6,000,000.00					11.43%	
Guangdong Dejun Investment Co., Ltd. (Note ②)		1,850,000,000.00		1,850,000,000.00					50.00%	
Total	110,450,000.00	1,856,000,000.00	20,000,000.00	1,946,450,000.00	1,450,000.00			1,450,000.00	—	

Notes: Note ① and Note ② are the investments fixed income under investment agreements.

(3) Changes in impairment of available-for-sale assets during the reporting period

Unit: RMB

Type of available-for-sale assets	Available-for-sale equity instruments	Total
Opening balance of provision for impairment	1,450,000.00	1,450,000.00
Provision made during the current period	0.00	0.00
Decrease for the current period	0.00	0.00
Closing balance of provision for impairment	1,450,000.00	1,450,000.00

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

10. Long-term receivables

Unit: RMB

Item	Closing balance			Opening balance			Range of discount rate (%)
	Book balance	Provision for bad debts	Carrying amount	Book balance	Provision for bad debts	Carrying amount	
Finance leasing payments	13,842,311,559.28	113,743,981.96	13,728,567,577.32	13,236,155,887.30		13,236,155,887.30	6.15-10.00
Less: unrealised finance income	296,928,815.45		296,928,815.45	1,258,935,089.60		1,258,935,089.60	
Less: non-current assets due within one year	4,624,371,560.71	36,994,972.49	4,587,376,588.22	2,893,133,653.86		2,893,133,653.86	
Total	8,921,011,183.12	76,749,009.47	8,844,262,173.65	9,084,087,143.84		9,084,087,143.84	—

11. Long-term equity investments

Unit: RMB

Investee	Opening balance	Investment addition	Investment reduction	Increase/decrease for the period					Provision for impairment	Others	Closing balance	Closing balance of provision
				Profit/loss of investment recognised under equity method	Adjustment of other comprehensive income	Changes in other equity	Distribution of cash dividends or profit declared					
I. Joint venture												
Shouguang Chenming Huisen New Building Materials Co., Ltd.	2,976,817.51			361,662.52							3,338,480.03	
Subtotal	2,976,817.51			361,662.52							3,338,480.03	
II. Associate												
Arjo Wiggins Chenming Specialty Paper Co., Ltd.												
Jiangxi Jiangbao Media Colour Printing Co., Ltd.	4,217,690.25			-1,154,618.22							3,063,072.03	
Zhuhai Dechen New Third Board Equity Investment Fund Company (Limited Partnership)	50,343,241.28			936,907.70							51,280,148.98	
Wuhan Chenming Wan Xing Real Estate Co., Ltd.	7,152,282.62			-3,555,557.24							3,596,725.38	
Jiangxi Chenming Port Co., Ltd.	5,802,224.72			171,341.74							5,973,566.46	
Subtotal	67,515,438.87			-3,601,926.02							63,913,512.85	
Total	70,492,256.38			-3,240,263.50							67,251,992.88	

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

12. Investment properties

(1) The breakdown of investment properties

Unit: RMB

Item	Opening balance	Increase during the year	Decrease during the year	Closing balance
Investment properties using cost model for subsequent measurement	15,996,931.87		1,738,256.04	14,258,675.83
Total	15,996,931.87		1,738,256.04	14,258,675.83

(2) Investment properties measured at cost

Unit: RMB

Item	Opening balance	Increase during the year	Decrease during the year	Closing balance
I. Total original amount	38,291,395.70			38,291,395.70
Buildings	38,291,395.70			38,291,395.70
II. Accumulated depreciation and amortisation in total	22,294,463.83	1,738,256.04		24,032,719.87
Buildings	22,294,463.83	1,738,256.04		24,032,719.87
III. Carrying amount in total	15,996,931.87			14,258,675.83
Buildings	15,996,931.87			14,258,675.83

Note: All long-term equity investments are held by the Company on medium-term leases for 2-3 years and accounted for at cost.

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

13. Fixed assets

(1) Particulars of fixed assets

Unit: RMB

Item	Housing and building structure	Machinery and equipment	Vehicles	Electronic equipment and others	Total
I. Original carrying amount					
1. Opening balance	6,036,682,964.78	28,746,337,517.28	253,118,565.32	450,561,191.11	35,486,700,238.49
2. Increase for the period	1,121,694,080.67	5,486,650,584.79	64,750,021.22	19,641,274.63	6,692,735,961.31
(1) Acquisition	92,411,864.31	86,743,809.95	46,274,431.04	18,339,575.63	243,769,680.93
(2) Transferred from construction in progress	1,029,282,216.36	5,399,906,774.84	18,475,590.18	1,301,699.00	6,448,966,280.38
3. Decrease for the period	58,996,638.65	547,186,473.25	14,205,838.97	1,824,039.58	622,212,990.45
(1) Disposal or retirement	58,996,638.65	547,186,473.25	14,205,838.97	1,824,039.58	622,212,990.45
4. Closing balance	7,099,380,406.80	33,685,801,628.82	303,662,747.57	468,378,426.16	41,557,223,209.35
II. Accumulated depreciation					
1. Opening balance	1,085,579,296.88	9,877,779,115.61	114,038,824.58	239,577,472.24	11,316,974,709.31
2. Increase for the period	173,581,075.06	1,168,390,685.83	27,677,601.24	19,206,808.54	1,388,856,170.67
(1) Provision	173,581,075.06	1,168,390,685.83	27,677,601.24	19,206,808.54	1,388,856,170.67
3. Decrease for the period	7,391,323.46	134,303,163.45	11,697,813.29	1,593,937.18	154,986,237.38
(1) Disposal or retirement	7,391,323.46	134,303,163.45	11,697,813.29	1,593,937.18	154,986,237.38
4. Closing balance	1,251,769,048.48	10,911,866,637.99	130,018,612.53	257,190,343.60	12,550,844,642.60
III. Provision for impairment					
1. Opening balance					
2. Increase for the period	52,087,272.07	142,315,419.93	58,196.03	362,313.33	194,823,201.36
3. Decrease for the period					
4. Closing balance	52,087,272.07	142,315,419.93	58,196.03	362,313.33	194,823,201.36
IV. Carrying amount					
1. Closing carrying amount	5,795,524,086.25	22,631,619,570.90	173,585,939.01	210,825,769.23	28,811,555,365.39
2. Opening carrying amount	4,951,103,667.90	18,868,558,401.67	139,079,740.74	210,983,718.87	24,169,725,529.18

Note: As at 31 December 2016, property, plant and equipment with carrying amount of RMB4,597,554,400.35 (31 December 2015: carrying amount: RMB4,567,649,044.39) and land use rights with carrying amount of RMB432,328,638.94 (31 December 2015: carrying amount: RMB309,070,530.88) were pledged as collateral for the long-term borrowings of RMB 2,740,918,668.89 (31 December 2015: RMB2,585,378,168.89) and long-term payables of RMB350,000,000.00.

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

13. Fixed assets (Cont'd)

(2) Particulars of temporarily idle fixed assets

Unit: RMB

Item	Original carrying amount	Accumulated depreciation	Provision for impairment	Carrying amount	Remark
Buildings	125,939,604.64	41,917,127.65	52,087,272.07	31,935,204.92	
Machinery and equipment	301,374,448.46	91,958,450.95	142,315,419.93	67,100,577.58	
Vehicles	3,715,327.04	2,791,833.61	58,196.03	865,297.40	
Electronic equipment and others	4,354,400.71	3,902,452.84	362,313.33	89,634.54	
Total	435,383,780.85	140,569,865.05	194,823,201.36	99,990,714.44	

(3) Particulars of fixed assets without obtaining property right certificates

Unit: RMB

Item	Carrying amount	Reason for not yet obtaining property right certificates
Zhanjiang Chenming Pulp & Paper Co., Ltd.	1,292,274,170.26	Processing with scheduled operation commencement not imminent
Jilin Chenming Paper Co., Ltd.	501,891,583.15	Processing with scheduled operation commencement not imminent
Shouguang Meilun Paper Co., Ltd.	223,138,453.28	Processing with scheduled operation commencement not imminent
Jiangxi Chenming Paper Co., Ltd.	189,140,815.70	Processing with scheduled operation commencement not imminent
Shandong Chenming Paper Holdings Limited	94,107,997.22	Processing with scheduled operation commencement not imminent
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	79,245,238.81	Processing with scheduled operation commencement not imminent
Total	2,379,798,258.42	

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

14. Construction in progress

(1) Particulars of construction in progress

Unit: RMB

Item	Closing balance			Opening balance		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Static dust removal of captive power plant and renovation of induced fans (Headquarters)	17,021,225.03		17,021,225.03			
700,000 tonne pulp equipment upgrade project (Zhanjiang Chenming)				142,846,027.30		142,846,027.30
600,000 tonne liquid packaging paper project (Zhanjiang Chenming)				2,589,556,896.31		2,589,556,896.31
Food packaging paper project (Jiangxi Chenming)				1,299,929,248.95		1,299,929,248.95
BTMP renovation project (Jiangxi Chenming)				66,440,550.11		66,440,550.11
Mid-water renovation project (Jiangxi Chenming)				39,199,277.27		39,199,277.27
Power plant electro-elimination reconstruction project (Jiangxi Chenming)				10,641,025.68		10,641,025.68
Captive power plant ink sludge burning renovation project (Jiangxi Chenming)	7,252,340.14		7,252,340.14	6,951,577.57		6,951,577.57
Magnesite mining (Haicheng Haiming)	758,224,355.23		758,224,355.23	542,134,749.27		542,134,749.27
Forestry pulp integration project (Huanggang Chenming)	2,147,036,838.90		2,147,036,838.90	660,485,661.78		660,485,661.78
Integrated terminal project (Huanggang Chenming)	62,908,602.53		62,908,602.53			
Chemical pulp project (Meilun)	613,458,994.30		613,458,994.30	259,738,841.00		259,738,841.00
High-end cultural paper (Meilun)	119,232,939.56		119,232,939.56			
Others	404,823,800.77	14,764,226.23	390,059,574.54	211,695,403.24		211,695,403.24
Total	4,129,959,096.46	14,764,226.23	4,115,194,870.23	5,829,619,258.48		5,829,619,258.48

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

14. Construction in progress (Cont'd)

(2) Changes in material construction in progress projects for the period

Unit: RMB

Item name	Budget	Opening balance	Increase for the period	Transfer to fixed asset for the period	Other deductions for the period	Closing balance	Accumulated investment to budget	Construction in progress	Accumulated capitalised interest	Of which capitalised interest amount for the period	Capitalisation rate of the interest amount for the period	Source of fund
Static dust removal of captive power plant and renovation of induced fans (Headquarters)	0.32		17,021,225.03			17,021,225.03	53.19%	53.19%				Self-raised
700,000 tonne pulp equipment upgrade project (Zhanjiang Chenming)	2.70	142,846,027.30		9,109,321.45	133,736,705.85		52.91%	Transfer				Self-raised
600,000 tonne liquid packaging paper project (Zhanjiang Chenming)	38.00	2,389,556,896.31	1,959,980,125.78	4,548,537,022.09			119.72%	Completed	59,536,440.78	54,657,087.71	4.35%	Self-raised and borrowings
Food packaging paper project (Jiangxi Chenming)	12.48	1,299,929,248.95	72,261,534.93	1,372,190,783.88			109.95%	Completed	80,864,222.88	3,573,676.66	5.35%	Self-raised and borrowings
BTMP renovation project (Jiangxi Chenming)	0.97	66,440,550.11	19,670,003.31	86,110,553.42			88.77%	Completed	5,962,111.62	790,874.29	5.35%	Self-raised and borrowings
Mid-water renovation project (Jiangxi Chenming)	0.39	39,199,277.27	2,485,471.30	41,684,748.57			106.88%	Completed	2,408,741.24	1,124,218.53	5.35%	Self-raised and borrowings
Power plant electro-elimination reconstruction project (Jiangxi Chenming)	0.12	10,641,025.68		10,641,025.68			88.68%	Completed				Self-raised
Captive power plant ink sludge burning renovation project (Jiangxi Chenming)	0.07	6,951,577.57	300,782.57			7,252,340.14	96.96%	96.96%	821,989.96	300,782.57	5.35%	Self-raised and borrowings
Magnetite mining (Haicheng Haiming)	7.00	542,134,749.27	216,089,605.96			758,224,355.23	111.19%	99.00%	64,171,681.76	23,347,243.86	4.35%	Self-raised and borrowings
Forestry pulp integration project (Huanggang Chenming)	34.85	660,485,661.78	1,486,551,177.12			2,147,036,838.90	41.57%	41.57%	60,244,976.75	42,945,827.68	5.15%	Self-raised and borrowings
Integrated terminal project (Huanggang Chenming)	3.51		62,908,602.53			62,908,602.53	3.17%	3.17%				Self-raised
Chemical pulp project (Meilun)	41.10	259,738,841.00	353,720,153.30			613,458,994.30	20.45%	20.45%	7,392,911.51	6,804,137.15	4.35%	Self-raised and borrowings
High-end cultural paper (Meilun)	37.61		119,232,939.56			119,232,939.56	17.92%	17.92%	268,244.51	268,244.51	4.35%	Self-raised and borrowings
Others		211,685,403.24	558,056,996.59	379,692,825.29		390,059,574.54			2,846,844.56	2,846,844.56	4.35%	Self-raised and borrowings
Total	178.12	5,829,619,258.48	4,868,278,597.98	6,448,966,280.38	133,736,705.85	4,115,194,670.23	—	—	284,518,165.57	136,858,917.52	—	—

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

15. Materials for project

Unit: RMB

Item	Closing balance	Opening balance
Special materials	12,095,968.55	14,128,489.39
Special equipment	6,751,616.24	533,627.37
Total	18,847,584.79	14,662,116.76

16. Intangible assets

(1) Particulars of intangible assets

Unit: RMB

Item	Land use rights	Software	Total
I. Original carrying amount			
1. Opening balance	1,697,554,320.74	22,560,247.47	1,720,114,568.21
2. Increase for the period	120,030,245.71	705,138.36	120,735,384.07
(1) Acquisition	120,030,245.71	705,138.36	120,735,384.07
3. Decrease for the period	7,439,844.04		7,439,844.04
4. Closing balance	1,810,144,722.41	23,265,385.83	1,833,410,108.24
II. Accumulated amortisation			
1. Opening balance	240,016,570.05	17,391,937.53	257,408,507.58
2. Increase for the period	40,750,209.63	1,241,793.06	41,992,002.69
(1) Provision	40,750,209.63	1,241,793.06	41,992,002.69
3. Decrease for the period	6,949,732.77		6,949,732.77
4. Closing balance	273,817,046.91	18,633,730.59	292,450,777.50
III. Carrying amount			
1. Closing carrying amount	1,536,327,675.50	4,631,655.24	1,540,959,330.74
2. Opening carrying amount	1,457,537,750.69	5,168,309.94	1,462,706,060.63

Note: As at 31 December 2016, property, plant and equipment with carrying amount of RMB4,597,554,400.35 (31 December 2015: carrying amount: RMB4,567,649,044.39) and land use rights with carrying amount of RMB432,328,638.94 (31 December 2015: carrying amount: RMB309,070,530.88) were pledged as collateral for the long-term borrowings of RMB 2,369,123,668.89 (31 December 2015: RMB2,304,159,268.89) (Note VII. 32), long-term borrowings due within one year of RMB371,795,000.00 (31 December 2015: RMB281,218,900.00) (Note VII. 30) and long-term payables of RMB350,000,000.00 (Note VII. 34).

(2) The state-owned land use rights obtained by the Company in China were in compliance with PRC laws with a term of grant of 37-50 years upon receipt.

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

17. Goodwill

(1) Original carrying amount of goodwill

Unit: RMB

Name of investee or item generating goodwill	Opening balance	Increase for the period	Decrease for the period	Closing balance
Jilin Chenming Paper Co., Ltd.	14,314,160.60			14,314,160.60
Shandong Chenming Panels Co., Ltd.	5,969,626.57			5,969,626.57
Total	20,283,787.17			20,283,787.17

(2) Provision for impairment of goodwill

Goodwill arose from business combination not under common control during prior years.

On the balance sheet date, the management of the Company assessed the recoverable amount of cash generating unit which results in goodwill, in order to determine whether to make provision for impairment loss accordingly. The recoverable amount of cash-generating unit was determined based on the estimated cash flow in the financial budget for the next five years by the management, and the time value of currency was estimated using the discount rate of 8.32% (2014: 8.32%). Results of impairment test showed that no provision for impairment loss was necessary to be made for goodwill.

18. Long-term prepaid expenses

Unit: RMB

Item	Opening balance	Increase for the period	Amortisation for the period	Other deductions	Closing balance
Woodland expenses	154,540,935.69	141,986.25	6,976,125.91	502,544.31	147,204,251.72
Others	11,146,010.92	126,652.65	704,814.60		10,567,848.97
Total	165,686,946.61	268,638.90	7,680,940.51	502,544.31	157,772,100.69

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

19. Deferred income tax assets/deferred income tax liabilities

(1) Deferred income tax assets

Unit: RMB

Item	Closing balance		Opening balance	
	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets
Provision for impairment of assets	597,834,988.96	140,836,946.10	384,938,613.04	89,456,807.32
Unrealised profit arising from intra-group transactions	120,874,958.12	30,218,739.52	130,647,470.24	32,661,867.55
Deductible loss	1,479,562,089.74	260,263,772.80	1,733,079,653.85	406,220,680.25
Outstanding payables	114,938,961.38	25,368,213.93	251,138,009.64	50,233,974.39
Deferred income	231,252,430.87	40,770,154.35	169,293,123.08	34,655,980.97
Total	2,544,463,429.07	497,457,826.70	2,669,096,869.85	613,229,310.48

(2) The breakdown of unrecognised deferred income tax assets

Unit: RMB

Item	Closing balance	Opening balance
Deductible temporary differences	189,462,869.39	36,714,728.52
Deductible loss	593,978,877.06	505,399,608.89
Total	783,441,746.45	542,114,337.41

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

19. Deferred income tax assets/deferred income tax liabilities (Cont'd)

(3) Expiry of deductible loss of unrecognised deferred income tax assets falls in the periods as follows

Unit: RMB

Year	Closing amount	Opening amount	Remark
2016		56,787,869.12	
2017	197,732,325.65	115,377,328.84	
2018	119,236,265.65	135,000,510.29	
2019	93,579,660.13	95,618,971.48	
2020	75,266,633.57	102,614,929.16	
2021	108,163,992.06		
Total	593,978,877.06	505,399,608.89	—

20. Other non-current assets

Unit: RMB

Item	Closing balance	Opening balance
Entrusted loans	900,000,000.00	900,000,000.00
Prepayments of properties	485,687,038.68	310,234,623.33
Prepayments of land		32,124,242.00
Less: portion due within one year (see Note VII. 7)	900,000,000.00	
Total	485,687,038.68	1,242,358,865.33

21. Particulars of provision for impairment of assets

		Decrease for the year					
Item		Opening balance	Provision for the year	Reversal	Write-off	Others	Closing balance
I.	Provisions for bad debts	391,087,880.68	209,222,829.94	15,072,428.18	4,599,562.80		580,638,719.64
II.	Provisions for inventory impairment		9,973,276.96				9,973,276.96
III.	Provisions for impairment of available-for-sale financial assets	1,450,000.00					1,450,000.00
IV.	Provisions for impairment of fixed assets		194,823,201.36				194,823,201.36
V.	Provisions for impairment of construction in progress		14,764,226.23				14,764,226.23
Total		392,537,880.68	428,783,534.49	15,072,428.18	4,599,562.80		801,649,424.19

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

22. Short-term borrowings

(1) Classification of short-term borrowings

Unit: RMB

Item	Closing balance	Opening balance
Pledged borrowings	375,226,912.50	472,286,374.54
Guarantee borrowings	9,905,203,494.05	10,240,162,328.25
Credit borrowings	8,191,184,231.09	8,312,516,970.07
Discounted borrowings	9,403,892,350.89	5,730,570,000.00
Total	27,875,506,988.53	24,755,535,672.86

Note: (1) For classification and amount of secured assets in respect of pledged borrowings, please see Note VII.1 and Note VII. 2.

