

2020 Annual Report Summary of Shandong Chenming Paper Holdings Limited

I. IMPORTANT NOTICE

This annual report summary is extracted from the text of the annual report. For the full understanding of the operating results, financial position and plan for further development, investors should carefully read the text of the annual report published on the media as designated by the CSRC.

All directors have attended the board meeting to review this annual report in person.

Notice of non-standard auditor's opinion

☐ Applicable ☒ Not applicable

A proposed profit distribution plan on ordinary shares or a proposed plan on conversion of capital reserves into share capital for the reporting period was considered and passed by the Board

☒ Applicable ☐ Not applicable

Whether there is an increase of share capital from reserves

☐ Yes ☒ No

The proposed profit distribution plan on ordinary shares of the Company was considered and passed by the Board: based on the total ordinary share capital of 2,984,208,200 shares as at the end of 2020, a cash dividend of RMB1.85 (tax inclusive) per 10 shares will be distributed to all shareholders. No bonus shares will be issued and there is no increase of share capital from reserves. A cash dividend of RMB552,078,517.00 will be distributed to ordinary shareholders. If the total share capital of the Company changes before the date of the equity registration for the implementation of the equity distribution, it is proposed to maintain the same total distribution and adjust the distribution ratio per share accordingly.

A proposed profit distribution plan on preference shares for the reporting period was considered and approved by the Board

☒ Applicable ☐ Not applicable

In accordance with the requirements of the Articles of Association and the Prospectus of Non-public Issuance of Preference Shares, based on the simulated ordinary shares converted from the second and third tranches of the Preference Shares using a conversion ratio of 1 share valued at RMB3.82 as at the end of 2020 of 589,005,236 shares, a cash dividend of RMB1.85 (tax inclusive) per 10 simulated ordinary shares converted from the Preference Shares will be distributed to holders of the second and third tranches of the Preference Shares. A variable cash dividend of RMB108,965,968.66 will be distributed to holders of the second and third tranches of the Preference Shares. In other words, a cash dividend of RMB4.84 (tax inclusive) per Preference Share with a nominal value of RMB100 each will be distributed to holders of the second and third tranches of the Preference Shares. If the total share capital of the Company changes before the date of the equity registration for the implementation of the equity distribution, it is proposed to maintain the same total distribution and adjust the distribution ratio per share accordingly.

Profit distribution for preference shares during the reporting period

Date of Distribution	Dividend Ratio	Distributed amount (RMB) (tax inclusive)	Whether it is in compliance with the conditions and the relevant procedures of distribution	Way of dividend payment	Whether it was an accumulated dividend	Whether it participates in distribution of remaining profit
17 March 2020	4.36%	98,100,000.00	Yes	Cash	No	Yes
17 August 2020	5.17%	51,700,000.00	Yes	Cash	No	Yes
18 August 2020	3.837246%	172,676,073.42	Yes	Cash	No	Yes
21 September 2020	5.17%	64,625,000.00	Yes	Cash	No	Yes

II. BASIC INFORMATION ABOUT THE COMPANY

1. Company profile

Stock abbreviation	晨鸣纸业	Stock code	000488
	晨鸣B		200488
	晨鸣优01		140003
	晨鸣优02		140004

	晨鸣优03		140005
Stock exchange on which the shares are listed	Shenzhen Stock Exchange		
Stock abbreviation	CHENMING PAPER	Stock code	01812
Stock exchange on which the shares are listed	The Stock Exchange of Hong Kong Limited		
Contact persons and contact methods	Secretary to the Board	Hong Kong Company Secretary	
Name	Yuan Xikun	Chu Hon Leung	
Correspondence address	No. 2199 East Nongsheng Road, Shouguang City, Shandong Province	22nd Floor, World Wide House, Central, Hong Kong	
Telephone	(86)-0536-2158008	+852-21629600	
Facsimile	(86)-0536-2158977	+852-25010028	
Email address	chenmmingpaper@163.com	liamchu@li-partners.com	

2 Overview of principle activities or products during the reporting period

(I) Principal activities of the Company during the reporting period

The Company is a large conglomerate principally engaged in pulp production and paper making with synergistic development in finance, forestry, logistics and construction materials. Its key indicators in respect of business and economic efficiency have been in a leading position in the industry in China for over 20 consecutive years. The Company has been on the Fortune 500 China list for 11 years. The Company focuses on its principal activities, i.e. pulp production and paper making. The machine-made paper business is the major source of revenue and profit of the Company. During the reporting period, there was no significant change in the principal activities of the Company.

