## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in **Shandong Chenming Paper Holdings Limited (the "Company")**, you should at once hand this circular to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).



# 山 東 晨 鳴 紙 業 集 團 股 份 有 限 公 司
# SHANDONG CHENMING PAPER HOLDINGS LIMITED*

*(a joint stock company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 1812)**

# (1) DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF 34% EQUITY INTEREST IN JIANGXI CHENMING PAPER COMPANY LIMITED AND (2) AMENDMENTS TO THE ARTICLES OF ASSOCIATION AND (3) AMENDMENTS TO THE PROCEDURAL RULES OF THE GENERAL MEETING AND (4) NOTICE OF 2012 SECOND EXTRAORDINARY GENERAL MEETING

**Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders**

寶橋 BRIDGE PARTNERS

**BRIDGE PARTNERS CAPITAL LIMITED**

Capitalized terms used in this cover page shall have the same meanings as those defined in this circular.

A notice for convening the EGM (as defined below) of the Company to be held at 1:30 p.m. on 5, November 2012 at the conference room of the research and development centre of the Company, eastern side of Mihe Bridge, South Ring Road, Shouguang City, Shandong Province, the People's Republic of China (the "**PRC**"), are set out on pages 82 to 84 of this circular.

Whether or not you are able to attend the meeting in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon. In case of H Shares, the proxy form shall be lodged with Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong; and in case of A Shares and B Shares, the proxy form shall be lodged at the capital operation department of the Company at No. 2199 Nongsheng Road, Shouguang City, Shandong Province, the PRC, as soon as possible and in any event not later than 24 hours before the time scheduled for holding the meeting (or any adjourned meetings thereof). Completion and delivery of the form of proxy will not preclude you from attending and voting in person at the meetings or any adjournment if you so desire and completion and return of the reply slip will not affect the right of a Shareholder to attend the respective meeting.

A letter from the Board is set out on pages 5 to 13 of this circular. A letter of recommendation from the Independent Board Committee to the Independent Shareholders is set out on page 14 of this circular. A letter of advice from Bridge Partners to the Independent Board Committee and the Independent Shareholders is set out on pages 15 to 24 of this circular.

* *For identification purposes only*

19 September 2012

# TABLE OF CONTENTS


| | | |
|---|---|---|
| **Definitions** | | 1 |
| **Letter from the Board** | | 5 |
| **Letter from the Independent Board Committee** | | 14 |
| **Letter from Bridge Partners** | | 15 |
| **Appendix I** | **— General Information** | 25 |
| **Appendix II** | **— Valuation Report** | 29 |
| **Appendix III** | **— Amendments to the Articles of Association** | 71 |
| **Appendix IV** | **— Amendments to the Procedural Rules** | 78 |
| **Notice of EGM** | | 82 |

*In this circular, unless the context otherwise requires, the following expressions have the following meanings:*

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| "Acquisition" | the acquisition of 34% equity interest in the Target Company by the Purchaser from the Vendor under the Third Equity Interest Transfer Agreement; |
| "Articles of Association" | the articles of association of the Company; |
| "Board" | the board of Directors; |
| "Bridge Partners" | Bridge Partners Capital Limited, a licensed corporation to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Third Equity Interest Transfer Agreement and the transactions contemplated thereunder; |
| "Closing Date" | within 5 days or such other date as the Purchaser and the Vendor may otherwise agree in writing on the date on which all the conditions precedent set forth in the Third Equity Interest Transfer Agreement are satisfied or waived but shall be no later than the Termination Date, unless otherwise agreed in writing; |
| "Company" | Shandong Chenming Paper Holdings Limited (山東晨鳴紙業集團股份有限公司), a joint stock limited liability company incorporated in the PRC whose H Shares are listed on the main board of the Stock Exchange; |
| "Completion" | completion of the Acquisition in accordance with the terms and conditions of the Third Equity Interest Transfer Agreement; |
| "CSRC" | China Securities Regulatory Commission; |
| "Director(s)" | the director(s) of the Company; |
| "EGM" | the 2012 second extraordinary general meeting of the Company to be convened for the purpose of considering and if thought fit, approving the Third Equity Interest Transfer Agreement and the transactions contemplated thereunder; |
| "First Equity Interest Transfer Agreement" | the equity interest transfer agreement dated 8 August 2012 and entered into among the Company, the IFC and the Purchaser in relation to the acquisition of 7.5% equity interest in the Target Company; |