(2) The guaranteed borrowings included in the borrowings RMB 291,124,400.00, RMB 4,434,622,183.57, RMB 1,894,674,945.18, RMB40,000,000.00, RMB 624,236,619.99, RMB2,276,710,485.50 and RMB343,834,859.81 were under guarantees by the Company for Shandong Chenming Financial Leasing Co., Ltd. (Jinan merging), Chenming (HK) Limited, Zhanjiang Chenming Pulp & Paper Co., Ltd., Jilin Chenming Paper Co., Ltd., Jiangxi Chenming Paper Co., Ltd., Shandong Chenming Paper Sales Co., Ltd. and Shouguang Meilun Paper Co., Ltd., respectively. Please refer to Note XII.5 (2) for details of maturity of the above guarantees borrowings.

(3) The Group had no short-term borrowings due and outstanding.

23. Bills payable

Unit: RMB

Category	Closing balance	Opening balance
Bank acceptance bills	515,301,703.08	3,281,599,412.31
Total	515,301,703.08	3,281,599,412.31

Unpaid bills payable due as at the end of the period amounted to nil.

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

24. Accounts payable

(1) Particulars of accounts payable

Unit: RMB

Item	Closing balance	Opening balance
Within 1 year	3,296,220,303.37	2,485,701,891.02
1-2 years	140,901,523.75	308,215,762.61
2-3years	184,442,132.75	69,577,394.46
Over 3 years	102,702,422.19	78,842,338.48
Total	3,724,266,382.06	2,942,337,386.57

(2) Significant accounts payable for over 1 year

Unit: RMB

Item	Closing balance	Reasons for outstanding or not carried forward
FORESTRY TASMANIA	27,995,705.76	Not to be collected
SHANDONG HEXIN CHEMICAL GROUP CO., LTD.	26,855,923.98	Not to be collected
SUNGCHANG FINE CHEMICAL COMPANY OF KOREA	11,475,715.13	Not to be collected
SHANDONG NGE LOGISTICS CO., LTD.	9,905,622.19	Not to be collected
FUZHOU TIANYU ELECTRIC CO., LTD	3,867,475.63	Not to be collected
Total	80,100,442.69	—

25. Advance receipts

(1) Particulars of advance receipts

Unit: RMB

Item	Closing balance	Opening balance
Within 1 year	323,949,855.39	150,907,190.21
1-2 years	53,185,710.94	29,597,036.80
Total	377,135,566.33	180,504,227.01

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

25. Advance receipts (Cont'd)

(2) Significant advance receipts for over 1 year

Unit: RMB

Item	Closing balance	Reasons
SHANTOU SANSHAN PAPER CO., LTD.	4,800,000.00	No delivery requirement from the counterparty
BEIJING JIANFA PAPER CO., LTD.	2,240,770.07	No delivery requirement from the counterparty
TIANJIN CULTURAL COMMODITIES COMMERCE & TRADE CO., LTD.	1,442,211.43	No delivery requirement from the counterparty
Total	8,482,981.50	—

26. Staff remuneration payables

(1) Particulars of Staff remuneration payables

Unit: RMB

Item	Opening balance	Increase for the period	Decrease for the period	Closing balance
I. Short-term remuneration	204,977,819.38	935,310,367.43	980,970,940.57	159,317,246.24
II. Retirement benefit plan – defined contribution scheme	850,799.50	123,977,886.64	124,177,669.56	651,016.58
III. Lay off welfare	12,075.15	707,738.68	719,813.83	
Total	205,840,694.03	1,059,995,992.75	1,105,868,423.96	159,968,262.82

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

26. Staff remuneration payables (Cont'd)

(2) Particulars of short-term remuneration

Unit: RMB

Item	Opening balance	Increase for the period	Decrease for the period	Closing balance
1. Salaries, bonuses, allowance and subsidies	154,415,941.85	776,527,342.90	821,593,867.19	109,349,417.56
2. Staff welfare		29,932,992.35	29,932,992.35	
3. Social insurance premium	4,652,435.30	48,791,428.18	50,620,352.83	2,823,510.65
Of which: Medical insurance premium	3,638,795.41	39,669,562.52	41,457,244.44	1,851,113.49
Work-related injury insurance premium	35,372.57	5,267,586.98	5,296,817.97	6,141.58
Maternity insurance premium	978,267.32	3,854,278.68	3,866,290.42	966,255.58
4. Housing provident funds	4,460,947.36	62,193,688.16	61,173,036.56	5,481,598.96
5. Union funds and workers' education	22,663,812.89	16,921,778.77	16,713,532.02	22,872,059.64
6. Other short-term remuneration	18,784,681.98	943,137.07	937,159.62	18,790,659.43
Total	204,977,819.38	935,310,367.43	980,970,940.57	159,317,246.24

(3) Defined contribution plan

Unit: RMB

Item	Opening balance	Increase for the period	Decrease for the period	Closing balance
1. Basic pension insurance	760,184.96	117,775,321.41	117,986,868.99	548,637.38
2. Unemployment insurance	90,614.54	6,202,565.23	6,190,800.57	102,379.20
Total	850,799.50	123,977,886.64	124,177,669.56	651,016.58

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

27. Taxes payable

Unit: RMB

Item	Closing balance	Opening balance
Enterprise income tax	150,743,301.02	121,532,520.76
Value added tax	53,237,826.18	43,110,126.98
Business tax		5,019,330.14
Land use tax	10,984,814.56	9,620,892.06
Property tax	6,886,755.05	5,856,496.06
Urban maintenance and construction tax	4,472,485.43	3,274,749.38
Educational surcharges and others	3,924,688.24	3,940,435.85
Individual income tax	3,440,230.58	953,632.02
Stamp duty	3,237,358.72	1,544,300.55
Total	236,927,459.78	194,852,483.80

28. Interest payable

Unit: RMB

Item	Closing balance	Opening balance
Interest on corporate bonds	3,276,170.53	62,445,615.01
Interest on medium-term notes	27,455,083.18	27,455,083.22
Interest on privately placed bonds		60,175,000.00
Total	30,731,253.71	150,075,698.23

29. Other payables

(1) Other payables by nature

Unit: RMB

Item	Closing balance	Opening balance
Within 1 year	834,154,891.32	970,782,931.89
1-2 years	37,518,148.35	132,987,693.44
2-3 years	24,930,994.02	16,970,120.00
Over 3 years	52,315,162.11	37,826,608.05
Total	948,919,195.80	1,158,567,353.38

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

29. Other payables (Cont'd)

(2) Significant other payables for over 1 year

Unit: RMB

Item	Closing balance	Reason for outstanding or not carried forward
LIAONING BEIHAI INDUSTRIES GROUP CO., LTD.	39,795,308.88	Debt investment by a shareholder of a subsidiary as agreed
SHOUGUANG HENGTAI ENTERPRISE INVESTMENT COMPANY LIMITED	37,230,586.11	Debt investment by a shareholder of a subsidiary as agreed
STATE-OWNED SHOUGUANG QINGSHUIPO FARM	8,800,000.00	Temporarily outstanding
Total	85,825,894.99	—

30. Non-current liabilities due within 1 year

Unit: RMB

Item	Closing balance	Opening balance
Long-term borrowings due within 1 year (Note VII. 32)	1,343,940,282.00	1,975,300,816.32
Bonds payable due within 1 year (Note VII. 33)	3,794,932,919.70	1,997,824,337.74
Privately placed bonds due within 1 year (Note VII. 37)		1,498,161,581.85
Medium-term notes due within 1 year (Note VII. 37)	1,098,148,355.47	
Total	6,237,021,557.17	5,471,286,735.91

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

31. Other current liabilities

Unit: RMB

Item	Closing balance	Opening balance
Short-term commercial paper	6,602,863,069.45	10,293,543,297.00
Total	6,602,863,069.45	10,293,543,297.00

Increase/decrease in short-term commercial papers payable:

Unit: RMB

Name of commercial paper	Par value	Date of issue	Term	Amount	Opening balance	Issue during the period	Interest at par value	Amortisation of premium/discount	Redemption during the period	Closing balance
15 Lu Chenming CP001	1,800,000,000.00	2015/4/23	365days	1,792,800,000.00	1,855,470,000.00		20,700,000.00	1,800,000.00	1,877,970,000.00	
15 Lu Chenming CP002	1,800,000,000.00	2015/4/27	365 days	1,794,600,000.00	1,859,450,000.00		23,500,000.00	1,800,000.00	1,884,750,000.00	
15 Lu Chenming SCP001	1,500,000,000.00	2015/7/6	270 days	1,497,750,000.00	1,533,808,333.34		11,500,000.00	500,000.00	1,545,808,333.34	
15 Lu Chenming SCP002	1,000,000,000.00	2015/8/7	220 days	998,777,778.00	1,015,085,793.00		6,300,000.00	349,207.00	1,021,735,000.00	
15 Lu Chenming SCP003	1,000,000,000.00	2015/8/24	270 days	998,500,000.00	1,013,669,446.10		13,343,611.11	666,665.00	1,027,679,722.21	
15 Lu Chenming SCP004	1,000,000,000.00	2015/10/20	270 days	998,500,000.00	1,006,644,723.23		19,059,444.44	999,999.00	1,026,704,166.67	
15 Lu Chenming SCP005	1,000,000,000.00	2015/11/5	270 days	998,500,000.00	1,004,818,334.00		19,110,000.00	1,166,666.00	1,025,095,000.00	
15 Lu Chenming SCP006	1,000,000,000.00	2015/11/10	270 days	998,500,000.00	1,004,596,667.33		23,607,500.00	1,166,666.00	1,029,370,833.33	
16 Lu Chenming scp001	1,000,000,000.00	2016-1-18	270 days	998,500,000.00		998,500,000.00	27,127,777.78	1,500,000.00	1,027,127,777.78	
16 Lu Chenming scp002	1,000,000,000.00	2016-3-9	268 days	998,500,000.00		998,500,000.00	27,460,821.92	1,500,000.00	1,027,460,821.92	
16 Lu Chenming scp003	1,500,000,000.00	2016-3-11	270 days	1,497,750,000.00		1,497,750,000.00	41,054,794.52	2,250,000.00	1,541,054,794.52	
16 Lu Chenming scp004	1,000,000,000.00	2016-4-5	230 days	998,720,000.00		998,720,000.00	25,205,479.45	1,280,000.00	1,025,205,479.45	
16 Lu Chenming scp005	1,500,000,000.00	2016-4-15	270 days	1,497,750,000.00		1,497,750,000.00	45,131,250.00	2,250,000.00		1,545,131,250.00
16 Lu Chenming scp006	1,000,000,000.00	2016-4-20	190 days	998,944,400.00		998,944,400.00	18,905,555.56	1,055,600.00	1,018,905,555.56	
16 Lu Chenming scp007	1,000,000,000.00	2016-5-10	137 days	999,238,888.89		999,238,888.89	13,268,333.33	761,111.11	1,013,268,333.33	
16 Lu Chenming scp008	500,000,000.00	2016-6-24	270 days	499,250,000.00		499,250,000.00	11,221,250.00	583,331.00		511,054,581.00
16 Lu Chenming scp009	1,000,000,000.00	2016-7-7	270 days	998,500,000.00		998,500,000.00	21,500,000.00	1,000,002.00		1,021,000,002.00
16 Lu Chenming scp010	500,000,000.00	2016-8-10	270 days	499,250,000.00		499,250,000.00	7,360,000.00	416,665.00		507,026,665.00
16 Lu Chenming scp011	1,000,000,000.00	2016-10-18	270 days	998,500,000.00		998,500,000.00	7,605,555.56	500,001.00		1,006,605,556.56
16 Lu Chenming scp012	1,000,000,000.00	2016-11-4	270 days	998,500,000.00		998,500,000.00	6,106,111.11	333,333.33		1,004,939,444.44
16 Lu Chenming scp013	1,000,000,000.00	2016-12-1	270 days	998,500,000.00		998,500,000.00	8,438,888.89	166,681.56		1,007,105,570.45
Total	-	-	-	12,981,903,288.89		12,981,903,288.89	260,385,818.12	13,596,725.00	6,653,022,762.56	6,602,863,069.45

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

32. Long-term borrowings

(1) Types of long-term borrowings

Unit: RMB

Item	Closing balance	Opening balance
Secured borrowings	2,369,123,668.89	2,585,378,168.89
Guarantee borrowings	4,689,223,358.40	3,206,495,675.32
Credit borrowings	1,221,192,035.94	1,352,808,035.94
Less: long-term borrowings due within 1 year (see Note VII. 30)	1,343,940,282.00	1,975,300,816.32
Total	6,935,598,781.23	5,169,381,063.83

Including:

Item	Closing balance	Opening balance
Long-term borrowings due within 1 year (see Note VII. 30)	1,343,940,282.00	1,975,300,816.32
Long-term borrowings due within 1-2 years	1,993,603,152.00	1,553,541,829.60
Long-term borrowings due within 2-5 years	2,943,974,924.40	2,815,501,765.34
Long-term borrowings due over 5 years	1,998,020,704.83	800,337,468.89
Total	8,279,539,063.23	7,144,681,880.15

Note: (1) For the asset group of pledges of secured borrowings, please refer to Note VII.13 and Note VII.16.

(2) Guarantee borrowings: Included in the borrowings RMB228,000,000.00 were under guarantees by Zhanjiang Chenming Pulp & Paper Co., Ltd. for Jiangxi Chenming Paper Co., Ltd., and RMB 200,000,000.00, RMB489,058,500.00, RMB2,294,741,046.00, RMB 641,353,300.00 and RMB 836,070,512.40 were under guarantees by the Company for Jiangxi Chenming Paper Co., Ltd., Chenming (HK) Limited, Shandong Chenming Financial Leasing Co., Ltd., Zhanjiang Chenming Co., Ltd. and Huanggang Chenming Pulp & Paper Co., Ltd., respectively. Please refer to Note XII.5 (2) for details of maturity of the above guarantees.

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

33. Bonds payable

(1) Bonds payable

Unit: RMB

Item	Closing balance	Opening balance
11 Chenming debt		
12 Chenming debt		3,788,539,249.59
Total		3,788,539,249.59

(2) Increase/decrease in bonds payable (excluding other financial instruments such as preference shares and perpetual bonds classified as financial liabilities)

Unit: RMB

Name of bond	Par value	Date of issue	Term	Amount	Opening balance	Issue during the period	Interest at par value	Amortisation of premium/discount	Redemption during the period	Closing balance
11-year Chenming debt	2,000,000,000.00	2011/7/6	5 $\frac{1}{2}$	1,982,000,000.00	1,997,824,337.74		59,500,000.00	2,175,682.26	2,059,500,000.00	0.00
12-year Chenming debt	3,800,000,000.00	2012/12/26	5 $\frac{1}{2}$	3,773,400,000.00	3,788,539,249.59		214,700,000.00	6,383,670.11	214,700,000.00	3,794,932,919.70
Subtotal	5,800,000,000.00			5,755,400,000.00	5,786,363,587.33		274,200,000.00	8,559,352.37	2,274,200,000.00	3,794,932,919.70
Less: due within one year (Note VIII. 30)	2,000,000,000.00				1,997,824,337.74		274,200,000.00	8,559,352.37	2,274,200,000.00	3,794,932,919.70
Total	3,800,000,000.00	-	-	5,755,400,000.00	3,788,539,249.59					0.00

34. Long-term payables

(1) By nature

Unit: RMB

Item	Closing balance	Opening balance
Retention for the financial leasing operations	246,190,103.51	194,000,000.00
Specific capital for China Development	700,000,000.00	150,000,000.00
Equipment leaseback	3,005,178,750.49	
Total	3,951,368,854.00	344,000,000.00

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

35. Special accounts payable

Unit: RMB

Item	Opening balance	Increase for the period	Decrease for the period	Closing balance	Reason
Huanggang Chenming integrated forestry, pulp and paper project	176,983,516.66	504,056,200.00		681,039,716.66	
Total	176,983,516.66	504,056,200.00		681,039,716.66	—

Note: During the year, a special grant of RMB504,056,200.00 for the integrated forestry, pulp and paper project of Huanggang Chenming Pulp & Paper Co., Ltd., a subsidiary of the Company, from the Finance Bureau of Huanggang City was accounted for as special accounts payable according to the Provisional Measures for Special Government Grant of Huanggang Chenming integrated Forestry, Pulp and Paper Project.