1. Business overview

The Company has committed itself to implementing a pulp and paper integration strategy. It takes the lead in laying out the entire industrial chain, with 6 production bases in Shandong, Guangdong, Hubei, Jiangxi, Jilin and other places, with an annual pulp and paper production capacity of more than 11 million tonnes. It is the only large-scale pulp and paper integrated company in China that achieves a balance between pulp and paper production. The Company implements an innovation-driven strategy and has introduced world-leading pulp production and paper making technology and equipment. Its product series include high-end offset paper, white paper board, coated paper, light weight coated paper, household paper, electrostatic copy paper and thermal paper, with each major product ranking among the highest in terms of market share in China.

The Company focuses on product and technology research and development, has scientific research institutions including the national enterprise technology centre, the post-doctoral working station, the state certified CNAS pulp and paper testing centre, Shandong Pulp and Paper Making Laboratory as well as the Guangdong Pulp and Paper Production Technology Research Center and has obtained 303 national patents including 25 patents for invention, with 7 products selected as national new products. The Company has obtained 15 science and technology progress awards above the provincial level and undertaken five national science and technology projects and 63 provincial technological innovation projects. The Company has pioneered to obtain the ISO9001 quality certification, ISO14001 environmental protection certification and FSC-COC certification among its industry peers.

2. Major products



Culture paper

Major brands: BIYUNTIAN, CLOUDY MIRROR, and CLOUDY LEOPARD all-wood pulp offset paper; “CLOUDY LION” and “CLOUDY CRANE” offset paper; and “CEDAR” and “GREEN PINE” light weight paper.

Range of application: Printing publications, textbooks, magazines, covers, illustrations, notebooks, test papers, teaching materials, reference books, etc.



Coated paper

Major brands: “SNOW SHARK” and “EAGLE” one-sided coated paper; “SNOW SHARK”, “EAGLE”, “RABBIT” and “SNOW SWALLOW” doublesided coated paper, and “EAGLE”, “RABBIT” and “SNOW SWALLOW” matte coated paper.

Range of application: High quality printing, such as high-grade picture albums, picture, magazines and so on. Promotional materials such as interior pages of high-end books, wall calendars, posters and so on. Upscale tobacco package paper, adhesive sticker, shopping bags, slipcases, envelopes, gift wrapping and so on.



White cardboard

Major brands: White cardboard and ivory cardboard of ZITAN series and POPLAR series, super high bulk cardboard, Chenming cigarette cardboard, fluid inclusion cardboard, and base paper for mugs.

Range of application: High-end gift boxes, cosmetics boxes, tags, shopping bags, publicity pamphlets, high-end postcards; cigarette package printing of medium and high quality; milk package, beverage package, disposable paper cups, milk tea cups, and noodle bowls.



Industrial paper

Major brands: High-grade yellow antisticking base paper, ordinary yellow/white anti-sticking base paper, bill base paper, cast coated base paper, PE paper, stripping base paper, and white kraft paper

Range of application: Anti-stick base paper is mainly used for producing the paper base of stripping paper or anti-sticking base paper. Cast coated base paper is suitable for producing adhesive paper or playcard compound paper after coating.



Light weight coated paper

Major brands: Jinzhou high-grade light weight coated paper and refined light weight coated paper

Range of application: Printing advertisements, high-end publications, magazine inner pages, and picture albums; suitable for highspeed sheetfed press or high-speed rotary speed press.



Electrostatic copy paper

Major brands: GOLDEN MINGYANG and GOLDEN CHENMING copy paper, BOYA and BIYUNTIAN copy paper, MINGYANG, LUCKY CLOUDS, BOYANG, and SHANYIN copy paper, and GONGHAO, and TIANJIAN copy paper

Range of application: Printing and copying business documents, training materials, and writing.



Household paper

Major brands: Toilet paper, facial tissue, pocket tissue, napkin, paper towels, "XINGZHILIAN", "FOREST LOVE", and "BEIYING"

Range of application: Daily toilet supplies; used in restaurants and other catering industries, and used in public toilets in hotels, guesthouses, and office buildings, and also suitable for home and other environment.