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| "Group" | the Company and its subsidiaries; |
| "Guoyoudazheng" | Beijing Guoyoudazheng Assets Appraisal Company (北京國友大正資產評估有限公司); |
| "Hong Kong" | the Hong Kong Special Administrative Region of the PRC; |
| "IFC" | International Finance Corporation, an international organization established by agreement among its member countries, having an office at Washington D.C., United States; |
| "Independent Board Committee" | the independent board committee comprising all the independent non-executive Directors for the purpose of advising the Independent Shareholders in relation to the Third Equity Interest Transfer Agreement and the transactions contemplated thereunder; |
| "Independent Shareholders" | the Shareholders who have no material interest in the Third Equity Interest Transfer Agreement and the transactions contemplated thereunder; |
| "JV Contract" | the amended joint venture contract of the Target Company entered into between the Company, IFC, Moorim and the Vendor in 2006; |
| "Latest Practicable Date" | 17 September 2012, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein; |
| "Listing Rules" | The Rules Governing the Listing of Securities on the Stock Exchange; |
| "MOFCOM" | Ministry of Commerce of the PRC and/or its local counterpart; |
| "Moorim" | Moorim Paper Manufacturing Company Limited, a company incorporated and existing under the laws of the Republic of Korea; |
| "PRC" | the People's Republic of China which, for the purpose of this circular, excludes Hong Kong, Macau Special Administrative Region and Taiwan; |
| "Procedural Rules" | the procedural rules of the general meeting of the Company; |
| "Purchaser" | Chenming (HK) Limited, a limited liability company incorporated and existing under the laws of Hong Kong, which is a wholly-owned subsidiary of the Company; |

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| "RMB" | the lawful currency of the PRC; |
| "SAFE" | The State of Administration of Foreign Exchange of the PRC and/or its local counterpart; |
| "Sales and Distribution Agreement" | the agreement dated 3 December 2004 entered into among the Target Company, the Company, Moorim and the Vendor; |
| "Second Equity Interest Transfer Agreement" | the equity interest transfer agreement dated 8 August 2012 and entered into among the Company, Moorim and the Purchaser in relation to the acquisition of 7.5% equity interest in the Target Company; |
| "SFO" | the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong; |
| "Share(s)" | share(s) of RMB1.00 each of the Company; |
| "Shareholders" | holders of the Shares; |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited; |
| "Supplemental Valuation Report" | Supplement to Asset Appraisal Report in respect of proposed transfer of equity interest in the Target Company held by its shareholders《江西晨鳴紙業有限責任公司股東擬轉讓所持該公司股權專案資產評估報告》(Guo You Da Zheng Ping Bao Zi (2012) No. 171B) issued by Guoyoudazheng dated 11 September 2012, the text of which is set out in Appendix II to this circular; |
| "Target Company" | Jiangxi Chenming Paper Company Limited, a limited liability company incorporated under the laws of the PRC, which is owned as to 51% by the Company as at the Latest Practicable Date; |
| "Termination Date" | 23 September 2012 or such later date as determined by the Vendors and the Purchaser; |
| "Third Equity Interest Transfer Agreement" | the equity interest transfer agreement dated 8 August 2012 and entered into between the Vendor and the Purchaser in relation to the acquisition of 34% equity interest in the Target Company; |
| "United States" | The United States of America; |
| "US$" | United State dollars, the lawful currency of the United States; |

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|---|---|
| "Valuation Report" | Asset Appraisal Report in respect of proposed transfer of equity interest in the Target Company held by its shareholders 《江西晨鳴紙業有限責任公司股東擬轉讓所持該公司股權專案資產評估報告》(Guo You Da Zheng Ping Bao Zi (2012) No. 171B) issued by Guoyoudazheng dated 25 May 2012, the text of which is set out in Appendix II to this circular; |
| "Vendor" | Sappi Limited, a company incorporated and existing under the laws of South Africa whose shares are listed on the Johannesburg Stock Exchange of South Africa and the New York Stock Exchange of the United States of America; and |
| "%" | per cent. |

# 山東晨鳴紙業集團股份有限公司
# SHANDONG CHENMING PAPER HOLDINGS LIMITED*

*(a joint stock company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 1812)**

*Executive Directors:*
Mr. Chen Hongguo
Mr. Yin Tongyuan
Mr. Li Feng
Mr. Hou Huancai
Mr. Zhou Shaohua
Mr. Geng Guanglin
Mr. Tan Daocheng