36. Deferred income

Unit: RMB

Item	Opening balance	Increase for the period	Decrease for the period	Closing balance	Reason
Government grants	1,495,104,889.26	31,880,000.00	83,138,362.93	1,443,846,526.33	
Total	1,495,104,889.26	31,880,000.00	83,138,362.93	1,443,846,526.33	—

Items in respect of government grant:

Unit: RMB

Liabilities item	Opening balance	New grants for the period	Include in non-operating income for the period	Other Changes	Closing balance	Asset-related/ income-related
Special subsidy funds for environmental protection	905,245,821.79	10,000,000.00	49,554,863.12		865,690,958.67	Asset-related
Project fund for National technological support scheme	2,111,325.00		164,700.00		1,946,625.00	Asset-related
Special subsidy fund for Songhuajiang environmental protection project	2,619,263.09		1,030,000.08		1,589,263.01	Asset-related
Sewage treatment and water conservation reconfiguration project	8,516,768.33		1,192,682.88		7,324,085.45	Asset-related
Financial grants for technological modification project	188,948,278.66		11,347,728.77		177,600,549.89	Asset-related
Zhanjiang integrated forestry, pulp and paper project	278,275,468.02	21,880,000.00	13,819,508.34		286,335,959.68	Asset-related
Interest Subsidy	92,521,764.37		5,080,412.90		87,441,351.47	Asset-related
Railway line change compensation	14,750,000.00		614,583.34		14,135,416.66	Asset-related
Others	2,116,200.00		333,883.50		1,782,316.50	Asset-related
Total	1,495,104,889.26	31,880,000.00	83,138,362.93		1,443,846,526.33	—

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

37. Other non-current liabilities

Unit: RMB

Item	Closing balance	Opening balance
Medium-term notes	1,098,148,355.47	1,094,621,421.67
Privately placed bonds		1,498,161,581.85
Including: Due within a year	1,100,000,000.00	1,500,000,000.00
Due within 1 to 2 years		1,100,000,000.00
Unamortised issue expenses	-1,851,644.53	-7,216,996.48
Less: the portion maturing within one year (Note VII. 30)	1,098,148,355.47	1,498,161,581.85
Total		1,094,621,421.67

38. Share capital

Item	Opening balance	Increase/decrease for the year	Closing balance
RMB ordinary shares (A shares)	1,113,278,456.00		1,113,278,456.00
Domestic listed foreign shares (B shares)	470,923,511.00		470,923,511.00
Overseas listed foreign shares (H shares)	352,203,500.00		352,203,500.00
Total number of shares	1,936,405,467.00		1,936,405,467.00

39. Other equity instruments

(1) Preference shares, perpetual bonds and other financial instruments outstanding at the end of the year

Item	Opening balance	Increase during the year	Decrease during the year	Closing balance
Perpetual bonds	2,582,800,000.00			2,582,800,000.00
Preference shares		4,477,500,000.00		4,477,500,000.00
Total	2,582,800,000.00	4,477,500,000.00		7,060,300,000.00

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

39. Other equity instruments (Cont'd)

(2) Changes in perpetual bonds outstanding at the end of the year

Outstanding financial instruments	Opening balance	Increase during the year	Decrease during the year	Closing balance
15 Lu Chenming MMTN001	1,291,900,000.00			1,291,900,000.00
15 Lu Chenming MMTN001	1,290,900,000.00			1,290,900,000.00
Total	2,582,800,000.00			2,582,800,000.00

Note ① Particulars of issue: The Company issued medium-term notes amounting to RMB2.6 billion on 6 July and 8 September 2015 at a coupon rate of 6.00% and 5.78%. The proceeds net of issue costs amounted to RMB2,582.8000 million.

Note ② Particulars of the notes as perpetual bonds

The notes are debts without a defined maturity date and will continue indefinitely until the exercise of the right of redemption by the Company.

The Company has the right to defer any payment of interest.

The right of redemption of the notes is vested with the Company so that it is up to the Company to decide whether to redeem or not.

Based on the above, the notes do not contain any term giving rise to any contractual obligation to deliver cash or other financial assets to any other entity, or to exchange any financial asset or financial liability with any other entity under potential adverse circumstances. Consequently, they were eligible to be recognised and accounted for as equity instruments and included under other equity instruments – perpetual bonds.

(3) Changes in preference shares outstanding at the end of the year

Outstanding financial instruments	Opening balance	Increase during the year	Decrease during the year	Closing balance
Chenming You 01		2,238,750,000.00		2,238,750,000.00
Chenming You 02		995,000,000.00		995,000,000.00
Chenming You 03		1,243,750,000.00		1,243,750,000.00
Total		4,477,500,000.00		4,477,500,000.00

Note ① Particulars of issue: The Company non-publicly issued preference shares amounting to RMB4.5 billion on 17 March, 17 August and 22 September 2016 at a dividend rate of 6%. The proceeds net of issue costs amounted to RMB4,477.50 million.

② Particulars of the preference shares as equity Instruments

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

39. Other equity instruments (Cont'd)

(3) Changes in preference shares outstanding at the end of the year (Cont'd)

Shareholders of preference shares participate in profit distribution in two portions, namely the fixed dividend distributed based on a fixed dividend rate and the distribution of retained earnings realised for the year.

A. Distribution of fixed dividend

According to the Articles of Association, the Company shall distribute fixed dividends to holders of the preference shares at fixed dividend rate if there are distributable profits after making good losses and the contribution to reserve fund according to law. The Board is authorised by the general meeting to declare and pay all dividends on the preference shares in accordance with the issuance plan under the framework and principles considered and approved in the general meeting in respect of the preference shares. The general meeting of the Company has the right to cancel part of or all of the current dividends on the preference shares. However, when the general meeting of the Company will consider the cancellation of part of or all of the current dividends on the preference shares, the Company shall inform the shareholders of preference shares at least 10 working days before the date of dividend payment in accordance with the requirements of the related authorities.

B. Participation in the distribution of retained earnings realised for the year.

Holders of preference shares participate in the distribution of the retained earnings through receipt of cash which is non-cumulative and non-deferrable. In the event of making good losses and the contribution to reserve fund according to law, after receiving fixed dividends at fixed dividend rate as agreed, holders of preference shares can also participate in the distribution of the retained earnings for the year in proportion. Specific terms are as follows: the retained earnings for the year arises from net profit attributable to owners of the parent company on a consolidated basis upon distribution of relevant fixed income to holders of financial instruments such as the preference shares which may be classified under equity. 50% of the retained earnings shall be distributed to holders of preference shares and ordinary shareholders. Holders of preference shares shall participate in the distribution of the retained earnings by receiving cash dividends, and the ordinary shareholders shall participate in the distribution of the retained earnings by receiving cash dividends or dividends on ordinary shares.

Based on the above, the preference shares do not contain any term giving rise to any contractual obligation to deliver cash or other financial assets to any other entity, or to exchange any financial asset or financial liability with any other entity under potential adverse circumstances. Consequently, they were eligible to be recognised and accounted for as equity instruments and included under other equity instruments – preference shares.

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

40. Capital reserves

Unit: RMB

Item	Opening balance	Increase for the period	Decrease for the period	Closing balance
Capital premium (share premium)	5,478,815,769.60	119,508.09		5,478,935,277.69
Other capital reserves	670,322,507.21			670,322,507.21
Total	6,149,138,276.81	119,508.09		6,149,257,784.90

Note: The Company received income arising from disposal of odd lots for equity distributions by China Securities Depository and Clearing Co., Ltd, with capital premium under capital reserves up by RMB119,508.09.

41. Other comprehensive income

Unit: RMB

Item	Opening balance	During the period					Closing balance
		Incurring before income tax for the period	Less: Transferred from Other Comprehensive Income in prior periods to profit or loss during the period	Less: income tax expenses	Attributable to parent company after tax	Attributable to minority shareholders after tax	
I. Other comprehensive income to be reclassified to profit or loss in subsequent periods	-345,014,864.26	-460,230,907.63			-460,230,907.63		-805,245,771.89
Exchange differences on translation of foreign operations	-345,014,864.26	-460,230,907.63			-460,230,907.63		-805,245,771.89
Total other comprehensive income	-345,014,864.26	-460,230,907.63			-460,230,907.63		-805,245,771.89

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

42. Surplus reserve

Unit: RMB

Item	Opening balance	Increase for the period	Decrease for the period	Closing balance
Statutory surplus reserve	1,132,116,106.40			1,132,116,106.40
Total	1,132,116,106.40			1,132,116,106.40

Note: Pursuant to the Companies Law and the Articles of Association, the Company transferred 10% of the net profit to the statutory surplus reserves. There was no need to transfer if the accumulated amounts of the statutory reserves exceeded 50% of the Company's registered capital.

The Company can transfer the discretionary surplus reserve upon the transfer of statutory surplus reserve. Once approved, the discretionary surplus reserve can be used to offset loss for prior years or increase the share capital.

43. Retained profit

Unit: RMB

Item	The period	The prior period
Retained profit as at the end of the prior year before adjustment	5,416,049,598.87	4,665,921,686.21
Retained profit as at the beginning of the year after adjustment	5,416,049,598.87	4,665,921,686.21
Plus: Net profit for year attributable to shareholders of the parent company	2,063,986,822.25	1,021,224,678.04
Ordinary dividend payable	580,921,640.10	271,096,765.38
Perpetual bonds interest payable	153,140,000.00	
Retained profit as at the end of the period	6,745,974,781.02	5,416,049,598.87

Note: (1) Profit distribution

① According to the 2015 Profit Distribution Plan which was approved at the 2015 annual general meeting of the Company on 18 May 2016, the Company paid a cash dividend of RMB0.30 per share (2015: RMB0.14 per share) to all shareholders, amounting to RMB580,921,640.10 (2015: RMB271,096,765.38) based on the number of the shares as at the dividend distribution registration date of 1,936,405,467.00 shares. ② The Company paid for the perpetual bonds interest amounted to RMB153,140,000.00 in July and September 2016

(2) Appropriation of surplus reserve by subsidiaries during the reporting period

In 2016, subsidiaries of the Company appropriated surplus reserve of RMB10,400,173.80, of which RMB10,400,173.80 was attributable to the Company.

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

44. Revenue and operating costs

(1) Revenue and operating costs

Unit: RMB

Item	Amount for the year	Amount for the prior year
Principal activities income	22,760,384,304.00	20,060,774,786.74
Other activities income	146,733,937.84	181,131,345.07
Total revenue	22,907,118,241.84	20,241,906,131.81
Principal activities cost	15,730,455,722.61	14,693,179,492.87
Other activities cost	56,884,696.19	71,483,938.31
Total operating cost	15,787,340,418.80	14,764,663,431.18

(2) Principal activities (by industry)

Unit: RMB

Industry name	Amount for the year		Amount for the prior year	
	Revenue	Operating costs	Revenue	Operating costs
I. Machine-made paper	19,536,639,601.47	14,893,061,575.87	18,072,997,652.53	13,935,285,230.54
II. Electricity and steam	338,702,429.21	214,301,513.53	437,772,691.42	277,931,321.75
III. Construction materials	227,629,265.80	174,193,481.85	223,266,272.44	176,662,730.54
IV. Paper chemicals	129,003,963.48	97,421,900.88	124,008,406.45	102,039,011.48
V. Hotel	26,677,286.19	6,411,469.70	27,136,077.49	6,188,002.55
VI. Financial leasing	2,339,925,682.07	219,444,595.95	1,084,860,187.11	127,769,086.46
VII. Others	161,806,075.78	125,621,184.83	90,733,499.30	67,304,109.55
Total	22,760,384,304.00	15,730,455,722.61	20,060,774,786.74	14,693,179,492.87

(3) Principal activities (by products under machine-made paper)

Unit: RMB

Product name	Amount for the year		Amount for the prior year	
	Revenue	Operating costs	Revenue	Operating costs
Coated paper	4,428,162,301.09	3,287,988,564.78	4,365,890,220.92	3,258,280,750.13
White paper board	2,815,701,912.71	2,127,180,790.00	1,915,153,293.25	1,463,666,571.72
Electrostatic paper	2,107,489,078.57	1,383,320,164.10	1,580,897,670.32	1,043,674,436.61
Anti-sticking raw paper	1,009,523,792.88	716,700,746.30	897,236,148.18	658,036,511.84
Newsprint paper	996,218,028.98	908,417,921.12	970,297,912.12	819,429,101.14
Household paper	659,518,362.24	556,413,175.83	670,406,337.06	574,711,884.65
Light weight coated paper	463,577,121.66	388,493,270.16	612,237,436.63	515,155,387.78
Writing paper	274,469,632.58	223,437,034.20	289,489,121.26	236,603,150.06
Other machine-made papers	1,815,823,465.06	1,581,467,267.78	2,310,948,233.64	2,005,869,650.02
Total	19,536,639,601.47	14,893,061,575.87	18,072,997,652.53	13,935,285,230.54

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

44. Revenue and operating costs (Cont'd)

(4) Principal activities (by geographical areas under machine-made paper)

Unit: RMB

Region	Amount for the year		Amount for the prior year	
	Revenue	Operating costs	Revenue	Operating costs
Mainland China	16,258,133,415.56	12,009,467,873.60	14,262,273,601.63	11,202,087,734.99
Other countries and regions	3,278,506,185.91	2,883,593,702.27	3,810,724,050.90	2,733,197,495.55
Total	19,536,639,601.47	14,893,061,575.87	18,072,997,652.53	13,935,285,230.54

(5) Revenue from top 5 customers

Unit: RMB

Period	Total revenue from top 5 customers	Percentage of the total revenue in the same period (%)
2016	1,366,256,966.82	5.96
2015	1,362,000,050.80	6.73

45. Taxes and surcharges

Unit: RMB

Item	Amount for the period	Amount for the prior period
Business tax	50,214,623.35	57,971,415.46
Urban maintenance and construction tax	50,084,743.20	39,811,578.29
Educational surcharges	35,516,836.69	29,762,311.83
Water engineering funds	5,881,006.54	5,421,903.84
Vehicle and vessel tax	135,801.55	
Property tax	41,846,613.90	
Land use tax	48,277,144.61	
Stamp tax	19,079,569.41	
Others	402,897.25	79,525.81
Total	251,439,236.50	133,046,735.23

Note: For details of payment standards for main taxes and surcharges, please see Note VI. Tax.

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

46. Selling and distribution expenses

Unit: RMB

Item	Amount for the period	Amount for the prior period
Wages	134,268,714.82	149,119,158.11
Depreciation expenses	12,916,316.67	15,169,981.24
Office expenses	6,824,531.59	7,092,267.78
Travel expenses	30,929,777.17	29,039,476.77
Selling commissions	13,586,079.26	13,581,805.18
Transportation expenses	820,785,145.86	809,717,276.42
Cargo handling charges	14,586,351.98	18,220,233.14
Rental expenses	9,510,880.28	8,599,544.24
Hospitality expenses	76,677,083.70	67,545,878.65
Warehouse expenses	5,410,443.13	3,489,930.81
Others	40,989,242.74	69,386,187.65
Total	1,166,484,567.20	1,190,961,739.99

47. General and administrative expenses

Unit: RMB

Item	Amount for the period	Amount for the prior period
Wages and surcharges	229,428,737.22	218,901,004.21
Welfare expenses	51,823,069.80	45,052,606.63
Labour insurance premium	12,883,344.22	12,390,793.58
Insurance premium	21,710,627.29	21,120,324.07
Depreciation expenses	68,529,345.99	62,330,981.98
Waste disposal expenses	28,758,359.88	20,000,681.81
Hospitality expenses	42,562,497.52	30,988,178.17
Amortisation of intangible assets	32,201,069.02	29,913,688.61
Technological development expenses	735,689,011.01	649,368,119.76
Tax		113,047,766.76
Production interruption loss	52,648,109.17	54,186,908.78
Repair fees	27,558,124.79	20,952,667.27
Audit fees	4,072,261.89	2,600,000.00
Others	133,594,028.26	103,798,775.19
Total	1,441,458,586.06	1,384,652,496.82

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

48. Finance expenses

Unit: RMB

Item	Amount for the period	Amount for the prior period
Interest expenses	2,163,863,695.21	1,910,752,596.26
Less: interest income	327,982,895.49	376,655,680.35
Less: capitalised interest amount	207,144,600.40	190,070,482.43
Foreign exchange gains and losses	22,449,770.64	151,474,839.76
Bank charges	167,378,920.82	173,898,778.52
Total	1,818,564,890.78	1,669,400,051.76

49. Loss on impairment of assets

Unit: RMB

Item	Amount for the period	Amount for the prior period
I. Loss on bad debts	194,150,401.76	60,968,344.72
II. Loss on inventory impairment	9,973,276.96	
III. Loss on fixed assets impairment	194,823,201.36	
IV. Loss on construction in progress impairment	14,764,226.23	
Total	413,711,106.31	60,968,344.72

50. Gain on change in fair value

Unit: RMB

Source of gain on change in fair value	Amount for the period	Amount for the prior period
Gain on change in fair value consumable biological assets measured at fair value	-20,084,425.90	-19,078,538.02
Total	-20,084,425.90	-19,078,538.02

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

51. Investment income

Unit: RMB

Item	Amount for the period	Amount for the prior period
Income from long-term equity investments accounted for using the equity method	-3,240,263.50	-15,595,591.74
Investment gain on disposal of long-term equity investments	1,203.20	9,533,333.33
Investment gain on disposal of available-for-sale financial assets	519.26	
Income on external entrusted loans	87,608,490.56	94,777,777.77
Total	84,369,949.52	88,715,519.36

52. Non-operating income

Item	Amount for the period	Amount for the prior period	Amount included in extraordinary gains and losses for the period
Total gain on disposal of non-current assets	5,170,746.88	15,395,550.60	5,170,746.88
Of which: Gain on disposal of fixed assets	3,630,941.15	15,395,550.60	3,630,941.15
Gain on disposal of intangible assets	1,539,805.73		1,539,805.73
Gain on debt restructuring		32,089,863.80	
Government grants	482,366,195.99	251,169,920.24	472,476,962.83
Others	13,029,391.52	12,350,469.71	13,029,391.52
Total	500,566,334.39	311,005,804.35	490,677,101.23

Government grants included in profit or loss for the period:

Grants item	Amount for the period	Amount for the prior period
Amortised deferred income (Note VII. 36)	83,138,362.93	81,628,745.52
Grants income	389,364,400.90	163,087,834.26
Value-added tax refund	9,863,432.16	6,453,340.46
Total	482,366,195.99	251,169,920.24

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

53. Non-operating expenses

Unit: RMB

Item	Amount for the period	Amount for the prior period	Amount included in extraordinary gains and losses for the period
Total loss on disposal of non-current assets	6,707,201.06	6,610,974.07	6,707,201.06
Of which: loss on disposal of fixed assets	6,707,201.06	6,610,974.07	6,707,201.06
Loss on debt restructuring	90,997.90		90,997.90
Donation	1,000,000.00	600,000.00	1,000,000.00
Others	2,006,755.63	1,476,158.68	2,006,755.63
Total	9,804,954.59	8,687,132.75	9,804,954.59

54. Income tax expenses

(1) Particulars of income tax expenses

Unit: RMB

Item	Amount for the period	Amount for the prior period
Income tax expenses for the period	444,789,046.48	425,199,052.24
Deferred income tax expenses	115,771,483.78	7,038,325.96
Total	560,560,530.26	432,237,378.20

(2) The reconciliation between accounting profit and income tax expenses

Unit: RMB

Item	Amount for the period
Total profit	2,583,166,339.61
Income tax expenses calculated at statutory/applicable tax rates	387,474,950.94
Effect of different tax rates applicable to subsidiaries	258,316,633.96
Effect of adjustments for income tax for prior periods	-35,028,439.92
Effect of income not subject to tax	-58,607,103.29
Effect of additional deductible expenses	-22,025,598.99
Effect of costs, expenses and loss not deductible for tax purposes	11,347,645.57
Effect of utilisation of previously unrecognised deductible loss on deferred income tax assets	-16,511,741.79
Effect of current unrecognised deductible temporary difference or deductible loss arising from deferred tax income assets	35,594,183.78
Income tax expenses	560,560,530.26

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

55. Other comprehensive income

For details, please see Note 41.