(II) The situation of the industry where the Company operated and its position in the industry during the reporting period

The paper making industry is one of the basic industries of the national economy. The paper making industry has the typical characteristics of large-scale industrial production, such as continuous and efficient operation, and significant economies of scale. The paper making industry is also vitally interrelated with people's daily life. Not only is the paper making industry the provider of basic goods and materials, but it also makes a lot of important materials related to packaging, construction, chemical industry, electronics, energy, transportation, national security and other fields. The paper making industry plays an irreplaceable role in the national economy. Affected by the supply-side reform, the development of paper making industry has evolved from an extensive form to an intensive form. The increase in the societal demands, the publishing of environmental protection policies, the continuous advances in technology and the changes in the supply of resources have resulted in an accelerating reduction of the production capacity of low-end products, the increasing concentration ratio of the industry and an improving industrial pattern.

Affected by the outbreak of COVID-19 in 2020, the ever-changing pattern of trade and other factors, the global economy slumped, and the external environment became complicated and difficult. In the face of difficulties, the control and prevention of COVID-19 and every aspect of economic and societal development were carried out efficiently on a national level. All decision-making and deployment were implemented with a determined attitude. The resumption of work and production were progressing steadily. The overall national economy was looking up, and the prices of paper products and the upstream pulp rose steadily. The implementation of the ban on plastics, the ban on importing waste and other policies brought a new scope for development to the paper making industry. Safety, stability and economic efficiency became a new issue in the industry. The major development trend of the paper making industry consisted of the further expansion of the industrial chain of paper making and the integration of pulp and paper.

As a leading player in the paper making industry of China, the Company has implemented the strategy of innovative operation, quickened its pace in growth driver replacement and led the way in full industry chain operation, and has emerged as the only paper making enterprise in China to achieve capacity balance between pulp production and paper making. Currently, the Company has the annual pulp and paper production capacity of over 11 million tonnes, tops the industry in its paper product variety and ranks among the best in China in terms of the market share of its major products. In 2020, the Company was once again listed in Top 500 Enterprises in China with the highest rank among paper making enterprises, which demonstrated the strength in the Company's development as it continued to lead the growth of the industry.

3. Major accounting data and financial indicators

(1) Major accounting data and financial indicators for the latest three years

Retrospective adjustment to or restatement of the accounting data for prior years by the Company

□ Yes √ No

Unit: RMB

	2020	2019	Increase/decrease for the year as compared to the prior year	2018
Revenue	30,736,517,996.90	30,395,434,073.35	1.12%	28,875,756,163.56
Net profit attributable to shareholders of the Company	1,712,029,078.52	1,656,566,584.88	3.35%	2,509,828,858.47
Net profit after extraordinary gains or losses attributable to shareholders of the Company	1,119,103,808.75	702,329,086.29	59.34%	1,953,699,849.75
Net cash flows from operating activities	11,259,802,676.28	12,232,707,222.94	-7.95%	14,099,701,887.04
Basic earnings per share (RMB per share)	0.36	0.33	9.09%	0.51
Diluted earnings per share (RMB per share)	0.36	0.33	9.09%	0.51
Rate of return on weighted average net assets	5.84%	5.57%	Increased by 0.27 percentage point	8.51%
	As at the end of 2020	As at the end of 2019	Increase/decrease as at the end of the year compared to the end of the prior year	As at the end of 2018
Total assets	91,575,457,828.62	97,958,909,935.15	-6.52%	105,318,734,827.82
Net assets attributable to shareholders of the Company	24,276,968,789.00	25,169,743,863.75	-3.55%	25,048,731,454.79

Data specification: The net profit attributable to shareholders of the Company does not exclude the effect of the interest payment deferred and accumulated to subsequent periods for Perpetual Bonds under other equity instruments and the effect of the dividends on Preference Shares under other equity instruments that have been considered and approved for distribution. When calculating financial indicators such as earnings per share and rate of return on weighted average net assets, the interest on Perpetual Bonds of RMB171,776,438.36, the dividends on Preference Shares of RMB387,101,073.42 declared to be distributed and the cash dividends of RMB116,679,908.80 attributable to the shareholders of restricted shares expected to be unlocked in the future among the dividends distributed during the reporting period are deducted.