*Non-executive Directors:*
Mr. Cui Youping
Ms. Wang Fengrong
Mr. Wang Xiaoqun

*Independent non-executive Directors:*
Mr. Wang Aiguo
Mr. Zhang Zhiyuan
Mr. Wang Xiangfei
Ms. Wang Yumei
Ms. Zhang Hong

*Legal address:*
No. 595 Shengcheng Road
Shouguang City
Shandong Province
PRC

19 September 2012

*To the Shareholders*

Dear Sir and Madam,

## (1) DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF 34% EQUITY INTEREST IN JIANGXI CHENMING PAPER COMPANY LIMITED AND (2) AMENDMENTS TO THE ARTICLES OF ASSOCIATION AND (3) AMENDMENTS TO THE PROCEDURAL RULES AND (4) NOTICE OF 2012 SECOND EXTRAORDINARY GENERAL MEETING

* *For identification purposes only*

## 1. INTRODUCTION

The Board refers to the announcements of the Company dated 8 August 2012 and 21 August 2012 respectively.

The purpose of the circular is to provide you with (i) further information on the Acquisition; (ii) a letter from the Independent Board Committee to the Independent Shareholders; (iii) a letter from Bridge Partners to advise the Independent Board Committee and the Independent Shareholders in relation to the Third Equity Interest Transfer Agreement and the transactions contemplated thereunder; (iv) amendments to the Articles of Association; (v) amendments to the Procedural Rules; (vi) a notice to convene the EGM; and (vii) other information as required by the Listing Rules.

## 2. DISCLOSEABLE AND CONNECTED TRANSACTION

The Board announces that on 8 August 2012 the Group, through the Purchaser, entered into the Third Equity Interest Transfer Agreement to acquire 34% equity interest in the Target Company from the Vendor at a consideration of US$41,580,000 (approximately RMB263,525,724).

The Independent Board Committee comprising all the independent non-executive Directors has been established by the Board to advise the Independent Shareholders in relation to the Acquisition and the transactions contemplated thereunder. Bridge Partners has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation thereto.

### THE THIRD EQUITY INTEREST TRANSFER AGREEMENT

Date and parties of the Third Equity Interest Transfer Agreement

| | | | | |
|---|---|---|---|---|
| Date | : | 8 August 2012 | | |
| Parties | : | (a) | Purchaser: | Chenming (HK) Limited, a wholly owned subsidiary of the Company |
| | | (b) | Vendor: | SAPPI Limited, acting for and on behalf of its subsidiary Sappi China Holding BV, holding 34% of the equity interest in the Target Company. |

The Vendor is a substantial shareholder of the Target Company in which the Target Company is a subsidiary of the Company. Accordingly, the Vendor is a connected person of the Company under the Listing Rules.

### ASSETS TO BE ACQUIRED

Pursuant to the Third Equity Interest Transfer Agreement, the Purchaser has conditionally agreed to purchase and the Vendor has conditionally agreed to sell its 34% equity interest in the Target Company at a consideration of US$41,580,000 (approximately RMB263,525,724).

The Target Company is a subsidiary of the Company which is principally engaged in the production and sale of high-grade paper and cardboard (except newsprint paper) and the production and sale of pulp. For further details of the Target Company, please refer to the section headed "Information of the Target Company" below. As at the Latest Practicable Date, the Company is holding 51% of the equity interest in the Target Company. Upon Completion, (i) assuming the transfer of equity interest under the First Equity Interest Transfer Agreement and the Second Equity Interest Transfer Agreement have been completed, the Group's interest in the Target Company will increase to 100%; (ii) assuming either the transfer of equity interest under the First Equity Interest Transfer Agreement or the Second Equity Interest Transfer Agreement has been completed, the Group's interest in the Target Company will increase to 92.5% and (iii) assuming none of the transfer of equity interest under the First Equity Interest Transfer Agreement and the Second Equity Interest Transfer Agreement is completed, the Group's interest in the Target Company will increase to 85%.

## CONSIDERATION

The consideration for the Acquisition is US$41,580,000 (approximately RMB263,525,724) is determined after arm's length negotiations between the Purchaser and the Vendor with reference to the assets value and the assets appraisal value of the Target Company.