56. Items on statements of cash flow

(1) Cash received relating to other operating activities

Unit: RMB

Item	Amount for the period	Amount for the prior period
Default penalty and fine	13,029,391.52	13,944,286.08
Finance expenses – Interest income	327,982,895.49	376,655,680.35
Income-related government grants	389,364,400.90	163,087,834.26
Open credit and other income	400,196,746.53	268,723,339.29
Deposit of Leasing Company	47,200,000.00	653,000,000.00
Total	1,177,773,434.44	1,475,411,139.98

(2) Cash paid relating to other operating activities

Unit: RMB

Item	Amount for the period	Amount for the prior period
Financial institutions charge	167,378,502.66	173,898,778.52
Business hospitality expenses	119,239,581.22	98,534,056.82
Travel expenses	30,929,777.17	39,928,059.43
Office expenses	6,824,531.59	12,769,202.02
Transportation expenses	820,782,244.33	788,768,624.75
Rental expenses	9,510,880.28	14,619,838.83
Waste disposal expenses	28,758,359.88	20,992,253.21
Insurance premium	21,689,019.98	22,110,976.94
Repair expenses	27,557,123.10	20,952,667.27
Cargo handling charges	14,586,351.98	18,220,233.14
Intermediary service expenses	4,072,261.89	5,698,026.64
Net increase in principal receivables relating to finance lease business	1,736,356,775.78	15,432,476,248.91
Others	242,048,593.97	200,094,630.81
Total	3,229,734,003.83	16,849,063,597.29

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

56. Items on statements of cash flow (Cont'd)

(3) Cash received relating to other investing activities

Unit: RMB

Item	Amount for the period	Amount for the prior period
Asset-related government grants	31,880,000.00	100,612,200.00
Subsidy for Huanggang Project	504,056,200.00	15,000,000.00
Total	535,936,200.00	115,612,200.00

(4) Cash received relating to other financing activities

Unit: RMB

Item	Amount for the period	Amount for the prior period
Short-term commercial paper	13,000,000,000.00	10,077,927,778.00
Preference shares	4,477,500,000.00	
Perpetual bonds		2,582,800,000.00
Special funds for China Development Bank	550,000,000.00	150,000,000.00
Equipment leaseback	3,299,435,500.86	
Total	21,326,935,500.86	12,810,727,778.00

(5) Cash paid relating to other financing activities

Unit: RMB

Item	Amount for the period	Amount for the prior period
Repayment of short-term commercial paper principal	16,600,000,000.00	
Repayment of equipment leaseback	360,481,379.91	
Repayment of interest on perpetual bonds	153,140,000.00	
Increase in restricted bank deposits for the period	1,033,850,751.62	2,596,657,197.45
Total	18,147,472,131.53	2,596,657,197.45

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

57. Supplementary information on cash flow statement

(1) Supplementary information on cash flow statement

Unit: RMB

Supplementary information	Amount for the period	Amount for the prior period
1. Reconciliation of net profit as cash flows from operating activities:	—	—
Net profit	2,022,605,809.35	977,931,606.85
Plus: Provision for impairment of assets	413,711,106.31	60,968,344.72
Depreciation of fixed assets, consumption of oil and gas assets, depreciation of bearer biological assets	1,390,594,426.71	1,370,646,542.34
Amortisation of intangible assets	41,992,002.69	33,322,277.57
Amortisation of long-term prepaid expenses	7,680,940.51	7,729,263.80
Loss on disposal of fixed assets, intangible assets and other long-term assets ("—" denotes gain)	1,536,454.18	-8,784,576.53
Loss on changes in fair value ("—" denotes gain)	20,084,425.90	19,078,538.02
Finance expenses ("—" denotes gain)	1,980,126,247.40	1,690,396,705.85
Investment loss ("—" denotes gain)	-84,369,949.52	-88,715,519.36
Decrease in deferred income tax assets ("—" denotes increase)	115,771,483.78	7,038,325.96
Decrease in inventories ("—" denotes increase)	348,249,144.52	267,650,283.24
Decrease in operating receivables ("—" denotes increase)	-6,476,853,510.02	-16,218,923,038.36
Increase in operating payables ("—" denotes decrease)	2,371,920,688.03	2,160,297,721.60
Net cash flows from operating activities	2,153,049,269.84	-9,721,363,524.30
2. Major investing and financing activities not involving cash settlements:	—	—
3. Net change in cash and cash equivalents:	—	—
Closing balance of cash	1,979,861,045.62	1,888,107,493.76
Less: Opening balance of cash	1,888,107,493.76	976,096,861.30
Net increase in cash and cash equivalents	91,753,551.86	912,010,632.46

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

57. Supplementary information on cash flow statement (Cont'd)

(2) Cash and cash equivalents composition

Unit: RMB

Item	Closing balance	Opening balance
I. Cash	1,979,861,045.62	1,888,107,493.76
Of which: Treasury cash	1,920,226.94	1,869,583.60
Bank deposit that can be used for payment at any time	1,977,940,818.68	1,886,237,910.16
III. Balance of cash and cash equivalent as at end of period	1,979,861,045.62	1,888,107,493.76

Note: As at 31 December 2016, restricted monetary funds amounted to RMB8,130,069,273.87 (31 December 2015: RMB7,096,218,522.25).

58. Assets with restricted ownerships or right to use

Unit: RMB

Item	Closing carrying amount	Reason for such restrictions
Monetary funds	8,130,069,273.87	As guarantee deposits for bank acceptance bills, letter of credit, and bank borrowings deposits, and deposit reserves (Note VII. 1)
Bills receivable	637,871,869.25	As collateral for short-term borrowings, bills payable, letters of guarantee and letters of credit (Note VII.2)
Fixed assets	4,597,554,400.35	As collateral for bank borrowings and long-term payables (Note VII. 13)
Intangible assets	432,328,638.94	As collateral for bank borrowings and long-term payables (Note VII. 16)
Total	13,797,824,182.41	—

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

59. Foreign currency items

(1) Foreign currency items

Unit: RMB

Item	Closing foreign currency balance	Exchange rate	Closing balance in RMB
Monetary funds			
Of which: USD	16,236,135.43	6.937	112,630,078.10
EUR	17,453,170.17	7.3068	127,526,823.80
HKD	103,587.97	0.89451	92,660.48
GBP	129,974.59	8.53	1,109,201.54
KRW	470,006,254.00	0.005757	2,705,826.00
JPY	26,235,318.00	0.059591	1,563,388.85
Accounts receivable			
Of which: USD	47,153,075.66	6.937	327,100,905.20
EUR	3,531,838.39	7.3068	25,806,436.75
KRW	121,315,755.18	0.005757	698,414.80
JPY	146,734,998.00	0.059591	8,744,085.35
Accounts payable			
Of which: USD	49,573,805.26	6.937	343,893,507.43
EUR	30,662,469.03	7.3068	224,044,528.71
Short-term borrowings			
Of which: USD	9,260,000.00	6.937	64,236,623.80
EUR	70,750,656.82	7.3068	516,960,899.25
Long-term borrowings			
Of which: USD	375,925,200.00	6.937	2,607,793,266.66
EUR	19,000,000.00	7.3068	138,829,200.00

- (2) Explanation on overseas operating entities (including major overseas operating entities), which shall disclose their overseas principal places of business, functional currency and basis. Reasons shall be disclosed if there is any change in the functional currency.

√ Applicable ☐ Not applicable

No.	Name of subsidiary	Principal place of business	Place of incorporation	Functional currency
1	Chenming GmbH	Hamburg, Germany	Hamburg, Germany	EUR
2	Chenming Paper Korea Co., Ltd.	Seoul, Korea	Seoul, Korea	KRW
3	Chenming (HK) Limited	Hong Kong, China	Hong Kong, China	USD
4	Chenming International Co., Ltd.	Los Angeles, USA	Los Angeles, USA	USD
5	Chenming Paper Japan Co., Ltd.	Tokyo, Japan	Tokyo, Japan	JPY

The companies numbered 3, 4 and 5 are companies of the fourth level. Overseas subsidiaries of the Company recognise U.S. dollar ("USD" or "US\$"), Japanese yen ("JPY") Euro ("EUR") and Korean Won ("KRW") as their respective functional currency according to the general economic environment in which these subsidiaries operate.

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VIII. Change in scope of consolidation

1. Newly established subsidiaries

Name	Time of incorporation	Scope of business	Registered capital	Shareholding
Qingdao Chenming Nonghai Financial Leasing Co., Ltd.	2016.07	Financial leasing, operating leasing, purchase of assets for leasing, etc.	5,000,000,000.00	100.00%
Jilin Chenming Logistic Co., Ltd.	2016.08	Road transportation of general cargo; transportation for containers; road transportation agency; consultation on cargo transportation; warehousing, loading and unloading services, etc.	5,000,000.00	100.00%
Jiangxi Chenming Logistic Co., Ltd.	2016.09	Road transportation of general cargo; transportation for containers; road transportation agency; consultation on cargo transportation; warehousing, loading and unloading services, etc.	5,000,000.00	100.00%

(Cont'd)

Name	Closing net assets	Net profit for the year
Jilin Chenming Logistic Co., Ltd.	5,060,579.45	60,579.45
Jiangxi Chenming Logistic Co., Ltd.	-41,544.31	-41,544.31
Total	1,408,568,911.41	11,424,130.17

2. Subsidiaries disposed of

Name of subsidiaries	Amount of disposal for equity	Disposal ratio (%)	Mode of disposal	Time of control ceases	Recognition	Differences arising from disposal amount and portion of net assets held by disposal investment for the range of consolidated financial statements
Shouguang Chenming Jiatai Property Management Co., Ltd.	1,000,000.00	100.00	Transfer	2016.12	Equity transfer agreement; amount of disposal has been received	1,203.20

IX. Interest in other entities

1. Interest in subsidiaries

(1) Constitution of the Group

Name of subsidiary	Principle place of business	Place of incorporation	Nature of business	Shareholding		Acquisition
				Direct	Indirect	
Zhanjiang Chenming Pulp & Paper Co., Ltd.	Zhanjiang, China	Zhanjiang, China	Paper making	100.00%		Establishment
Shouguang Meilun Paper Co., Ltd.	Shouguang, China	Shouguang, China	Paper making	100.00%		Establishment
Jilin Chenming Paper Co., Ltd.	Jilin, China	Jilin, China	Paper making	100.00%		Merger and acquisition
Huanggang Chenming Pulp & Paper Co., Ltd.	Huanggang, China	Huanggang, China	Pulp production	100.00%		Establishment
Shandong Chenming Paper Sales Co., Ltd.	Shouguang, China	Shouguang, China	Sales of paper	100.00%		Establishment
Shouguang Chenming Import and Export Trade Co., Ltd.	Shouguang, China	Shouguang, China	Import and export trade	100.00%		Establishment
Chenming GmbH	Hamburg, Germany	Hamburg, Germany	Paper product trading	100.00%		Establishment
Shouguang Chenming Papermaking Machine Co., Ltd.	Shouguang, China	Shouguang, China	Machinery manufacturing	100.00%		Establishment
Shouguang Hongxiang Printing and Packaging Co., Ltd.	Shouguang, China	Shouguang, China	Printing and packaging	100.00%		Merger and acquisition
Shouguang Chenming Modern Logistic Co., Ltd.	Shouguang, China	Shouguang, China	Transportation	100.00%		Establishment
Shouguang Chenming Industrial Logistics Co., Ltd.	Shouguang, China	Shouguang, China	Logistics	100.00%		Establishment
Jinan Chenming Investment Management Co., Ltd.	Jinan, China	Jinan, China	Investment management	100.00%		Establishment
Huanggang Chenming Arboriculture Co., Ltd.	Huanggang, China	Huanggang, China	Arboriculture	100.00%		Establishment
Chenming Arboriculture Co., Ltd.	Wuhan, China	Wuhan, China	Arboriculture	100.00%		Establishment
Chenming Paper Korea Co., Ltd.	Seoul, Korea	Seoul, Korea	Sales of paper	100.00%		Establishment
Shandong Chenming Power Supply Holdings Co., Ltd.	Shouguang, China	Shouguang, China	Power	100.00%		Establishment
Shouguang Shun Da Customs Declaration Co., Ltd.	Shouguang, China	Shouguang, China	Customs declaration	100.00%		Establishment
Shouguang Chenming Hongxin Packaging Co., Ltd.	Shouguang, China	Shouguang, China	Packaging	100.00%		Establishment
Wuxi Song Ling Paper Co., Ltd.	Wuxi, China	Wuxi, China	Paper making	100.00%		Merger and acquisition
Shandong Chenming Paper Group (Fuyu) Sales Co., Ltd.	Fuyu, China	Fuyu, China	Sales of paper	100.00%		Establishment
Shandong Chenming Group Finance Co., Ltd.	Jinan, China	Jinan, China	Finance	80.00%	20.00%	Establishment
Nanchang Chenming Arboriculture Co., Ltd.	Nanchang, China	Nanchang, China	Paper making	51.00%	49.00%	Establishment
Qingdao Chenming International Logistics Co., Ltd.	Qingdao, China	Qingdao, China	Logistics	30.00%	70.00%	Establishment

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IX. Interest in other entities (Cont'd)

1. Interest in subsidiaries (Cont'd)

(1) Constitution of the Group (Cont'd)

Name of subsidiary	Principle place of business	Place of incorporation	Nature of business	Shareholding		Acquisition
				Direct	Indirect	
Shouguang Chenming Art Paper Co., Ltd.	Shouguang, China	Shouguang, China	Paper making	75.00%		Establishment
Hailaer Chenming Paper Co., Ltd.	Hailaer, China	Hailaer, China	Paper making	75.00%		Establishment
Shandong Grand View Hotel Co., Ltd.	Shouguang, China	Shouguang, China	Catering	70.00%		Establishment
Haicheng Haiming Mining Co., Ltd.	Haicheng, China	Haicheng, China	Mining	60.00%		Establishment
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	Wuhan, China	Wuhan, China	Paper making	50.93%		Establishment
Shandong Chenming Financial Leasing Co., Ltd.	Jinan, China	Jinan, China	Financial leasing		100.00%	Establishment
Qingdao Chenming Nonghai Financial Leasing Co., Ltd.	Qingdao, China	Qingdao, China	Financial leasing		100.00%	Establishment
Chenming (HK) Limited	Hong Kong, China	Hong Kong, China	Paper product trading		100.00%	Establishment
Shouguang Hongyi Decorative Packaging Co., Ltd.	Shouguang, China	Shouguang, China	Packaging		100.00%	Merger and acquisition
Shouguang Xinyuan Coal Co., Ltd.	Shouguang, China	Shouguang, China	Coal		100.00%	Merger and acquisition
Shouguang City Run Sheng Wasted Paper Recycle Co., Ltd.	Shouguang, China	Shouguang, China	Purchase and sale of waste		100.00%	Merger and acquisition
Shouguang Wei Yuan Logistics Company Limited	Shouguang, China	Shouguang, China	Logistics		100.00%	Merger and acquisition
Shandong Chenming Panels Co., Ltd.	Shouguang, China	Shouguang, China	Panels		100.00%	Merger and acquisition
Shandong Chenming Floor Board Co., Ltd.	Shouguang, China	Shouguang, China	Floor board		100.00%	Merger and acquisition
Shouguang Chenming Cement Co., Limited	Shouguang, China	Shouguang, China	Cement		100.00%	Establishment
Wuhan Chenming Qianneng Electric Power Co., Ltd.	Wuhan, China	Wuhan, China	Electric power		51.00%	Establishment
Shandong Chenming Investment Limited	Jinan, China	Jinan, China	Investment		100.00%	Establishment
Japan Chenming Paper Co., Ltd.	Tokyo, Japan	Tokyo, Japan	Paper product trading		100.00%	Establishment
Chenming International Co., Ltd.	Los Angeles, the United States	Los Angeles, the United States	Paper product trading		100.00%	Establishment
Zhanjiang Chenming Arboriculture Co., Ltd.	Zhanjiang, China	Zhanjiang, China	Arboriculture		100.00%	Establishment
Yangjiang Chenming Arboriculture Co., Ltd.	Yangjiang, China	Yangjiang, China	Arboriculture		100.00%	Establishment
Nanchang Chenming Arboriculture Co., Ltd.	Nanchang, China	Nanchang, China	Arboriculture		100.00%	Establishment
Guangdong Huirui Investment Co., Ltd.	Zhanjiang, China	Zhanjiang, China	Investment		51.00%	Merger and acquisition

IX. Interest in other entities (Cont'd)

1. Interest in subsidiaries (Cont'd)

(1) Constitution of the Group (Cont'd)