(2) Key financial indicators by quarter

Unit: RMB

	First quarter	Second quarter	Third quarter	Fourth quarter
Revenue	6,085,376,805.28	7,514,428,960.58	8,473,304,915.35	8,663,407,315.69
Net profit attributable to shareholders of the Company	202,790,856.25	313,535,847.23	560,227,575.14	635,474,799.90
Net profit after extraordinary gains or losses attributable to shareholders of the Company	143,993,251.71	-76,111,135.48	463,336,879.91	587,884,812.61
Net cash flows from operating activities	655,581,522.20	1,671,452,262.48	4,941,816,336.88	3,990,952,554.72

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

□ Yes √ No

4. Share capital and shareholders

(1) Table of the number of ordinary shareholders and holders of preference shares with restored voting right and the shareholdings of Top 10 shareholders

Unit: share

Total number of ordinary shareholders as at the end of the reporting period	119,948 of which 98,300 were holders of A shares, 21,290 were holders of B shares and 358 were holders of H shares	Total number of ordinary shareholders as at the end of the month prior to the publication date of this annual report	113,916, of which 94,363 were holders of A shares, 19,210 were holders of B shares and 343 were holders of H shares	Total number of holders of preference shares with restored voting right as at the end of the reporting period	0	Total number of holders of preference shares with restored voting right as at the end of the month prior to the disclosure date of the annual report	0
---	--	--	---	---	---	--	---

Shareholdings of top 10 shareholders						
Name of shareholders	Nature of shareholders	Percentage of shareholding	Number of shares held	Number of restricted shares held	Share pledged or locked-up	
					Status of shares	Number
CHENMING HOLDINGS COMPANY LIMITED	State-owned legal person	15.32%	457,322,919		Pledged	238,470,000
HKSCC NOMINEES LIMITED	Overseas legal person	12.51%	373,359,125			
CHENMING HOLDINGS (HONG KONG) LIMITED	Overseas legal person	12.20%	364,131,563			
CENTRAL HUIJIN ASSET MANAGEMENT LTD.	State-owned legal person	2.02%	60,206,850			
HONG KONG SECURITIES CLEARING COMPANY LIMITED	Overseas legal person	1.14%	34,168,330			
Chen Hongguo	Domestic nature person	1.04%	31,080,044	28,310,033		
NATIONAL SOCIAL SECURITY FUND 418	Others	0.63%	18,840,000			
NINGBO ASIA PAPER TUBE CARTON CO., LTD.	Domestic non-state-owned legal person	0.62%	18,400,000			
VANGUARD TOTAL INTERNATIONAL STOCK INDEX FUND	Overseas legal person	0.50%	14,771,945			
VANGUARD EMERGING MARKETS STOCK INDEX FUND	Overseas legal person	0.44%	13,121,946			
Related party relationship or acting in concert among the above shareholders	A shareholder, Chenming Holdings (Hong Kong) Limited, which is an overseas legal person, and a wholly-owned subsidiary of a shareholder, Shouguang Chenming Holdings Company Limited, a state-owned legal person, is a person acting in concert under the Measures for the Administration of Disclosure of Shareholder Equity Changes of Listed Companies. A shareholder, Chen Hongguo, is the legal representative, chairman and general manager of Chenming Holdings Company Limited. Save for the above, it is not aware that any other shareholders of tradable shares mentioned above are persons acting in concert. It is also not aware that any other shareholders of tradable shares mentioned above are related to each other.					
Securities margin trading of shareholders, if any	Chenming Holdings Company Limited held 457,322,919 RMB ordinary shares, of which 379,522,919 shares were held through ordinary account and 77,800,000 shares were held through credit guarantee security account. Ningbo Asia Paper Tube Carton Co., Ltd. held 18,400,000 RMB ordinary shares, of which 0 share was held through ordinary account and 18,400,000 shares were held through credit guarantee security account.					