The consideration will be satisfied in cash by the Purchaser and/or the Group and payable by wire transfer to the bank account designated by the Vendor upon Completion. Such consideration will be funded by the internal resources of the Purchaser and/or the Group.

## CONDITIONS PRECEDENT TO COMPLETION

Completion of the Acquisition shall be conditional upon and subject to:

(a) the Vendor has complied with, and completed, the procedures set forth in Section 7.10 of the JV Contract, and the other shareholders of the Target Company (the Company, IFC, Moorim) have confirmed in writing that they will not exercise their respective right under the JV Contract to purchase the equity interest;

(b) adoption of a valid resolution by the board of directors of the Target Company unanimously approving the equity transfer;

(c) adoption of a valid resolution by the board of directors of each of the parties approving the equity transfer;

(d) approvals of the Third Equity Interest Transfer Agreement and the equity transfer by the respective shareholders' meeting of each party as required by the listing rules of the relevant stock exchange that governs the listing of the securities of any affiliate of the parties to this agreement;

(e) the parties have received a written consent from IFC with respect to the equity transfer pursuant to Section 7.10.3 of the JV Contract;

(f) approval of the equity transfer by the MOFCOM and subsequent issuance of a new approval certificate;

(g) approval by the SAFE, if required;

(h) written confirmation by the Company and the Vendor that the Company and the Vendor and/or its subsidiaries are released from all rights and obligations under the Sales and Distribution Agreement;

(i) acknowledgements by the parties in writing of the termination of the technical service agreement dated 1 January 2005 in existence between the parties, effective at the closing date; and

(j) the exchange control approval granted by the South Africa Reserve Bank.

If any of the above conditions is not fulfilled or waived by the Termination Date, either party may terminate the Third Equity Interest Transfer Agreement by giving 7-day notice to the other party or discuss with the party to extend the Termination Date to an agree-upon later date. If the Third Equity Interest Transfer Agreement is terminated due to any reasons beyond the control of the Vendor and the Purchaser, the JV Contract and the article of association of the Target Company shall remain effective with respect to the Vendor and the Purchaser.

Subject to the fulfillment (or waiver as the case may be) of all the conditions precedent mentioned in the above, the completion of Third Equity Interest Transfer Agreement shall take place on the Closing Date but such Closing Date shall be no later than the Termination Date, unless otherwise agreed in writing.

**COMPOSITION OF THE BOARD OF THE TARGET COMPANY AS A RESULT OF THE ACQUISITION**

The current board member of the Target Company nominated by the Vendor will tender the resignation upon Completion. As confirmed by the Directors, it is expected that a joint venture agreement will be entered into between the Company and the Purchaser upon Completion (assuming the transfers of the equity interests under the First Equity Interest Transfer Agreement and the Second Equity Interest Transfer Agreement have been completed) for the purpose of managing the business operations and financial position of the Target Company together. It is the intention of the Company and the Purchaser to appoint 3 and 2 directors to the board of directors of the Target Company respectively.

## INFORMATION OF THE TARGET COMPANY

### Business of the Target Company

The Target Company is a limited liability company incorporated under the laws of the PRC. As at the Latest Practicable Date, the Company holds 51% of the equity interest in the Target Company. The business of the Target Company is the production and sales of high-grade paper and card board (except newsprint paper) and the production and sales of pulp.

### Financial Information of the Target Company

Set out below is the audited financial information of the Target Company for the financial year ended 31 December 2010 and 31 December 2011 and the unaudited financial information of the Target Company for the seven months ended 31 July 2012.

| | **For the year ended 31 December 2010 (audited)** *RMB* | **For the year ended 31 December 2011 (audited)** *RMB* | **For the seven months ended 31 July 2012 (unaudited)** *RMB* |
|---|---|---|---|
| Turnover | 1,602,413,036.54 | 1,913,369,558.19 | 934,396,044.16 |
| Profit/(Loss) before taxation | 113,791,339.09 | 12,221,386.55 | (47,888,037.91) |
| Profit/(Loss) after taxation | 140,704,350.58 | 30,002,084.94 | (35,714,827.17) |

The unaudited net asset value of the Target Company as at 31 July 2012 was approximately RMB1,694,739,700.

According to the Valuation Report, as at 30 April 2012, the carrying value of the total assets of the Target Company amounted to RMB3,294,144,900 and the appraised value is RMB3,621,544,000; the carrying value of the total liabilities amounted to RMB1,611,323,300 and the appraised value is RMB1,611,323,300; the carrying value of net assets amounted to RMB1,682,821,600 and the appraised value is RMB2,010,220,700.