Name of subsidiary	Principle place of business	Place of incorporation	Nature of business	Shareholding		Acquisition
				Direct	Indirect	
Zhanjiang Chenming New-style Wall Materials Co., Ltd.	Zhanjiang, China	Zhanjiang, China	Wall materials		100.00%	Establishment
Jilin Chenming New-style Wall Materials Co., Ltd.	Jilin, China	Jilin, China	Wall materials		100.00%	Establishment
Jilin Chenming Machinery Manufacturing Co., Limited	Jilin, China	Jilin, China	Machinery manufacturing		100.00%	Establishment
Jilin Chenming Logistics Co., Ltd.	Jilin, China	Jilin, China	Logistics		100.00%	Establishment
Jiangxi Chenming Logistics Co., Ltd.	Nanchang, China	Nanchang, China	Logistics		100.00%	Establishment
Fuyu Chenming Paper Co., Ltd.	Fuyu, China	Fuyu, China	Paper making		100.00%	Establishment
Zhanjiang Meilun Pulp & Paper Co., Ltd.	Zhanjiang, China	Zhanjiang, China	Paper making		100.00%	Establishment

(2) Major non-wholly owned subsidiaries

Unit: RMB

Name	Minority interests	Gain or loss attributable to minority interests during the period	Dividend to minority interests declared during the period	Closing balance of minority interests
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	49.07%	-38,823,021.05		122,195,457.36
Shouguang Chenming Art Paper Co., Ltd.	25.00%	6,775,114.07		38,049,932.55
Shandong Grand View Hotel Co., Ltd.	30.00%	-3,679,108.68		-32,768,050.81
Hailaer Chenming Paper Co., Ltd.	25.00%	-2,493,319.24		9,135,357.41
Haicheng Haiming Mining Co., Ltd.	40.00%	-51,302.00		95,948,698.00
Guangdong Huirui Investment Co., Ltd.	49.00%	-3,109,376.00		113,489,453.25
Total		-41,381,012.90		346,050,847.76

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IX. Interest in other entities (Cont'd)

1. Interest in subsidiaries (Cont'd)

(3) Key financial information of major non-wholly owned subsidiaries

Unit: RMB

Name	Closing balance						Opening balance					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	1,768,965,632.03	1,224,480,696.33	2,993,446,328.36	2,752,454,924.45	56,443,514.03	2,808,898,438.48	2,007,256,202.41	1,380,850,115.36	3,388,106,317.77	2,774,652,401.54	329,704,558.79	3,104,356,960.33
Shouguang Chenming Art Paper Co., Ltd.	154,755,091.25	722,086,544.67	876,841,635.92	724,641,905.77		724,641,905.77	348,618,114.49	775,158,813.32	1,123,776,927.81	998,677,653.92		998,677,653.92
Shandong Grand View Hotel Co., Ltd.	14,688,579.92	219,520,044.14	234,208,624.06	343,435,460.10		343,435,460.10	12,366,917.52	227,377,776.55	239,744,694.07	336,707,834.51		336,707,834.51
Hailaer Chenming Paper Co., Ltd.	13,622,564.86	28,431,683.32	42,054,248.18	5,512,818.55		5,512,818.55	23,585,841.82	28,431,683.32	52,027,525.14	5,512,818.55		5,512,818.55
Haicheng Haiming Mining Co., Ltd.	57,357,546.56	914,205,828.11	971,563,374.67	731,691,629.67		731,691,629.67	11,123,328.76	679,152,169.96	690,275,498.72	450,275,498.72		450,275,498.72
Guangdong Huirui Investment Co., Ltd.	317,118,671.16	186,264.83	317,304,935.99	7,713,806.92	77,980,000.00	85,693,806.92	429,746,302.55	402,131.87	430,148,434.42	14,211,640.04	177,980,000.00	192,191,640.04

Unit: RMB

Name	Amount during the year				Amount during the prior year			
	Revenue	Net profit	Total comprehensive income	Cash flows from operating activities	Revenue	Net profit	Total comprehensive income	Cash flows from operating activities
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	1,104,452,896.66	-56,916,123.05	-56,916,123.05	300,251,087.47	1,109,193,960.70	-65,262,903.36	-65,262,903.36	-326,014,851.95
Shouguang Chenming Art Paper Co., Ltd.	636,584,690.59	27,100,456.25	27,100,456.25	27,100,456.25	620,022,538.30	-2,772,404.93	-2,772,404.93	194,874,455.71
Shandong Grand View Hotel Co., Ltd.	33,833,266.56	-12,263,695.60	-12,263,695.60	-12,263,695.60	34,262,339.14	-20,320,246.50	-20,320,246.50	4,025,704.06
Hailaer Chenming Paper Co., Ltd.		-9,973,276.96	-9,973,276.96	-20,000.16		-13,671,120.29	-13,671,120.29	-11,123,133.00
Haicheng Haiming Mining Co., Ltd.		-128,255.00	-128,255.00					
Guangdong Huirui Investment Co., Ltd.		-6,345,665.31	-6,345,665.31	-21,704.03		-4,304,982.48	-4,304,982.48	-12,023,537.82

2. Interest in joint arrangements or associates

(1) Major joint ventures and associates

Name of joint ventures and associates	Principle place of business	Place of incorporation	Nature of business	Shareholding		Accounting method
				Direct	Indirect	
Shouguang Chenming Huisen New-style Construction Materials Co., Ltd.	Shouguang, China	Shouguang, China	Construction materials	50.00%		Equity method
Arjo Wiggins Chenming Specialty Paper Co., Ltd.	Shouguang, China	Shouguang, China	Paper making	30.00%		Equity method
Jiangxi Jiangbao Media Colour Printing Co. Ltd.	Nanchang, China	Nanchang, China	Printing	21.145%		Equity method
Zhuhai Dechen New Third Board Equity Investment Fund Company (Limited Partnership)	Zhuhai, China	Zhuhai, China	Investment management	49.995%		Equity method
Wuhan Chenming Wan Xing Real Estate Co., Ltd.	Wuhan, China	Wuhan, China	Real estate development	40.00%		Equity method
Jiangxi Chenming Port Co., Ltd.	Nanchang, China	Nanchang, China	Handling and transportation of goods and storage	40.00%		Equity method

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IX. Interest in other entities (Cont'd)

2. Interest in joint arrangements or associates (Cont'd)

(2) Key financial information of major joint ventures

Unit: RMB

	Closing balance/amount during the year Shouguang Chenming Huisen New-style Construction Materials Co., Ltd.	Opening balance/amount during the prior year Shouguang Chenming Huisen New-style Construction Materials Co., Ltd.
Current assets	4,249,054.46	5,729,672.61
Of which: Cash and cash equivalents	458,458.31	52,995.32
Non-current assets	12,473,449.30	12,036,429.24
Total assets	16,722,503.76	17,766,101.85
Current liabilities	10,045,543.68	11,812,466.81
Total liabilities	10,045,543.68	11,812,466.81
Shareholders' equity	6,676,960.08	5,953,635.04
Share of net assets based on shareholding	3,338,480.04	2,976,817.52
Carrying amount of investment in joint ventures	3,338,480.04	2,976,817.52
Revenue	9,413,451.32	329,743.67
Finance expenses	231,928.00	-127.50
Income tax expenses	22,169.33	
Net profit	723,325.04	-45,940.93
Total comprehensive income	723,325.04	-45,940.93

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IX. Interest in other entities (Cont'd)

2. Interest in joint arrangements or associates (Cont'd)

(3) Key financial information of major associates

Unit: RMB

	Closing balance/amount during the year				Opening balance/amount during the prior year			
	Jiangxi Jiangbao Media Colour Printing Co. Ltd.	Zhuhai Dechen New Third Board Equity Investment Fund Company (Limited Partnership	Wuhan Chenming Wan Xing Real Estate Co., Ltd.	Jiangxi Chenming Port Co., Ltd.	Jiangxi Jiangbao Media Colour Printing Co. Ltd.	Zhuhai Dechen New Third Board Equity Investment Fund Company (Limited Partnership	Wuhan Chenming Wan Xing Real Estate Co., Ltd.	Jiangxi Chenming Port Co., Ltd.
Current assets	24,068,421.70	39,815,555.02	1,675,978,214.45	9,736,438.88	24,151,413.58	75,285,532.03	1,511,430,436.81	10,285,611.08
Non-current assets	10,816,762.76	62,760,000.00	21,774,839.04	110,970,435.58	14,157,621.78	25,760,000.00	2,891,556.01	45,773,293.56
Total assets	34,885,184.46	102,575,555.02	1,697,753,053.49	120,706,874.46	38,309,035.36	101,045,532.03	1,514,321,992.82	56,058,904.64
Current liabilities	20,399,149.78	5,000.00	590,521,405.00	105,780,641.88	18,376,661.74	5,705.20	314,361,519.98	41,553,342.83
Non-current liabilities			1,046,021,254.91				1,152,550,550.91	
Total liabilities	20,399,149.78	5,000.00	1,636,542,659.91	105,780,641.88	18,376,661.74	5,705.20	1,466,912,070.89	41,553,342.83
Shareholders' equity	14,486,034.68	102,570,555.02	61,210,393.58	14,926,232.58	19,932,373.62	101,039,826.83	47,409,921.93	14,505,561.81
Share of net assets based on shareholding	3,063,072.03	51,280,148.98	24,484,157.43	5,973,566.46	4,217,690.26	50,519,913.42	18,963,968.77	5,802,224.72
- Unrealised profit arising from intra-group transactions			-20,887,432.05				-11,811,686.15	
- Others						-176,672.13		
Carrying amount of investment in associates	3,063,072.03	51,280,148.98	3,596,725.38	5,973,566.46	4,217,690.26	50,343,241.28	7,152,282.62	5,802,224.72
Revenue	13,455,840.99		284,917,004.35	28,290,476.10	21,450,057.79		261,784,437.00	43,828,917.16
Net profit	-5,446,338.94	1,530,728.19	13,800,471.65	428,354.35	-2,103,479.86	1,029,826.83	-9,115,812.74	-31,887.40
Total comprehensive income	-5,446,338.94	1,530,728.19	13,800,471.65	428,354.35	-2,103,479.86	1,029,826.83	-9,115,812.74	-31,887.40

(4) Excess loss of joint ventures or associates

Unit: RMB

Name	Accumulated unrecognised loss incurred for prior periods	Unrecognised loss (or share of net profit) for the period	Accumulated unrecognised loss as at the end of the period
Arjo Wiggins Chenming Specialty Paper Co., Ltd.	7,308,869.16		7,308,869.16

X. Risk relating to financial instruments

Principal financial instruments of the Company include equity investments, debt investments, loans, receivables, payables and others, further information of which are set out in relevant items of this note XI. Risks relating to these financial instruments and relevant risk management policies of the Company are described below. The management of the Company manages and controls the risk exposures to ensure they are under control.

The Company adopts sensitivity analysis techniques to analyse the possible effects of rational and probable changes in risk variables to profit or loss for the period or to the interests of shareholders. Since risk variables seldom change on a stand-alone basis, while the correlation between variables may have significant influence to the ultimate amount of change effected by the change in a single risk variable, the analysis below is based on the assumption that the changes in each variable occurred separately.

1. Objective and policies of risk management

The objective of the risk management of the Company is to maintain an appropriate balance between risks and return so as to minimise the negative effects of risks on the Company's operating results in order to maximise the benefits of the shareholders and other stakeholders. Based on such objective, the principal strategy of the Company's risk management is to identify and analyse all types of risks of the Company, establish appropriate risk tolerance thresholds, carry out risk management procedures and perform risk monitoring on all kinds of risks in a timely and reliable manner, thus controlling the risk exposures within a prescribed level.

(1) Market risk

① Foreign exchange risk

Foreign exchange risk describes the risk of loss arising from variation of the exchange rate. The Company is primarily exposed to risks relating to USD, EUR, HKD, JPY, GBP and KRW. Save for several subsidiaries of the Company whose purchases and sales are denominated in USD, EUR, HKD, JPY, GBP and KRW, other principal activities of the Company are settled in RMB. As at 31 December 2016, except for the following assets and liabilities whose balance were denominated in USD, EUR, HKD, JPY, GBP and KRW, the Company adopted RMB to present the balance of its assets and liabilities. The foreign exchange risks arising from assets and liabilities denominated in foreign currencies may affect the operating results of the Company.

X. Risk relating to financial instruments (Cont'd)

1. Objective and policies of risk management (Cont'd)

(1) Market risk (Cont'd)

① Foreign exchange risk (Cont'd)

Financial assets and financial liabilities denominated in foreign currencies held by the Company as at 31 December 2016 and 31 December 2015 were translated into RMB as follows:

31 December 2016

Items	USD	EUR	HKD	JPY	GBP	KRW
Financial assets denominated in foreign currencies-						
Monetary funds	112,630,078.10	127,526,823.80	92,660.48	1,563,388.85	1,109,201.54	2,705,826.00
Accounts receivable	327,100,905.20	25,806,436.75		8,744,085.35		698,414.80
Sub-total	439,730,983.30	153,333,260.55	92,660.48	10,307,474.20	1,109,201.54	3,404,240.80
Financial liabilities denominated in foreign currencies-						
Short-term borrowings	64,236,623.80	516,960,899.25				
Accounts payable	343,893,507.43	224,044,528.71				
Non-current liabilities due within one year						
Long-term borrowings	2,607,793,266.66	138,829,200.00				
Sub-total	3,015,923,397.89	879,834,627.96				

31 December 2015

Items	USD	EUR	HKD	JPY	GBP	KRW
Financial assets denominated in foreign currencies-						
Monetary funds	331,625,115.33	56,387,887.94	448,101.09	1,291,604.85	524,510.23	1,373,621.68
Accounts receivable	284,443,777.68	27,376,695.88		8,624,757.05		
Sub-total	616,068,893.01	83,764,583.82	448,101.09	9,916,361.90	524,510.23	1,373,621.68
Financial liabilities denominated in foreign currencies-						
Short-term borrowings	5,108,765,144.31	2,015,993,688.47				
Accounts payable	266,336,853.77	2,329,744.47				
Non-current liabilities due within one year	1,253,264,800.00					
Long-term borrowings	1,785,649,089.60	1,452,316,488.00				
Sub-total	8,414,015,887.68	3,470,639,920.94				

X. Risk relating to financial instruments (*Cont'd*)1. Objective and policies of risk management (*Cont'd*)(1) Market risk (*Cont'd*)① Foreign exchange risk (*Cont'd*)

The Company has been paying close attention to the effect of fluctuation in exchange rate on the foreign exchange risks of the Company and has adopted the following measures to avoid foreign exchange risk: A. to have reasonable allocation between assets and liabilities denominated in foreign currencies, gradual reduction in domestic borrowings denominated in foreign currencies and appropriate allocation of liabilities denominated in EUR for overseas subsidiaries to avoid foreign exchange risk; B. to closely monitor the exchange rate changes in the international market and fix the exchange rate for certain business denominated in foreign currencies when the swap price is appropriate.

Exchange rate risk sensitivity analysis:

Exchange rate risk - sensitivity analysis assumes that there is a high level of effectiveness in hedging both net investment in foreign operations and cash flow. Based on the assumptions, with other factors unchanged, the exchange rate might float within a reasonable range, and has the following before tax effect on profit or loss and shareholders' equity for the current period:

Currency	Exchange rate change	For the year Effect on profit	For the prior year Effect on profit
USD	5% appreciation against RMB	-125,804,564.18	-389,897,349.73
USD	5% devaluation against RMB	125,804,564.18	389,897,349.73
EUR	5% appreciation against RMB	-36,325,068.37	-169,343,766.86
EUR	5% devaluation against RMB	36,325,068.37	169,343,766.86
GBP	5% appreciation against RMB	55,460.08	26,225.51
GBP	5% devaluation against RMB	-55,460.08	-26,225.51
HKD	5% appreciation against RMB	4,633.02	22,405.05
HKD	5% devaluation against RMB	-4,633.02	-22,405.05
JYP	5% appreciation against RMB	515,373.71	495,818.10
JYP	5% devaluation against RMB	-515,373.71	-495,818.10
KRW	5% appreciation against RMB	170,212.04	68,681.08
KRW	5% devaluation against RMB	-170,212.04	-68,681.08

X. Risk relating to financial instruments (Cont'd)

1. Objective and policies of risk management (Cont'd)

(1) Market risk (Cont'd)

② Interest rate risk

The interest rate risk of the Company arises from the interest-bearing debt such as bank loans and bonds payable. Variable-rate financial liabilities make the Company exposes to cash flow interest rate risk. Fixed-rate financial liabilities make the Company exposes to fair value interest rate risk. The Company determines the proportion between fixed-rate and variable-rate contracts based on the prevailing market environment. As at 31 December 2016, the interest-bearing debts of the Company mainly consisted of variable-rate borrowings contracts in RMB and USD amounting to RMB36,155,046,051.76 (31 December 2015: RMB31,900,217,553.01), and fixed-rate interest rate contracts in RMB amounting to RMB28.0 billion (31 December 2015: RMB18.5 billion).

The finance department of the headquarters of the Company continuously monitors the interest rate level of the Group. When the interest rate increases, the cost of the new interest bearing debts and the outstanding interest expenses incurred by the variable-rate interest bearing debts of the Company will increase, thereby having a material adverse effect on the financial results of the Company. The management will make timely adjustment based on the latest market conditions. The Board of the Company believes that the change in future interest rate will not have significant adverse effect on the operating results of the Company.

On 31 December 2016, if the interest rate of the interest-bearing debts increases or decrease by 10% with all other variables held constant, the profit for the year would have increased or decreased by approximately RMB195,671,909.48 (2015: RMB102,670,407.04) mainly due to the increase and decrease of the interest expenses.

(2) Credit risk

The Company manages the credit risk by portfolio. Credit risk mainly arises from bank deposit, accounts receivable, other receivables and bills receivable. The majority of the Company's cash at banks are deposited in state-owned banks and other medium or large listed banks. All of the bills receivable are bank acceptance and commercial acceptance bills of higher credit rating. There is no significant credit risk in the opinion of the Company and no significant loss will be incurred due to default by counterparties. Sales are settled through the combination of advance receipts and credit. Customers are granted a credit period through a strict credit approval system. The Company has set up a department specialising in reviewing the credibility of the trade customers regularly, thereby reasonably controlling the credit line and term of each trade customer, recovering amounts in arrears on a timely basis and examining the recoverable amounts in respect of accounts receivables one by one making corresponding bad debt provisions in full at the end of the period, reinforcing the post-credit control towards overdue amount and seeking securities and pledge of assets to reduce the risks. As a result, there is no significant credit risk in trade customers. The management of the Company believes that no significant loss will be incurred due to default by the aforesaid parties.