(2) Table of the total number of holders of preference shares of the Company and the shareholdings of Top 10 holders of preference shares

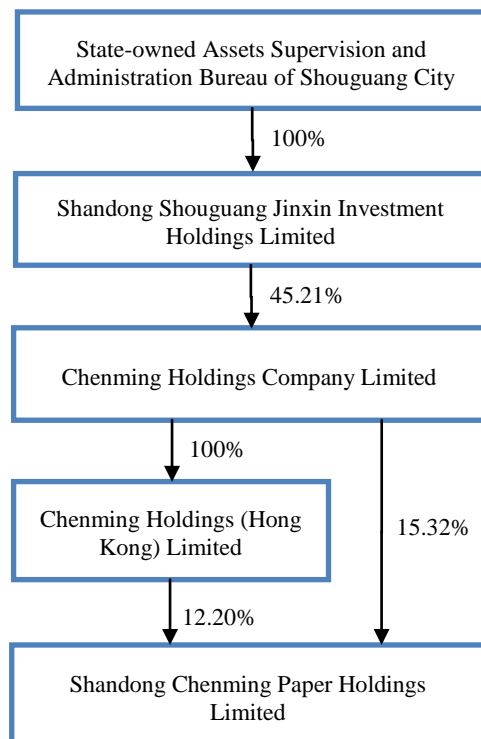
√ Applicable □ Not applicable

Unit: share

Total number of holders of preference shares as at the end of the reporting period	8	Total number of holders of preference shares as at the end of the month prior to the publication date of this annual report	8			
Shareholdings of top 10 holders of preference shares						
Name of shareholders	Nature of shareholders	Percentage of shareholding	Number of shares held	Number of preference 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	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		
BANK OF COMMUNICATIONS INTERNATIONAL TRUST CO., LTD. – HUILI NO.136 SINGLE CAPITAL TRUST	Others	14.22%	6,400,000	6,400,000		
QILU BANK CO., LTD. - QILU BANK QUANXIN WEALTH MANAGEMENT PRODUCT SERIES	Others	13.33%	6,000,000	6,000,000		
SHANGHAI SHIJIE BUSINESS CONSULTING CO., LTD.	Domestic non-state-owned legal person	9.20%	4,140,100	4,140,100		
HENGFENG BANK CO., LTD.	Domestic non-state-owned legal person	8.89%	4,000,000	4,000,000		
LEAD CAPITAL MANAGEMENT CO., LTD. – LEAD CAPITAL – LI DE YING NO. 2 ASSET MANAGEMENT PLAN	Others	2.62%	1,179,900	1,179,900		
LEAD CAPITAL MANAGEMENT CO., LTD.- LEAD CAPITAL – LI DE YING NO. 1 ASSET MANAGEMENT PLAN	Others	1.51%	680,000	680,000		
Description of related party relationship or acting in concert among the above shareholders	The above 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”, and “LEAD CAPITAL MANAGEMENT CO., LTD. – LEAD CAPITAL – LI DE YING NO.1 ASSET MANAGEMENT PLAN” and “LEAD CAPITAL MANAGEMENT CO., LTD. – LEAD CAPITAL – LI DE YING NO.2 ASSET MANAGEMENT PLAN”, are persons acting in concert. Save for the above, it is not aware that whether the remaining holders of Preference Shares are persons acting in concert. It is also not aware that the top ten holders of Preference Shares and the above ordinary shareholders are related to each other.					

(3) A block diagram disclosure of the ownership and control relationship between the Company and its controller



5. Corporate bonds

Are there any corporate bonds offered to the public by the Company and listed on stock exchanges which do not become due as at the date of approval of this annual report or overdue but not fully settled?

Yes

(1) Basic information on corporate bonds

Name of bond	Bond abbreviation	Bond code	Issue date	Maturity date	Outstanding amount of the bonds (RMB'0,000)	Interest rate
The First Tranche of Corporate Bonds of Shandong Chenming Paper Holdings Limited Publicly Issued to Qualified Investors in 2017	17 Chenming Bond 01	112570	17 August 2017	21 August 2022	9,000	7.28%
The First Tranche of Corporate Bonds of Shandong Chenming Paper Holdings Limited Publicly Issued to Qualified Investors in 2018	18 Chenming Bond 01	112641	29 March 2018	2 April 2023	35,000	7.60%

(2) Updated rating and change of rating of corporate bonds

On May 26, 2020 China Chengxin International Credit Rating Co., Ltd. (China Chengxin International) issued the “Follow-up Rating Report” (2020) with Respect to the First Tranche of Corporate Bonds Publicly Issued to Qualified Investors in 2017”. The credit rating of the company’s “17 Chenming Bond 01” is AA+, and the main credit rating of the company is AA+, and the rating outlook is stable. For details, please refer to the company’s announcement dated 28 May 2020 on Juchao Information Network.