## INFORMATION OF THE VENDOR

The Vendor is a company incorporated and existing under the laws of South Africa. The principal business of the Vendor is the making and selling of various paper products.

## INFORMATION OF THE GROUP

The Group is principally engaged in the making and selling paper products.

**REASONS FOR AND BENEFIT OF THE ACQUISITION**

Due to the adjustment of investment strategies, the Vendor intends to transfer its equity interest in the Target Company. As the holder of 51% equity interest in the Target Company as at the Latest Practicable Date, the Board considers that the Acquisition by the Company, through the Purchaser will safeguard the continuity, smooth and stable operation of the Target Company in the long run. Upon Completion, (i) assuming the transfer of equity interest under the First Equity Interest Transfer Agreement and the Second Equity Interest Transfer Agreement have been completed, the Group's interest in the Target Company will increase to 100%; (ii) assuming either the transfer of equity interest under the First Equity Interest Transfer Agreement or the Second Equity Interest Transfer Agreement has been completed, the Group's interest in the Target Company will increase to 92.5% and (iii) assuming none of the transfer of equity interest under the First Equity Interest Transfer Agreement and the Second Equity Interest Transfer Agreement is completed, the Group's interest in the Target Company will increase to 85%. The financial results of the Target Company will continue to be consolidated with those in the Group, but to a greater extent from 51% to 100% assuming the transfer of equity interest under the First Equity Interest Transfer Agreement and the Second Equity Interest Transfer Agreement have been completed.

According to the Valuation Report, the assets valuation of the Target Company as at 30 April 2012 performed by Guoyoudazheng was appraised at RMB2,010,220,700 (the "**Target Company Valuation**"). Since the consideration of the Third Equity Interest Transfer Agreement is US$41,580,000 (approximately RMB263,525,724), it represents a discount of approximately 61.44% of the Target Company Valuation of approximately RMB683,475,038, being the effective interest in 34% of the Target Company Valuation. To the best of the Directors' knowledge, they are unaware of any particular reasons for the Vendor to dispose the Target Company at such a discount to the Target Company Valuation.

Having considered the above, the Directors, are of the view that the terms of the Third Equity Interest Transfer Agreement are normal commercial terms, which are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

**LISTING RULES IMPLICATION**

As the applicable percentage ratios exceed 5% but are less than 25%, the Acquisition contemplated under the Third Equity Interest Transfer Agreement constitute discloseable transaction of the Company under Chapter 14 of the Listing Rules. Since the Vendor is interested in 34% of the equity interest in the Target Company in which the Target Company is a subsidiary of the Company, the Vendor is regarded as a connected person of the Company under Chapter 14A of the Listing Rules. The Acquisition also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules which will be subject to approval of the Independent Shareholders at the EGM to be convened for the purpose of considering and, if though fit, approving the Third Equity Interest Transfer Agreement and the transaction contemplated thereunder.

Pursuant to Rule 14A.54 of the Listing Rules, the Vendor together with its associates, shall abstain from voting on the resolution to approve the Acquisition at the EGM. The voting will be taken by way of poll in accordance with the Listing Rules. As at the Latest Practicable Date, the Vendor and its associate has no shareholdings in the Company. In the case where the Vendor and its associates has any shareholdings in the Company on or before the date of EGM, the Vendor and its associates will abstain from voting on the resolution to approve the Acquisition at the EGM.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Director has any material interest in the Third Equity Interest Transfer Agreement and was required to abstain from voting at the Board meeting to approve the same. As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Director or Shareholder had a material interest in the Acquisition and is required to abstain from voting at the EGM.

**FORMATION OF THE INDEPENDENT BOARD COMMITTEE**

The Independent Board Committee comprising all the independent non-executive Directors has been established by the Board to advise the Independent Shareholders as to whether the Third Equity Interest Transfer Agreement was entered into on normal commercial terms and whether the terms of the Acquisition and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and are in the interest of the Company and the Shareholders as a whole. Your attention is drawn to the letter from the Independent Board Committee containing its advice to the Independent Shareholders set out on page 14 of this circular.

Bridge Partners has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the Third Equity Interest Transfer Agreement was entered into on normal commercial terms and whether the terms of the Acquisition and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and are in the interest of the Company and the Shareholders as a whole. The text of the letter of advice from Bridge Partners is set out on pages 15 to 24 of this circular.