Ageing analysis of overdue but not impaired financial assets

Unit: RMB'0,000

	Closing balance					Opening balance				
	Within one year	1-3 years	3-5 years	Over 5 years	Total	Within one year	1-3 years	3-5 years	Over 5 years	Total
Long-term receivable	55,469.54				55,469.54					

X. Risk relating to financial instruments (Cont'd)

1. Objective and policies of risk management (Cont'd)

(3) Liquidity risk

The Company maintains and monitors a level of cash and cash equivalents deemed adequate by the management to meet the operation needs of the Company and to reduce the effect of cash flow movements. The management of the Company monitors the usage of bank borrowings, and ensures compliance with borrowing agreements

The Company considers bank loans and issuance of other financing instruments as its primary source of fund. As at 31 December 2016, unutilised bank loans of the Company amounted to RMB31,742,412,800.00 (31 December 2015: RMB27,554,473,800.00).

Each subsidiary of the Company is responsible for its own cash flows forecast. The finance department of the headquarter continuously monitors the short-term and long-term funding requirement at the group level based on the consolidated cash flow forecast of each subsidiary, thereby ensuring a sufficient cash reserve. The department continues to monitor the compliance with borrowing agreements and obtains sufficient facilities from major financial institutions to satisfy the short-term and long-term funding requirement.

On the balance sheet date, the contracted cash flows of various financial assets and financial liabilities of the Company are set out according to the maturity date as follows:

31 December 2016

Item	Within one year	One to two years	Two to five years	Over five years	Total
Financial assets					
Monetary funds	10,109,930,319.49				10,109,930,319.49
Bills receivable	1,590,460,875.23				1,590,460,875.23
Accounts receivable	3,961,114,227.86	150,831,025.66	202,721,081.83		4,314,666,335.35
Other receivables	719,754,475.07	436,812,690.03	405,725,357.74	140,300,377.47	1,702,592,900.31
Non-current assets due within one year	5,487,376,588.22				5,487,376,588.22
Other current assets	5,711,218,309.49				5,711,218,309.49
Long-term receivables			13,545,382,743.83		13,545,382,743.83
Sub-total	27,579,854,795.36	587,643,715.69	14,153,829,183.40	140,300,377.47	42,461,628,071.92
Financial liabilities					
Short-term borrowings	27,875,506,988.53				27,875,506,988.53
Bills payable	515,301,703.08				515,301,703.08
Accounts payable	3,296,220,303.37	140,901,523.75	287,144,554.94		3,724,266,382.06
Interest payable	30,731,253.71				30,731,253.71
Other payables	920,012,746.31	18,263,910.53	10,642,539.06		948,919,195.90
Non-current liabilities due within one year	6,237,021,557.17				6,237,021,557.17
Long-term borrowings		1,993,603,152.00	2,943,974,924.40	1,998,020,704.83	6,935,598,781.23
Long-term payables			3,951,368,854.00		3,951,368,854.00
Short-term commercial paper	6,602,863,069.45				6,602,863,069.45
Sub-total	45,477,657,621.62	2,152,768,586.28	7,193,130,872.40	1,998,020,704.83	56,821,577,785.13

(Cont'd)

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X. Risk relating to financial instruments (Cont'd)

1. Objective and policies of risk management (Cont'd)

(3) Liquidity risk (Cont'd)

31 December 2015

Item	Within one year	One to two years	Two to five years	Over five years	Total
Financial assets					
Monetary funds	8,984,326,016.01				8,984,326,016.01
Bills receivable	3,998,782,845.65				3,998,782,845.65
Accounts receivable	4,256,225,770.94				4,256,225,770.94
Other receivables	1,555,723,453.07				1,555,723,453.07
Non-current assets due within one year	2,893,133,653.86				2,893,133,653.86
Other current assets	6,160,937,261.77				6,160,937,261.77
Long-term receivables		4,211,845,587.73	6,131,176,645.71		10,343,022,233.44
Other non-current assets		900,000,000.00			900,000,000.00
Sub-total	27,849,129,001.30	5,111,845,587.73	6,131,176,645.71		39,092,151,234.74
Financial liabilities					
Short-term borrowings	24,755,535,672.86				24,755,535,672.86
Bills payable	3,281,599,412.31				3,281,599,412.31
Accounts payable	2,942,337,386.57				2,942,337,386.57
Interest payable	150,075,698.23				150,075,698.23
Other payables	1,158,567,353.38				1,158,567,353.38
Non-current liabilities due within one year	1,975,300,816.32				1,975,300,816.32
Long-term borrowings		1,553,541,829.60	2,815,501,765.34	800,337,468.89	5,169,381,063.83
Bonds payable	2,000,000,000.00	3,800,000,000.00			5,800,000,000.00
Long-term payables			294,000,000.00	50,000,000.00	344,000,000.00
Medium-term notes		1,100,000,000.00			1,100,000,000.00
Private placing bond	1,500,000,000.00				1,500,000,000.00
Short-term commercial paper	10,100,000,000.00				10,100,000,000.00
Sub-total	47,863,416,339.67	6,453,541,829.60	3,109,501,765.34	850,337,468.89	58,276,797,403.50

X. Risk relating to financial instruments (Cont'd)

1. Objective and policies of risk management (Cont'd)

(3) Liquidity risk (Cont'd)

An analysis of the repayment of bank borrowings and bonds payable is as follows:

	Closing balance		Opening balance	
	Bank borrowings	Bonds payable	Bank borrowings	Bonds payable
Borrowings with the last repayment date within five years	34,157,025,346.93		31,099,880,084.12	8,400,000,000.00
Borrowings with the last repayment date after five years	1,998,020,704.83		800,337,468.89	
Total	36,155,046,051.76		31,900,217,553.01	8,400,000,000.00

2. Transfer of financial assets

Financial assets transferred and ceased to be recognised but with involvement of the transferor

During the year, the Company discounted bank acceptance of RMB2,690,129,296.16 (last year: RMB3,861,622,115.19). As key risks such as interest rate risk and rewards of the acceptance had been transferred to relevant banks, the Company ceased to recognise the discounted acceptance not yet due. Pursuant to discount agreements, the banks were entitled to require the Company to settle any balance of such acceptance if not accepted when due, and the Company therefore had on-going involvement with them. As at 31 December 2016, discounted bank acceptance not yet due amounted to RMB1,489,320,047.19 (31 December 2015: RMB1,296,249,121.66).

XI. Fair value

1. Fair value of assets and liabilities measured at fair value as at the end of the year

Item	Fair value as at the end of the year			Total
	Level 1	Level 2	Level 3	
Consumable biological assets			1,260,027,400	1,260,027,400.71
Total assets continuously measured at fair value			1,260,027,400	1,260,027,400.71

2. Level 3 continuous and non-continuous measurement, valuation techniques and qualification and quantification of key inputs

The Company adopts the income method in determining the fair value of its consumable biological assets. Under the income method, the valuation is arrived at based on the aggregate expected future profit estimates from forest resources discounted to their present values at an applicable rate which is usually equivalent to yield prevailing in the forestry industry.

Key input of the method includes expected annual income and discount rate.

Expected annual profit = expected annual income - expected total input

Expected annual income = expected output x expected sales price

Expected output = based on normal output of the Company's logging

Expected sales price = normal sales price of the Company in 2016

Expected total input is based on total historic input of saplings growing of the Company up to logging.

Discount rate is 10.74%, based on the yield prevailing in the industry.

XI. Fair value (Cont'd)

3. Level 3 continuous measurement, adjustment between opening and closing value and sensitivity of unobservable inputs

Opening carrying amount	1,270,054,845.18
Sapling increase during the year	95,487,415.00
Sales decrease during the year	85,430,433.57
Change in fair value through profit or loss for the year	-20,084,425.90
Closing carrying amount	1,260,027,400.71

The Company adopts sensitivity analysis techniques to analyse the possible effects of rational and probable changes in risk variables to profit or loss for the period or to the interests of shareholders. Since risk variables seldom change on a stand-alone basis, while the correlation between variables may have significant influence to the ultimate amount of change effected by the change in a single risk variable, the analysis below is based on the assumption that the changes in each variable occurred separately.

Item	Change in discount rate	For the year		For the prior year	
		Impact on profit	Impact on shareholders' equity	Impact on profit	Impact on shareholders' equity
Consumable biological assets	Increase of 1 percentage point	-52,728,475.37	-52,728,475.37	-41,987,625.64	-41,987,625.64
Consumable biological assets	Decrease of 1 percentage point	57,146,004.46	57,146,004.46	45,237,516.15	45,237,516.15
Consumable biological assets	1% increase in price	19,606,428.81	19,606,428.81	16,198,936.84	16,198,936.84
Consumable biological assets	1% decrease in price	-19,606,428.81	-19,606,428.81	-16,198,936.88	-16,198,936.88

4. Fair value of financial assets and financial liabilities not measured at fair value

① Financial instruments not measured at fair value

The financial assets and financial liabilities not measured at fair value mainly consist of: accounts receivable, short-term borrowings, accounts payable, long-term borrowings, bonds payable and long-term payables.

The carrying amount of financial assets and financial liabilities deviates from the fair value by a small amount.

② As at 31 December 2016, the Company had no financial instruments measured at fair value (31 December 2015: Nil).

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XII. Related parties and related party transactions

1. Parent company of the Company

Name of parent company	Place of incorporation	Business nature	Registered capital	Shareholding of the parent company in the Company	Voting right of the parent company in the Company
Shouguang Chenming Holdings Co., Ltd.	Shouguang City	Investment in manufacture of paper, electricity, steam, arboriculture	1,238,787,742	24.07%	24.07%

The ultimate controller of the Company is Shouguang State-owned Assets Supervision and Administration Office.

2. Subsidiaries of the Company

Please refer to Note IX. 1. Interest in subsidiaries for details.

3. Joint ventures and associates of the Company

Please refer to Note IX. 2. Interest in joint arrangements or associates for details.

Balance of related party transaction between the Company and its joint ventures or associates during the period or prior periods are as follows:

Name of joint ventures or associates	Relation
Wuhan Chenming Wan Xing Real Estate Co., Ltd.	An associate of the Company
Jiangxi Jiangbao Media Colour Printing Co. Ltd.	An associate of the Company
Arjo Wiggins Chenming Specialty Paper Co., Ltd.	An associate of the Company
An associate of the Company	
Shouguang Chenming Huisen New-style Construction Materials Co., Ltd.	A joint venture of the Company

4. Other related parties

Name of other related parties	Relation
Anhui Time Source Corporation	A subsidiary
Shouguang Hengtai Enterprise Investment Company Limited	A company invested by the senior management of the Company
Jiangxi Chenming Natural Gas Co., Ltd.	The senior management of the Company serving as directors

XII. Related parties and related party transactions (Cont'd)

5. Related party transactions

(1) Purchase and sales of goods and rendering and receiving services

Table on purchase of goods/receiving of services

Unit: RMB

Related party	Details of related party transaction	Amount during the period	Transaction facility approved	Whether the transaction facility is exceeded	Amount during the prior period
Jiangxi Chenming Natural Gas Co., Ltd.	Procurement of natural gas	169,436,914.53	360,000,000.00	No	123,255,310.36

Table on sales of goods/provision of services

Unit: RMB

Related party	Details of related party transactions	Amount during the period	Amount for the prior period
Jiangxi Jiangbao Media Colour Printing Co. Ltd.	Sales of paper	519,612.20	1,512,721.99
Anhui Time Source Corporation	Sales of paper	286,598,827.81	348,929,757.23

(2) Guarantee

The Company as guarantor

Unit: RMB

Party being guaranteed	Amount under guarantee	Starting date of guarantee	Expiry date of guarantee	Whether performance of guarantee is completed
Zhanjiang Chenming Pulp & Paper Co., Ltd.	50,000,000.00	4 March 2016	26 February 2017	No
Zhanjiang Chenming Pulp & Paper Co.	50,000,000.00	11 March 2016	26 February 2017	No
Zhanjiang Chenming Pulp & Paper Co.	60,000,000.00	5 December 2016	25 November 2017	No
Zhanjiang Chenming Pulp & Paper Co.	40,000,000.00	27 December 2016	20 December 2017	No
Zhanjiang Chenming Pulp & Paper Co.	100,000,000.00	8 April 2016	7 April 2017	No
Zhanjiang Chenming Pulp & Paper Co.	100,000,000.00	22 April 2016	21 April 2017	No
Zhanjiang Chenming Pulp & Paper Co.	50,000,000.00	2 March 2016	1 March 2017	No
Zhanjiang Chenming Pulp & Paper Co.	40,000,000.00	21 March 2016	20 March 2017	No
Zhanjiang Chenming Pulp & Paper Co.	85,000,000.00	17 June 2016	16 June 2017	No
Zhanjiang Chenming Pulp & Paper Co.	100,000,000.00	27 June 2016	26 June 2017	No
Zhanjiang Chenming Pulp & Paper Co.	85,000,000.00	28 October 2016	27 October 2017	No

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XII. Related parties and related party transactions (Cont'd)

5. Related party transactions (Cont'd)

(2) Guarantee (Cont'd)

Party being guaranteed	Amount under guarantee	Starting date of guarantee	Expiry date of guarantee	Whether performance of guarantee is completed
Zhanjiang Chenming Pulp & Paper Co.	115,000,000.00	1 December 2016	30 November 2017	No
Zhanjiang Chenming Pulp & Paper Co.	100,000,000.00	9 December 2016	8 December 2017	No
Zhanjiang Chenming Pulp & Paper Co.	50,000,000.00	4 November 2016	3 November 2017	No
Zhanjiang Chenming Pulp & Paper Co.	75,000,000.00	5 July 2016	4 July 2017	No
Zhanjiang Chenming Pulp & Paper Co.	90,000,000.00	4 August 2016	3 August 2017	No
Zhanjiang Chenming Pulp & Paper Co.	100,000,000.00	22 September 2016	21 September 2017	No
Zhanjiang Chenming Pulp & Paper Co.	100,000,000.00	8 December 2016	7 December 2017	No
Zhanjiang Chenming Pulp & Paper Co.	100,000,000.00	15 December 2016	14 December 2017	No
Zhanjiang Chenming Pulp & Paper Co.	110,000,000.00	24 October 2016	23 October 2017	No
Zhanjiang Chenming Pulp & Paper Co.	90,000,000.00	29 November 2016	29 November 2017	No
Zhanjiang Chenming Pulp & Paper Co.	100,000,000.00	24 June 2016	23 June 2017	No
Zhanjiang Chenming Pulp & Paper Co.	104,674,945.18	3 June 2016	2 June 2017	No
Zhanjiang Chenming Pulp & Paper Co.	100,000,000.00	29 June 2015	29 June 2017	No
Zhanjiang Chenming Pulp & Paper Co.	72,000,000.00	27 November 2015	27 November 2017	No
Zhanjiang Chenming Pulp & Paper Co.	190,000,000.00	26 October 2016	26 October 2018	No
Zhanjiang Chenming Pulp & Paper Co.	65,000,000.00	3 June 2015	21 May 2020	No
Zhanjiang Chenming Pulp & Paper Co.	67,288,900.00	29 June 2015	28 June 2017	No
Zhanjiang Chenming Pulp & Paper Co.	77,694,400.00	5 June 2015	21 May 2020	No
Zhanjiang Chenming Pulp & Paper Co.	69,370,000.00	26 October 2016	26 October 2018	No
Shandong Chenming Financial Leasing Co., Ltd.	241,124,400.00	21 April 2016	21 April 2017	No
Shandong Chenming Financial Leasing Co.	50,000,000.00	1 December 2016	1 November 2017	No
Shandong Chenming Financial Leasing Co.	69,966,582.00	28 November 2014	27 November 2017	No
Shandong Chenming Financial Leasing Co.	489,555,600.00	22 May 2015	26 March 2018	No
Shandong Chenming Financial Leasing Co.	121,950,492.00	24 November 2015	10 November 2018	No
Shandong Chenming Financial Leasing Co.	299,578,800.00	20 November 2015	5 November 2017	No
Shandong Chenming Financial Leasing Co.	584,544,000.00	17 December 2015	16 December 2018	No
Shandong Chenming Financial Leasing Co.	290,079,960.00	2 March 2016	1 February 2019	No
Shandong Chenming Financial Leasing Co.	290,079,960.00	18 March 2016	23 January 2019	No
Shandong Chenming Financial Leasing Co.	148,985,652.00	28 July 2016	12 July 2018	No

XII. Related parties and related party transactions (Cont'd)

5. Related party transactions (Cont'd)

(2) Guarantee (Cont'd)

Party being guaranteed	Amount under guarantee	Starting date of guarantee	Expiry date of guarantee	Whether performance of guarantee is completed
Huanggang Chenming Pulp & Paper Co., Ltd.	20,000,000.00	17 August 2015	26 June 2017	No
Huanggang Chenming Pulp & Paper Co.	20,000,000.00	17 August 2015	26 December 2017	No
Huanggang Chenming Pulp & Paper Co.	15,000,000.00	17 August 2015	26 March 2018	No
Huanggang Chenming Pulp & Paper Co.	5,000,000.00	14 December 2015	26 March 2018	No
Huanggang Chenming Pulp & Paper Co.	20,000,000.00	14 December 2015	26 June 2018	No
Huanggang Chenming Pulp & Paper Co.	30,000,000.00	14 December 2015	26 September 2018	No
Huanggang Chenming Pulp & Paper Co.	30,000,000.00	14 December 2015	26 December 2018	No
Huanggang Chenming Pulp & Paper Co.	40,000,000.00	14 December 2015	26 March 2019	No
Huanggang Chenming Pulp & Paper Co.	39,000,000.00	24 June 2016	26 June 2019	No
Huanggang Chenming Pulp & Paper Co.	48,559,000.00	7 August 2015	26 June 2017	No
Huanggang Chenming Pulp & Paper Co.	48,559,000.00	7 August 2015	26 December 2017	No
Huanggang Chenming Pulp & Paper Co.	34,685,000.00	7 August 2015	26 March 2018	No
Huanggang Chenming Pulp & Paper Co.	7,630,700.00	20 July 2016	26 March 2018	No
Huanggang Chenming Pulp & Paper Co.	6,243,300.00	22 July 2016	26 March 2018	No
Huanggang Chenming Pulp & Paper Co.	4,994,640.00	22 July 2016	26 June 2018	No
Huanggang Chenming Pulp & Paper Co.	2,949,612.40	8 August 2016	26 June 2018	No
Huanggang Chenming Pulp & Paper Co.	36,488,620.00	16 August 2016	26 June 2018	No
Huanggang Chenming Pulp & Paper Co.	4,126,127.60	26 September 2016	26 June 2018	No
Huanggang Chenming Pulp & Paper Co.	55,496,000.00	26 September 2016	26 September 2018	No
Huanggang Chenming Pulp & Paper Co.	55,496,000.00	26 September 2016	26 December 2018	No
Huanggang Chenming Pulp & Paper Co.	55,496,000.00	26 September 2016	26 March 2019	No
Huanggang Chenming Pulp & Paper Co.	17,517,312.40	26 September 2016	26 June 2019	No
Huanggang Chenming Pulp & Paper Co.	37,849,224.00	5 December 2016	26 June 2019	No
Huanggang Chenming Pulp & Paper Co.	62,107,800.00	5 December 2016	26 September 2019	No
Huanggang Chenming Pulp & Paper Co.	38,872,176.00	5 December 2016	26 December 2019	No
Huanggang Chenming Pulp & Paper Co.	100,000,000.00	30 December 2015	29 December 2018	No