On 26 May 2020, China Chengxin International issued the “Follow-up Rating Report” (2020) with Respect to the First Tranche of Corporate Bonds Publicly Issued to Qualified Investors in 2018”, which assessed the Company’s “18 Chenming Bond 01” credit rating as AA+. The main credit rating of the Company is AA+, and the rating outlook is stable. For details, please refer to the announcement of the Company dated 28 May 2020 on Juchao Information Network.

On 3 July 2020, China Chengxin International issued the “Announcement on Putting Shandong Chenming Paper Group Co., Ltd. Main Body and Related Debt Credit Ratings on the Watch List for Possible Downgrades”, and decided to set the company’s AA+ main credit rating and the AA+ credit ratings of “17 Chenming Bond 01” and “18 Chenming Bond 01” are included on the watch list for possible downgrade. For details, please refer to the announcement of the Company dated 9 July 2020 on Juchao Information Network.

On 30 December 2020, China Chengxin International issued the “Announcement on Removing the Credit Rating of Shandong Chenming Paper Group Co., Ltd. and Related Debts from the Watch List of Possible Downgrades and Adjusting the Rating Outlook to Negative” and decided to maintain it The company’s subject credit rating is AA+, and the credit ratings of “17 Chenming Bond 01” and “18 Chenming Bond 01” are maintained at AA+. The credit ratings of the above entities and related debts are removed from the watch list for possible downgrade, and the rating outlook is adjusted to negative. For details, please refer to the announcement of the Company dated 31 December 2020 on Juchao Information Network.

(3) 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	2020	2019	Year-on-year increase/decrease in percentage
Gearing ratio	71.83%	73.11%	-1.28%
Proportion of EBITDA to total debts	12.22%	11.32%	0.90%
Interest coverage ratio	1.96	1.70	15.29%

III. DISCUSSION AND ANALYSIS OF OPERATIONS

1. Overview of operations during the reporting period

In 2020, the unexpected COVID-19 epidemic posed unprecedented shock to the global economy and increased the downward pressure of the economy. Under the leadership of the Central Committee of the Communist Party of China, China adhered to the general principle of seeking progress while maintaining stability, carried out epidemic prevention and control and promoted economic development in a coordinated manner. With the continuous implementation of the “six stability” and “six guarantees” tasks, domestic economy embraced steady resuscitation, and China became the only country among the world’s major economies

that achieved positive growth. As one of the important basic raw material industries in China, the output and total profit of the paper making and paper product industry exhibited a trend of “turning a negative into a positive, accelerating quarter by quarter”. Reeled from the epidemic in the first quarter during this reporting period, the paper making industry was confronted with problems such as insufficient raw materials, delays in production resumption and return to work, difficulties in logistics and delivery, decline in foreign trade, and insufficient market demand. According to the National Bureau of Statistics, the output of machine-made paper and paper board in China decreased by 12.4% year on year, the total profit of industrial enterprises above designated size in the paper making and paper product industry fell by 5.5% year on year. Since entering the second quarter, with the gradual strengthening of epidemic prevention and control achievements, enterprises resumed work and production in an orderly manner. Thanks to the combined effects of favourable policies such as the “ban on importing waste” and a stricter ban on plastics, market demand gradually picked up, which stimulated a price rise of pulp and machine-made paper and improved prosperity of the paper making industry. The major indicators changed from negative to positive and recorded growth against the overall downtrend. According to the data from the National Bureau of Statistics, from January to December 2020, the national output of machine-made paper and paper board was 127,006,300 tonnes, a record high since the founding of the People’s Republic of China.

The Company seized opportunities during crisis and sought stability in changes. During the reporting period, the Company, as a leading player in the paper making industry in China, took strict control over the epidemic during the critical period of epidemic prevention and control, carried out production resumption and return to work in an orderly manner, and stabilised production and product quality. As the prevention and control of the epidemic bore fruits, market demand increased with a higher pulp price. The Company’s major types of paper saw a price rise. The advantages of the pulp and paper integration became more apparent with further enhanced profitability and successful fulfilment of various mission goals.