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XII. Related parties and related party transactions (Cont'd)

5. Related party transactions (Cont'd)

(2) Guarantee (Cont'd)

Party being guaranteed	Amount under guarantee	Starting date of guarantee	Expiry date of guarantee	Whether performance of guarantee is completed
Jiangxi Chenming Paper Co., Ltd.	100,000,000.00	14 March 2016	13 March 2017	No
Jiangxi Chenming Paper Co.	100,000,000.00	11 March 2016	11 March 2017	No
Jiangxi Chenming Paper Co.	150,000,000.00	20 April 2016	19 April 2017	No
Jiangxi Chenming Paper Co.	50,000,000.00	4 August 2016	26 January 2017	No
Jiangxi Chenming Paper Co.	90,000,000.00	12 August 2016	7 February 2017	No
Jiangxi Chenming Paper Co.	50,000,000.00	2 August 2016	25 January 2017	No
Jiangxi Chenming Paper Co.	20,000,000.00	22 November 2016	21 May 2017	No
Jiangxi Chenming Paper Co.	21,851,550.00	13 September 2016	11 March 2017	No
Jiangxi Chenming Paper Co.	42,385,070.00	5 December 2016	2 June 2017	No
Jiangxi Chenming Paper Co.	200,000,000.00	30 September 2016	29 September 2018	No
Jiangxi Chenming Paper Co.	68,000,000.00	29 January 2014	1 January 2019	No
Jiangxi Chenming Paper Co.	60,000,000.00	24 July 2014	1 January 2019	No
Jiangxi Chenming Paper Co.	60,000,000.00	29 July 2014	1 January 2019	No
Jiangxi Chenming Paper Co.	40,000,000.00	25 September 2014	1 January 2019	No
Shouguang Meilun Paper Co.	285,000,000.00	9 December 2016	8 December 2017	No
Shouguang Meilun Paper Co.	58,834,859.82	14 November 2016	14 March 2017	No
Shandong Chenming Paper Sales Co., Ltd.	250,000,000.00	14 July 2016	13 January 2017	No
Shandong Chenming Paper Sales Co.	300,000,000.00	5 August 2016	25 January 2017	No
Shandong Chenming Paper Sales Co.	56,009,804.42	7 July 2016	3 January 2017	No
Shandong Chenming Paper Sales Co.	322,581,937.95	16 November 2016	15 May 2017	No
Shandong Chenming Paper Sales Co.	254,468,699.93	22 November 2016	22 May 2017	No
Shandong Chenming Paper Sales Co.	223,650,043.20	27 December 2016	26 June 2017	No
Shandong Chenming Paper Sales Co.	420,000,000.00	15 July 2016	10 January 2017	No
Shandong Chenming Paper Sales Co.	250,000,000.00	14 October 2016	12 October 2017	No
Shandong Chenming Paper Sales Co.	200,000,000.00	26 October 2016	24 October 2017	No
Jilin Chenming Paper Co., Ltd.	40,000,000.00	20 July 2016	11 July 2017	No

XII. Related parties and related party transactions (Cont'd)

5. Related party transactions (Cont'd)

(2) Guarantee (Cont'd)

Party being guaranteed	Amount under guarantee	Starting date of guarantee	Expiry date of guarantee	Whether performance of guarantee is completed
Chenming (HK) Limited	124,866,000.00	22 January 2016	6 January 2017	No
Chenming (HK) Limited	137,352,600.00	16 March 2016	31 March 2017	No
Chenming (HK) Limited	175,957,005.00	29 March 2016	7 March 2017	No
Chenming (HK) Limited	100,447,760.00	29 March 2016	9 March 2017	No
Chenming (HK) Limited	104,055,000.00	11 April 2016	23 March 2017	No
Chenming (HK) Limited	49,252,700.00	6 April 2016	1 March 2017	No
Chenming (HK) Limited	104,748,700.00	26 April 2016	14 April 2017	No
Chenming (HK) Limited	135,965,200.00	20 May 2016	14 April 2017	No
Chenming (HK) Limited	105,789,250.00	6 May 2016	6 April 2017	No
Chenming (HK) Limited	98,505,400.00	30 June 2016	19 May 2017	No
Chenming (HK) Limited	138,740,000.00	5 July 2016	19 May 2017	No
Chenming (HK) Limited	124,796,630.00	4 July 2016	8 June 2017	No
Chenming (HK) Limited	228,921,000.00	29 July 2016	14 July 2017	No
Chenming (HK) Limited	166,488,000.00	12 August 2016	26 July 2017	No
Chenming (HK) Limited	211,925,350.00	23 August 2016	2 August 2017	No
Chenming (HK) Limited	115,362,310.00	17 October 2016	1 September 2017	No
Chenming (HK) Limited	108,335,129.00	22 September 2016	23 August 2017	No
Chenming (HK) Limited	307,309,100.00	7 November 2016	31 October 2017	No
Chenming (HK) Limited	190,767,500.00	21 November 2016	9 November 2017	No
Chenming (HK) Limited	191,461,200.00	13 December 2016	4 December 2017	No
Chenming (HK) Limited	95,730,600.00	23 December 2016	9 December 2017	No
Chenming (HK) Limited	49,446,651.58	20 December 2016	20 November 2017	No
Chenming (HK) Limited	98,615,316.77	23 December 2016	23 November 2017	No
Chenming (HK) Limited	85,325,100.00	23 December 2016	13 December 2017	No
Chenming (HK) Limited	104,055,000.00	23 December 2016	13 December 2017	No
Chenming (HK) Limited	226,631,790.00	25 January 2016	3 January 2017	No
Chenming (HK) Limited	276,050,891.80	26 January 2016	19 January 2017	No
Chenming (HK) Limited	140,058,307.48	2 February 2016	31 January 2017	No
Chenming (HK) Limited	222,365,535.00	2 February 2016	31 January 2017	No
Chenming (HK) Limited	126,115,362.42	2 February 2016	31 January 2017	No
Chenming (HK) Limited	89,181,794.52	18 February 2016	31 January 2017	No
Chenming (HK) Limited	197,704,500.00	6 October 2016	30 August 2018	No
Chenming (HK) Limited	291,354,000.00	2 November 2016	10 September 2019	No

XII. Related parties and related party transactions (Cont'd)

5. Related party transactions (Cont'd)

(3) Distribution band of remuneration of key management staff

① Distribution band of remuneration of key management staff

Band of annual remuneration	Amount during the year	Amount during the prior year
Total	RMB21.6724 million	RMB20.6861 million
Of which: (number of staff in each band of amount)		
RMB4.80-5.20 million	1	1
RMB3.60-4.00 million		
RMB3.20-3.60 million		
RMB2.80-3.20 million	1	1
RMB2.40-2.80 million		
RMB2.00-2.40 million	1	1
RMB1.60-2.00 million		3
RMB1.20-1.60 million	3	1
RMB0.80-1.20 million	2	1
Below RMB0.80 million	25	16

② Breakdown of remuneration of key management staff

Key management staff	Amount during the year			Total
	Basic annual remuneration	Social welfare contribution	Payments of housing funds	
Zhang Zhiyuan	5.00			5.00
Wang Aiguo	5.00			5.00
Pan Ailing	5.00			5.00
Huang Lei	2.92			2.92
Liang Fu	2.92			2.92
Wang Fengrong	2.92			2.92
Sub-total of independent non-executive Directors	23.76			23.76
Yang Guihua	5.00			5.00
Wang Xiaoqun	5.00			5.00
Zhang Hong	5.00			5.00
Sub-total of non-executive Directors	15.00			15.00

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XII. Related parties and related party transactions (Cont'd)

5. Related party transactions (Cont'd)

(3) Distribution band of remuneration of key management staff (Cont'd)

② Breakdown of remuneration of key management staff

Key management staff	Amount during the year			Total
	Basic annual remuneration	Social welfare contribution	Payments of housing funds	
Chen Hongguo	491.19	4.78	2.03	498.00
Yin Tongyuan	291.19	4.78	2.03	298.00
Li Feng	126.93	4.78	2.03	133.74
Geng Guanglin	131.30	4.78	2.03	138.11
Wang Chunfang	57.29	3.55	1.51	62.35
Hou Huancai	17.75	4.78	2.03	24.56
Zhou Shaohua	52.27	5.45	2.11	59.83
Sub-total of executive Directors	1,167.92	32.90	13.77	1,214.59
Li Dong	22.85	3.48	1.48	27.81
Sun Yinghua	44.88	3.43	1.46	49.77
Yang Hongqin	15.93	2.29	0.97	19.19
Liu Jilu	1.46			1.46
Zhang Xiaofeng	1.46			1.46
Gao Junjie	53.86	4.15	1.76	59.77
Wang Ju		0.71	0.30	1.01
Yin Qixiang	2.50			2.50
Guo Guangyao	2.50			2.50
Total of Supervisors	145.44	14.06	5.97	165.47
Sub-total of other senior management	717.22	21.90	9.30	748.42
Total	2,069.34	68.86	29.04	2,167.24

Cont'd

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XII. Related parties and related party transactions (Cont'd)

5. Related party transactions (Cont'd)

(3) Distribution band of remuneration of key management staff (Cont'd)

② Breakdown of remuneration of key management staff (Cont'd)

Key management staff	Amount during the prior year			Total
	Basic annual remuneration	Social welfare contribution	Payments of housing funds	
Zhang Zhiyuan	5.00			5.00
Wang Aiguo	5.00			5.00
Zhang Hong	5.00			5.00
Pan Ailing	5.00			5.00
Sub-total of Independent Non-executive Directors	20.00			20.00
Yang Guihua	5.00			5.00
Wang Xiaoqun	5.00			5.00
Sub-total of Non-executive Directors	10.00			10.00
Chen Hongguo	493.97	4.24	1.79	500.00
Yin Tongyuan	293.97	4.24	1.79	300.00
Li Feng	70.67	4.24	1.79	76.70
Geng Guanglin	140.98	4.24	1.79	147.01
Hou Huancai	28.14	4.24	1.79	34.17
Zhou Shaohua	161.75	6.03	2.03	169.81
Sub-total of Executive Directors	1,189.48	27.23	10.98	1,227.69
Gao Junjie	24.35	4.24	1.79	30.38
Wang Ju	0.43	0.50	0.25	1.18
Yang Hongqin	15.83	2.38	1.01	19.22
Yin Qixiang	2.50			2.50
Guo Guangyao	2.50			2.50
Total of Supervisors	45.61	7.12	3.05	55.78
Sub-total of other senior management	737.05	12.72	5.37	755.14
Total	2,002.14	47.07	19.40	2,068.61

XII. Related parties and related party transactions (Cont'd)

5. Related party transactions (Cont'd)

(3) Distribution band of remuneration of key management staff (Cont'd)

- ③ The five highest paid individuals of the Company during the year comprised of 4 directors and 1 other senior management of the Company. The remuneration band of that senior management was RMB2.00-2.40 million.

A. Remuneration of the five highest paid individuals

Item	Amounts during the year (RMB'0,000)	Amounts during the prior year (RMB'0,000)
Basic annual remuneration	1,268.35	1,313.16
Provident fund	23.90	9.19
Social welfare contribution	10.15	22.99
Total	1,302.40	1,345.34

B. Distribution band of remuneration of the five highest paid individuals

Band of annual remuneration	Number of individuals during the year	Number of individuals during the prior year
RMB4.80-5.20 million	1	1
RMB3.20-3.60 million		
RMB2.80-3.20 million	1	1
RMB2.40-2.80 million		
RMB2.00-2.40 million	1	1
RMB1.60-2.00 million		2
RMB1.20-1.60 million	2	

- ④ During the year, no other emoluments were paid by the Company to the directors of the Company and the five highest paid individuals as an inducement to join or upon joining the Company or as compensation for loss of office. None of the directors waived any emoluments during the year.

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XII. Related parties and related party transactions (Cont'd)

6. Related party accounts receivable and accounts payable

(1) Accounts receivables

Unit: RMB

Item	Related party	Closing balance		Opening balance	
		Book balance	Bad debt provision	Book balance	Bad debt provision
Accounts receivable	Anhui Time Source Corporation	46,710,218.01	2,335,510.90	89,493,535.25	4,474,676.76
	Jiangxi Jiangbao Media Colour Printing Co. Ltd.	693,760.56	69,376.06	1,393,760.56	69,688.03
Prepayments	Jiangxi Chenming Natural Gas Co., Ltd.	1,984,282.12		8,900,712.18	
Other receivables	Arjo Wiggins Chenming Specialty Paper Co., Ltd.	1,191,705.08	1,191,705.08	1,290,901.12	1,290,901.12
	Wuhan Chenming Wan Xing Real Estate Co., Ltd.	1,284,982,919.14		1,310,041,477.38	
	Qingdao Chenming Nonghai Investment Co., Ltd.			21,000,000.00	1,050,000.00
	Shouguang Chenming Huisen New-style Construction Materials Co., Ltd.	1,992,435.48	99,621.77	2,200,000.00	110,000.00

(2) Accounts payable

Unit: RMB

Item	Related party	Closing book balance	Opening book balance
Other payables	Shouguang Hengtai Enterprise Investment Company Limited	40,372,663.84	37,230,586.11

XIII. Undertaking and contingency

1. Significant commitments

Significant commitments as at the balance sheet date

(1) Capital commitment

Item	Closing balance	Opening balance
Contracted but not yet recognised in the financial statements		
Commitments in relation to acquisition and construction of long-term assets	5,798,429,688.37	5,914,302,136.38
Huirui BT Project	3,000,000,000.00	2,500,000,000.00
Total	8,798,429,688.37	8,414,302,136.38

(2) Operating lease commitments

As at the balance sheet date, the Company entered into irrevocable operating lease contracts with external companies as follows:

Item	Closing balance	Opening balance
Minimum lease payments under irrevocable operating leases:		
The first year after balance sheet date	24,255,504.88	25,657,919.75
The second year after balance sheet date	15,163,089.04	14,982,757.03
The third year after balance sheet date	14,855,680.29	15,251,731.80
In the years thereafter	531,299,664.72	557,568,931.29
Total	585,573,938.93	613,461,339.87

2. Contingency

As of 31 December 2016, there was no significant contingency that required to be disclosed by the Company.

XIV. Post-balance sheet date event

Profit distribution

On 17 February 2016, the fourth meeting of the eighth session of the Board was held to approve the 2016 proposed profit distribution plan. Based on the total ordinary share capital of 1,936,405,467 shares as at the end of 2016 and the 387,263,339 simulated shares converted from the preference shares as at the end of 2016 on a conversion ratio of 1 share valued at RMB5.81, a cash dividend of RMB6 (tax inclusive) per ten shares or RMB1,161,843,280.20 will be distributed to ordinary shareholders, and a cash dividend of RMB3.08 (tax inclusive) per ten shares or a variable cash dividend of RMB119,277,108.41 will be distributed to holders of preference shares. The plan is subject to the approval at the general meeting in accordance with the articles of association.

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XV. Other material matters

1. Segment information

(1) Basis for determination and accounting policies

The Company determined the reporting segments and disclosed the segments information according to the requirements of Accounting Standards for Business Enterprises Interpretation No.3 in 2016, and the Company no longer adopted the requirements of Accounting Standards for Business Enterprises No.35 - Segment Reporting which was related to the determination of the geographical segment and business segments, and the requirements of disclosure of segment information of the primary reporting format and the secondary reporting format.

According to the internal organisation structure, the requirement of management and the internal reporting system of the Company, the operating businesses of the Company are categorised into 4 reporting segments, such categorisation is based on the categories of primary products. The management of the Group evaluates the financial results of such reporting segments on a regular basis, in order to allocate the resources and evaluate their results. The primary products or services provided by each reporting segment of the Company include machine-made paper, construction materials, financial services and others.

The information from the reporting segments is disclosed in accordance with the accounting policies and measurement standards adopted by each of the reporting segment when reporting to the management, which are consistent with the accounting policies and measurement standards adopted in the preparation of the financial statements.

(2) Report on segment financial information

Unit: RMB'0,000

Item	Machine-made paper	Construction materials	Financial services	Others	Inter-segment eliminations	Total
Principal activities income	1,942,080.11	22,828.28	287,394.87	92,695.16	54,286.60	2,290,711.82
Principal activities costs	1,382,260.96	18,464.23	142,666.57	89,628.88	54,286.60	1,578,734.04
Total assets	11,003,274.86	41,740.26	3,440,953.29	365,220.75	6,622,653.71	8,228,535.45
Total liabilities	8,313,876.42	20,735.34	2,334,210.69	298,712.92	4,995,485.84	5,972,049.53

2. On 18 October 2016, the Company received a statutory demand in respect of alleged claims for an amount of RMB167.86 million and the interest thereon, an amount of USD3.5489 million and the interest thereon and an amount of HKD3.3039 million and the interest thereon made by an alleged creditor pursuant to Companies (Winding up and Miscellaneous Provisions) Ordinance of the Laws of Hong Kong. The Company is now actively seeking for legal advice in respect of the alleged claims under the statutory demand, and will adopt all effective measures to safeguard the interests of investors and the Company. The Company issued three announcements thereof during the period from 26 October 2016 to 22 November 2016.

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XVI. Notes to major financial statement items of the parent company

1. Accounts receivable

(1) Accounts receivable by category

Unit: RMB

Category	Book balance		Closing balance		Carrying amount	Book balance		Opening balance		Carrying amount
	Amount	Percentage	Amount	Percentage		Amount	Percentage	Amount	Percentage	
① Accounts receivable that are individually significant and provided for bad debts separately										
② Accounts receivable that are provided for bad debts on portfolio basis										
Specific fund portfolio	68,507,931.10	79.67%			68,507,931.10	2,038,371,966.53	98.96%			2,038,371,966.53
Ageing portfolio	17,270,224.01	20.13%	1,688,243.30	9.78%	15,581,980.71	21,062,754.55	1.02%	4,766,013.61	22.63%	16,296,740.94
Accounts receivable that are provided for bad debts on portfolio basis based on credit risk features	85,778,155.11	100.00%	1,688,243.30	1.97%	84,089,911.81	2,059,434,721.08	100.00%	4,766,013.61	0.23%	2,054,668,707.47
③ Accounts receivable that are individually insignificant and are provided for bad debts separately										
Total	85,778,155.11	100.00%	1,688,243.30	1.97%	84,089,911.81	2,059,434,721.08	100.00%	4,766,013.61	0.23%	2,054,668,707.47

Accounts receivable using ageing analysis for making bad debt provision in the portfolio:

☒ Applicable ☐ Not applicable

Unit: RMB

Ageing	Closing balance		Opening balance	
	Accounts receivable	Provision for bad debts	Accounts receivable	Provision for bad debts
Within 1 year	4,904,484.08	245,224.20	17,154,464.15	857,723.21
1 to 2 years	12,136,356.48	1,213,635.65		
Over 3 years	229,383.45	229,383.45	3,908,290.40	3,908,290.40
Total	17,270,224.01	1,688,243.30	21,062,754.55	4,766,013.61

Accounts receivable using percentage of amount outstanding for making bad debt provision in the portfolio:

☐ Applicable ☒ Not applicable

(2) Bad debt provision made, recovered or reversed during the year

The amount of bad debt provision made for the current year amounted to RMB567,705.25. There was no bad debt provision reversed during the year.

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XVI. Notes to major financial statement items of the parent company (Cont'd)

1. Accounts receivable (Cont'd)

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

Item	Amount written off
Accounts receivable actually written-off	3,645,475.56

Among which, significant accounts receivable actually written-off were as follow

					Unit: RMB
Name of entity	Nature of accounts receivable	Amount written-off	Reason	Procedures for amount written-off	Is the amount arising from connected transaction?
HEBEI PRINTING HOUSE OF PEOPLE'S DAILY	Payment for goods	534,612.10	Overdue for a prolonged period and unlikely to be recovered	Approval from general manager	No
JILIN CHANGCHUN POKER PLANT	Payment for goods	1,099,418.13	Overdue for a prolonged period and unlikely to be recovered	Approval from general manager	No
JINAN HANZHANG PRINTING CO., LTD.	Payment for goods	273,586.00	Overdue for a prolonged period and unlikely to be recovered	Approval from general manager	No
Total	—	1,907,616.23	—	—	—

(4) Top five accounts receivable based on closing balance by debtor

The total amount of the Company's top five accounts receivable based on closing balance by debtor for the current year was RMB54,257,023.17, which was 63.26% of the closing balance of the account receivables. The closing balance of corresponding bad debts provision amounted to RMB1,233,910.62.

2. Other receivables

Unit: RMB

Category	Closing balance				Carrying amount	Opening balance				Carrying amount
	Book balance		Bad debt provision			Book balance		Bad debt provision		
	Amount	Percentage	Amount	Percentage		Amount	Percentage	Amount	Percentage	
① Other receivables that are individually significant and are provided for bad debts separately	13,295,125.16	0.06%	13,295,125.16	100.00%		8,686,748.70	0.03%	8,686,748.70	100.00%	
② Other receivables that are provided for bad debts on portfolio basis										
Specific fund portfolio	22,803,271,489.24	99.59%			22,803,271,489.24	23,113,019,453.22	99.50%			23,113,019,453.22
Ageing portfolio	76,073,647.10	0.33%	30,659,150.60	40.30%	45,414,496.50	96,978,451.23	0.42%	41,398,628.05	42.69%	55,579,823.18
Other receivables that are provided for bad debts on portfolio basis based on credit risk features	22,879,345,136.34	99.92%	30,659,150.60	0.13%	22,848,685,985.74	23,209,997,904.45	99.92%	41,398,628.05	0.18%	23,168,599,276.40
④ Other receivables that are individually insignificant and are provided for bad debts separately	4,335,364.21	0.02%	4,335,364.21	100.00%		10,514,189.79	0.05%	10,514,189.79	100.00%	
Total	22,896,975,625.71	100.00%	48,289,639.97	0.21%	22,848,685,985.74	23,229,198,842.94	100.00%	60,599,566.54	0.26%	23,168,599,276.40

√ Applicable ☐ Not applicable

Unit: RMB

Other receivables (by unit)	Other receivables	Bad debt provision	Closing balance	
			Provision percentage	Reasons for provision
Open credit	13,295,125.16	13,295,125.16	100.00%	Open credit of over three years and are unlikely to be recovered
Total	13,295,125.16	13,295,125.16	—	—

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XVI. Notes to major financial statement items of the parent company (Cont'd)

2. Other receivables (Cont'd)

(1) Other receivables by category (Cont'd)

Other receivables using ageing analysis for making bad debt provision in the portfolio:

☒ Applicable ☐ Not applicable

Unit: RMB

Age	Closing balance		Opening balance	
	Other receivables	Bad debt provision	Other receivables	Bad debt provision
Within 1 year	32,985,620.04	1,649,281.01	35,166,448.10	1,758,322.41
1 to 2 years	6,382,113.88	638,211.39	9,611,362.97	961,136.30
2 to 3 years	10,417,818.70	2,083,563.72	16,901,838.52	3,380,367.70
Over 3 years	26,288,094.48	26,288,094.48	35,298,801.64	35,298,801.64
Total	76,073,647.10	30,659,150.60	96,978,451.23	41,398,628.05

Explanation on the basis of recognition of the portfolio:

Other receivables using percentage of balance for making bad debt provision in the portfolio:

☐ Applicable ☒ Not applicable

Other receivables individually insignificant but provided for bad debt separately

Other receivables	Book balance	Bad debt provision	Percentage (%)	Reason for provision
Open credit	4,335,364.21	4,335,364.21	100.00	Overdue for over three years and are unlikely to be recovered
Total	4,335,364.21	4,335,364.21	100.00	

(2) Provision, recovery or reversal of bad debt provision for the year

The amount for bad debt provision recovered or reversed during the year was RMB12,309,926.57.

(3) There are no other receivables written off or reversed during the reporting period.

(4) Top five other receivables according to closing balance of debtors

Name of entity	Nature	Closing balance	Percentage (%)	Bad debt provision
Shandong Chenming Financial Leasing Co., Ltd.	Open credit	11,992,454,923.53	52.39	
Shouguang Meilun Paper Co., Ltd.	Open credit	3,774,403,361.80	16.49	
Zhanjiang Chenming Pulp & Paper Co., Ltd.	Open credit	1,718,917,526.08	7.51	
Jiangxi Chenming Paper Co., Ltd.	Open credit	1,245,864,701.07	5.44	
Zhanjiang Meilun Pulp & Paper Co., Ltd.	Open credit	1,007,015,000.00	4.40	
Total		19,738,655,512.48	86.23	

Note: During the year, top five other receivables of the Company based on closing balance by debtor were all due from related parties within the scope of consolidation.

XVI. Notes to major financial statement items of the parent company (Cont'd)

3. Long-term equity investments

(1) Long-term equity investments

Unit: RMB

Item	Closing balance			Opening balance		
	Book balance	Impairment provision	Carrying amount	Book balance	Impairment provision	Carrying amount
Interest in subsidiaries	14,500,415,957.45		14,500,415,957.45	13,469,415,957.45		13,469,415,957.45
Interest in associates and joint ventures	57,681,701.04		57,681,701.04	57,537,749.04		57,537,749.04
Total	14,558,097,658.49		14,558,097,658.49	13,526,953,706.49		13,526,953,706.49

(2) Interest in subsidiaries

Unit: RMB

Investee	Opening balance	Increase for the period	Decrease for the period	Closing balance	Impairment provision for the period	Closing balance of impairment provision
Shandong Chenming Power Supply Holdings Co., Ltd.	157,810,117.43			157,810,117.43		
Wuhan Chenming Hanyang Paper Holdings Co., Ltd.	202,824,716.34			202,824,716.34		
Hailaer Chenming Paper Co., Ltd.	12,000,000.00			12,000,000.00		
Jiangxi Chenming Paper Co., Ltd.	822,867,646.40			822,867,646.40		
Shandong Grand View Hotel Co., Ltd.	80,500,000.00			80,500,000.00		
Jilin Chenming Paper Co., Ltd.	1,501,350,000.00			1,501,350,000.00		
Zhanjiang Chenming Pulp & Paper Co., Ltd.	3,000,000,000.00			3,000,000,000.00		
Chenming (HK) Limited	183,472,902.00		183,472,902.00			
Shouguang Chenming Modern Logistic Co., Ltd.	10,000,000.00			10,000,000.00		
Fuyu Chenming Paper Co., Ltd.	208,000,000.00		208,000,000.00			
Shouguang Chenming Art Paper Co., Ltd.	113,616,063.80			113,616,063.80		
Huanggang Chenming Arboriculture Co., Ltd.	70,000,000.00			70,000,000.00		
Huanggang Chenming Pulp & Paper Co., Ltd.	1,200,000,000.00			1,200,000,000.00		
Shouguang Meilun Paper Co., Ltd.	4,646,349,570.28			4,646,349,570.28		
Chenming International Co., Ltd.	19,861,955.00		19,861,955.00			
Shouguang Shun Da Customs Declaration Co, Ltd.	1,500,000.00			1,500,000.00		
Shandong Chenming Paper Sales Co., Ltd.	100,000,000.00	562,641,208.20		662,641,208.20		
Shouguang Chenming Import and Export Trade Co., Ltd.	10,000,000.00	90,000,000.00		100,000,000.00		
Shouguang Chenming Jiatai Property Management Co., Ltd.	1,000,000.00		1,000,000.00			

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XVI. Notes to major financial statement items of the parent company (Cont'd)

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

(2) Interest in subsidiaries (Cont'd)

Investee	Opening balance	Increase for the period	Decrease for the period	Closing balance	Impairment provision for the period	Closing balance of impairment provision
Shouguang Chenming Papermaking Machine Co., Ltd.	2,000,000.00			2,000,000.00		
Shouguang Chenming Industrial Logistics Co., Ltd.	10,000,000.00			10,000,000.00		
Shouguang Chenming Hongxin Packaging Co., Ltd.	1,000,000.00			1,000,000.00		
Japan Chenming Paper Co., Ltd.	9,306,351.20		9,306,351.20			
Haicheng Haiming Mining Co., Ltd.	144,000,000.00			144,000,000.00		
Chenming GmbH	4,083,235.00			4,083,235.00		
Shouguang Hongxiang Printing and Packaging Co., Ltd.	2,730,000.00			2,730,000.00		
Shandong Chenming Paper Group (Fuyu) Sales Co., Ltd.	1,000,000.00			1,000,000.00		
Shandong Chenming Group MFinance Co., Ltd.	800,000,000.00	800,000,000.00		1,600,000,000.00		
Chenming Arboriculture Co., Ltd.	45,000,000.00			45,000,000.00		
Qingdao Chenming International Logistics Co., Ltd.	3,000,000.00			3,000,000.00		
Jinan Chenming Investment Management Co., Ltd.	100,000,000.00			100,000,000.00		
Chenming Paper Korea Co., Ltd.	6,143,400.00			6,143,400.00		
Total	13,469,415,957.45	1,452,641,208.20	421,641,208.20	14,500,415,957.45		

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XVI. Notes to major financial statement items of the parent company (Cont'd)

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

(3) Interest in associates and joint ventures

Unit: RMB

Investee	Opening balance	Additional contribution	Withdrawn contribution	Investment gain or loss recognised under equity method	Change for the period Adjustment of other comprehensive income	Other change in equity interest	Distribution of cash dividend or profit declared	Impairment provision	Others	Closing balance	Closing balance of impairment provision
I. Joint venture											
Shouguang Chenming Huisen New-style Construction Materials Co., Ltd.	2,976,817.51			361,662.52						3,338,480.03	
Sub-total	2,976,817.51			361,662.52						3,338,480.03	
II. Associates											
Arjo Wiggins Chenming Specialty Paper Co., Ltd.											
Jiangxi Jiangbao Media Colour Printing Co. Ltd.	4,217,690.25			-1,154,618.22						3,063,072.03	
Zhuhai Dechen New Third Board Equity Investment Fund Company (Limited Partnership)	50,343,241.28			936,907.70						51,280,148.98	
Sub-total	54,560,931.53			-217,710.52						54,343,221.01	
Total	57,537,749.04			143,952.00						57,681,701.04	

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XVI. Notes to major financial statement items of the parent company (Cont'd)

4. Revenue and operating costs

(1) Revenue and operating costs

Unit: RMB

Item	Amount during the year	Amount during the prior year
Revenue for principal activities	6,361,080,244.68	6,432,663,278.11
Revenue for other activities	883,360,709.88	842,762,370.15
Total revenue	7,244,440,954.56	7,275,425,648.26
Costs for principal activities	4,969,920,613.20	5,198,230,774.68
Costs for other activities	784,239,702.31	794,863,723.84
Total operating costs	5,754,160,315.51	5,993,094,498.52

(2) Principal activities (by industry)

Unit: RMB

Industry	Amount during the year		Amount during the prior year	
	Revenue	Operating costs	Revenue	Operating costs
Machine-made paper	6,224,437,178.15	4,883,989,548.05	6,254,209,430.04	5,078,759,596.33
Electricity and steam	136,643,066.53	85,931,065.15	178,453,848.07	119,471,178.35
Total	6,361,080,244.68	4,969,920,613.20	6,432,663,278.11	5,198,230,774.68

(3) Principal activities (by geographical areas of machine-made paper)

Unit: RMB

Region	Amount during the year		Amount during the prior year	
	Revenue	Operating costs	Revenue	Operating costs
Mainland China	5,772,325,937.48	4,390,263,781.68	5,900,523,116.11	4,713,351,792.07
Other countries and regions	452,111,240.67	493,725,766.37	353,686,313.93	365,407,804.26
Total	6,224,437,178.15	4,883,989,548.05	6,254,209,430.04	5,078,759,596.33

XVI. Notes to major financial statement items of the parent company (Cont'd)

4. Revenue and operating costs (Cont'd)

(4) Revenue from top 5 customers of the Company

Unit: RMB

Period	Total revenue from top 5 customers	Percentage of the revenue for the period (%)
2016	6,203,786,179.75	85.64
2015	6,236,807,420.88	85.72

5. Investment income

Unit: RMB

Item	Amount during the period	Amount during the prior period
Income from long-term equity investments accounted for using the cost method	350,000,000.00	631,000,000.00
Income from long-term equity investments accounted for using the equity method	143,952.00	-124,825.53
Investment gain on disposal of long-term equity investments	-208,000,000.00	9,533,333.33
Investment gain from available-for-sale financial assets	519.26	
Interest income from entrusted loans	87,608,490.56	95,679,999.99
Total	229,752,961.82	736,088,507.79

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XVII. Supplementary information

1. Breakdown of extraordinary gains and losses for the current period

☒ Applicable ☐ Not applicable

Unit: RMB

Item	Amount	Remark
Profit or loss from disposal of non-current assets	-1,536,454.18	
Government grants (except for the government grants closely related to the normal operation of the Company and granted constantly at a fixed amount or quantity in accordance with a certain standard based on state policies) accounted for in profit or loss for the current period	472,476,962.83	
Gain and loss from debt restructuring	-90,997.90	
Gain or loss on external entrusted loans	87,608,490.56	
Non-operating gains and losses other than the above items	10,022,635.89	
Gain or loss from change in fair value of consumable biological assets adopting fair value method for follow-up measurements	-20,084,425.90	
Less: Effect of income tax	92,004,074.27	
Effect of minority interest	3,939,014.00	
Total	452,453,123.03	—

Notes for the Company's extraordinary gain or loss items as defined in the Explanatory Announcement on Information Disclosure for Companies Offering Their Securities to the Public No.1 - Extraordinary Gains or Losses and the extraordinary gain or loss items as illustrated in the Explanatory Announcement on Information Disclosure for Companies Offering Their Securities to the Public No.1 - Extraordinary Gains or Losses defined as its recurring gain or loss items.

☐ Applicable ☒ Not applicable

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XVII. Supplementary information (Cont'd)

2. Returns on net assets and earnings per share

Profit for the reporting period	Rate of return on net assets on weighted average basis	Earnings per share	
		Basic (RMB per share)	Diluted (RMB per share)
Net profit attributable to ordinary shareholders of the Company	9.59%	0.99	0.99
Net profit after extraordinary gains and losses attributable to ordinary shareholders of the Company	7.32%	0.75	0.75

Note: Net profit attributable to shareholders excluded the effect of interest payment deferred and accumulated to subsequent periods or perpetual bonds under other equity instruments. When calculating earnings per share, the interests incurred for perpetual bonds during the period from 1 January 2016 up to 31 December 2016 are deducted.

Item	Profit for the reporting period
Net profit attributable to the parent company	2,063,986,822.25
Less: Effect of cumulative interests of perpetual bonds	153,140,000.00
Net profit attributable to ordinary shareholders of the Company	1,910,846,822.25

XIV Documents Available for Inspection

- I. The financial statements signed and sealed by the legal representative, financial representative and head of the financial department of the Company;
- II. The original copy of the auditors' report which is sealed by the accounting firm and signed and sealed by the certified public accountant;
- III. The original copies of all of the documents and announcements of the Company disclosed in the designated newspaper and on the website as approved by China Securities Regulatory Commission during the reporting period;
- IV. The annual report disclosed on the website of the Stock Exchange of Hong Kong Limited;
- V. Other related information.

Shandong Chenming Paper Holdings Limited
17 February 2017