In 2020, the Company produced 5.77 million tonnes machine-made paper with sales of 5.61 million tonnes, representing a year-on-year increase of 15.17% and 6.86% respectively. The Company recorded revenue of RMB30,737 million, representing a year-on-year increase of 1.12%. Total profit and net profit attributable to equity holders of the Company amounted to RMB2,172 million and RMB1,712 million respectively, representing a year-on-year increase of 6.04% and 3.35%. Total asset of the Company amounted to RMB97,959 million. The operation and management results were mainly reflected in the following aspects:

(i) Achieving objectives of production capacity and efficiency, strategic optimisation and upgrading

In recent years, the Company continued to focus on the development of the principal business of pulping and paper making. It successively invested in the 500,000-tonne cultural paper renovation project of Shouguang headquarters, the 510,000-tonne high-end cultural paper project of Shouguang Meilun, the 1 million-tonne chemical pulp project of Shouguang Meilun and 600,000-tonne of chemical wood pulp project of Huanggang Chenming. The Company’s pulp and paper production capacity reached more than 11 million tonnes, becoming the only pulping and paper making enterprise in China with a balanced pulp and paper production capacity. During the reporting period, as the pulp price continued to rise, the Company’s advantages of low costs became prominent. New projects achieved the objectives of production capacity and efficiency and recorded year-on-year growth of total profit.

(ii) Satisfying performance brought by innovative sales

In 2020, the COVID-19 epidemic brought a severe impact on sales work. In face of challenges, all sales personnel actively strengthened marketing and promotion, assessed the current situation, seized the opportunity generated by improved market sentiment and continued to increase prices, so as to achieve increases in both production and sales. The sales volume of machine-made paper was 5.61 million tonnes, representing an increase of 360,000 tonnes over last year. Firstly, we strengthened channel development and customer management. As a result, the number of contracted customers increased significantly, and the market construction has been steadily improved. Secondly, we gave full play to the advantages of the production base layout and increased sales at close distances. Thirdly, we improved credit management, increased prepayments and strictly control business risks. Fourthly, we insisted on structural adjustments, actively developed new products, increased sales of products with greater profit margin, and strengthened competitive advantages.

(iii) Significant effects of supply chain management

During the reporting period, the management of the supply chain management centre was improved. The centre strove for favourable policies, and the direct procurement from sources was taken to a higher level. The highlights of our unparalleled results are as follows: 1. the amount of funds used was lowered by improving plan management, regulating and sharing materials and selling on consignment. 2. National policies were researched on and strived for. The Company was approved as “The Experimental Unit for the Regulatory Reform of the Processing Trade of Enterprise Groups”. The Company and relevant import and export trade companies were approved to enjoy the tax payment guarantee policies provided by the Finance Company of Chenming, leading to a lower cost of customs clearance and quicker clearance than ever before. 3. The management of suppliers was further improved. We explored new sources vigorously. Its cooperation with customers, the stability of the supply of raw materials and the quality of raw materials were taken to a higher level.

(iv) Improving financial management and capital structure

During the reporting period, even though being confronted with harsh economic conditions, the Company improved its financial management steadily. Various measures were adopted to optimise our debt and capital structure, leading to a better financial conditions. 1. By enhancing capital management, lowering the balance of bonds and reducing our debt and lease in a sustained way, the Company withdrew capital with a net value of RMB3,600 billion. Risks were under effective control, and financial security was ensured. 2. Promoting setting up a financial information system and a capital management platform, realising a comprehensive improvement of the overall arrangement, standardisation and financial management of the Group’s financial business. 3. The policies benefiting enterprises, the scientific tax planning, improved analysis on the trend of exchange rates and other measures resulted in a lower cost of funds and a better financial position.

(v) Improving production management and exploring our potentials for a higher efficiency

During the reporting period, our production system adhered to the guiding principles and goals of the Company. Our production management was enhanced. Our production was sped up for a high production volume. We also explored our potentials for a higher efficiency. The Company produce 5.77 million tonne machine-made paper in 2020, representing a year-on-year increase of 0.76 million tonnes. 1. We carried out standard practice vigorously to ensure that our paper making machines can operate in best conditions, aiming to increase production and efficiency. 2. Upholding the operation philosophy of “pulp and paper integration”.

Maximising the production of self-produced pulp by increasing the production of paper making machines. 3. Producing products with high added value by adjusting product mix. Optimising the proportion of pulp to other materials to lower production costs. Our volume of production is determined on sales, and our production is arranged scientifically. We manage our inventory vigorously. Measures in relation to saving water and reducing pollutants discharges were adopted. The purpose of all of these actions is to explore our potentials and increase efficiency.

(vi) Strict corporate management producing initial success

In 2020, the Company's management centre improved its basic management to conform to a series of requirements, and a certain amount of effect was produced. The details are as follows:

1. Improving and streamlining our institutions and enhancing our implementation. The Group's overall management institutions were streamlined to make them simple and easy to use. We have developed 160 new procedures, and the number of existing procedures is over 1,200. Certain parts of these procedures are monitored by a mechanically controlled early warning system, leading to a higher operational efficiency. We obeyed our rules and regulations in a stricter manner. Problems were solved immediately once they were discovered. Weekly examinations and appraisals were conducted on essential works, improving the quality of our works effectively.

2. Improving our incentive mechanism and strengthening our team building. Our check-up system was organised comprehensively, and our medium-term and long-term incentive mechanism was improved. The 2020 Restricted A Shares Incentive Plan was implemented, thus, members of our team were motivated effectively. Everyone's enthusiasm was aroused by taking up a job through competition among cadres, appraising through democratic discussion, choosing excellent employees and other activities. We improved the quality of our training and trained our own talents by building an online learning platform and an operational classroom and conducting training with special topic.

2. Significant change in the principal activities during the reporting period

☐ Yes ☒ No

3. Products accounting for over 10% of revenue or operating profit of the Company

☒ Applicable ☐ Not applicable

Unit: RMB

Product name	Revenue	Operating costs	Gross profit margin	Increase/decrease of revenue as compared to the corresponding period of the prior year	Increase/decrease of operating profit 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
White paper board	7,900,414,595.22	2,135,920,806.88	27.04%	14.35%	148.10%	14.57%
Duplex press paper	6,880,399,009.21	1,222,137,129.77	17.76%	-10.98%	-28.91%	-4.48%
Coated paper	4,134,523,188.76	880,888,276.54	21.31%	9.39%	-2.59%	-2.62%
Electrostatic paper	4,052,403,877.82	855,939,083.41	21.12%	23.92%	0.29%	-4.98%
Anti-sticking raw paper	1,118,932,774.91	250,184,646.81	22.36%	-9.66%	-28.55%	-5.91%
Financial leasing	935,121,026.20	807,500,930.78	86.35%	-48.49%	-52.37%	-7.04%

4. Whether any seasonal or cyclical characteristic of operations gives rise to concern

☐ Yes ☒ No

5. Description of significant change in revenue, operating costs and total net profit attributable to ordinary shareholders of the Company during the reporting period as compared to the prior reporting period

☐ Applicable ☒ Not applicable

6. To be delisted

☐ Applicable ☒ Not applicable

7. Events relating to financial reporting**(1) Description of changes in accounting policies, accounting estimates and accounting methods as compared to the financial report for the prior year**

☒ Applicable ☐ Not applicable

The Company has been implementing the Accounting Standard for Business Enterprises No. 13 promulgated by the Ministry of Finance since 1 January 2020, for which the prospective application method is applied.

(2) 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.

(3) Reason for changes in scope of the consolidated financial statements as compared to the financial report for the prior year

☒ Applicable ☐ Not applicable

During the reporting period, the scope of consolidation had 8 newly established subsidiaries, namely Chenming (Overseas) Co., Ltd., Chenming (Singapore) Co., Ltd., Qingdao Chenming Import and Export Trade Co., Ltd., Hainan Chenming Technology Co., Ltd., Hubei Changjiang Chenming Huanggang Equity Investment Fund Partnership (Limited Partnership), Hubei Huanggang Chenming Equity Investment Fund Management Co., Ltd., Shandong Dingkun Asset Management Partnership (Limited Partnership) and Huanggang Chenming Paper Technology Co., Ltd. During the reporting period, a subsidiary was acquired not within the definition of business, namely Shanghai Herui Investment Co., Ltd., and a subsidiary, Kunshan Tuoan Plastic Products Co., Ltd. was acquired by the Group.

During the reporting period, 3 companies were reduced from the scope of consolidation. A subsidiary, Shandong Chenming Paper Group (Fuyu) Sales Co., Ltd. was absorbed into the Group. The Company disposed of 100% equity interest in Qingdao Chenming International Logistics Co., Ltd. and 100% equity interest in Shouguang Chenming Industrial Logistics Co., Ltd. Such companies were excluded from the scope of consolidation.

The Board of Shandong Chenming Paper Holdings Limited
25 March 2021