**3. AMENDMENTS TO THE ARTICLES OF ASSOCIATION**

Pursuant to the requirements of the Notice of Reproducing Notice regarding Further Implementation of Cash Dividends Distribution of Listed Companies of CSRC (Lu Zheng Jian Fa [2012] No. 18)" issued by Shandong branch of China Securities Regulatory Commission, with a view to refine the terms relating to the decision-making on dividend distribution in the Articles of Association; improve the transparency and operability of decision-making on dividend distribution and to strengthen the protection of legitimate rights and interests of the Shareholders, as well as to meet the needs of business development and enhance the administrative efficiency of the Company, the Board proposes to amend certain terms regarding, among others, profit distribution policy in the Articles of Association. Details of the amendments are set out in Appendix III to this circular.

The proposed amendments to the Articles of Association are subject to Shareholders' approval by way of special resolution at the EGM and all necessary approvals, authorizations or registration (if applicable) to be obtained from or filed with the relevant governmental or regulatory authorities.

The legal advisers to the Company as to Hong Kong laws and the PRC laws have respectively confirmed that the proposed amendments to the Articles of Association is in compliance with the requirements of Listing Rules and the laws of the PRC. The Company also confirms that there is nothing unusual about the proposed amendments to the Articles of Association for a company listed in Hong Kong.

## 4. AMENDMENTS TO THE PROCEDURAL RULES

In light of the proposed amendments to the Articles of Association, the Board also proposed to make corresponding amendments to the Procedural Rules. The amendments to the Procedural Rules are detailed in Appendix IV to this circular.

The proposed amendments to the Procedural Rules are subject to Shareholders' approval by way of special resolution at the EGM and all necessary approvals, authorizations or registration (if applicable) to be obtained from or filed with the relevant governmental or regulatory authorities.

## 5. THE EGM

A notice convening the EGM to be held at 1:30 p.m. on 5 November 2012 at the conference room of the research and development centre of the Company, eastern side of Mihe Bridge, South Ring Road, Shouguang City, Shandong Province, PRC, the notice of which is set out in 82 and 84 of the circular, for the purpose of considering, if thought fit, passing the ordinary resolution to approve the Third Equity Interest Transfer Agreement and the transactions contemplated thereunder; passing the special resolutions to approve the amendments to the Articles of Association and the amendments to the Procedural Rules.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, as at the Latest Practicable Date, the Vendor and its associate has no shareholdings in the Company. In the case where the Vendor and its associates has any shareholdings in the Company on or before the date of EGM, the Vendor and its associates will abstain from voting on the resolution to approve the Acquisition at the EGM. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, as at the Latest Practicable Date, no Director or Shareholder had a material interest in the Acquisition or any of the proposed resolutions and is required to abstain from voting at the EGM.

The resolutions put to vote at the EGM will be decided by way of poll as required by the Listing Rules.

You will find enclosed a form of proxy for use at the EGM. Whether or not you are able to attend the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as practicable and in any event not later than 24 hours before the time scheduled for the holding of the EGM to the office of the Company's H share register, Computershare Hong Kong Investors Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queens Road East, Wanchai, Hong Kong. If you intend to attend the EGM, you are required to complete and return the reply slip to the Company's H share register on or before 15 October 2012.

Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish and completion and return of the reply slip will not affect the right of a Shareholder to attend the EGM.

**6. CLOSURE OF REGISTER OF H SHARE SHAREHOLDERS**

The register of members of the Company will be temporarily closed from 6 October 2012 to 5 November 2012 (both days inclusive) during which no transfer of H shares of the Company will be registered in order to determine the list of H shares Shareholders of the Company for attending the EGM. The last lodgment for the transfer of the H Shares of the Company should be made on 5 October 2012 at the H share registrar of the Company, at not later than 4:30 p.m., at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

**7. RECOMMENDATION**

The Directors consider that the (i) Third Equity Interest Transfer Agreement and the transaction contemplated thereunder; (ii) amendments to the Articles of Association; and (iii) amendments to the Procedural Rules are fair and reasonable and in the interest of the Company and the Shareholders as a whole, and recommend the Shareholders to vote in favour of all the resolutions to be proposed at the EGM.

The Independent Board Committee, having taken into account the advice from Bridge Partners, considers that the Third Equity Interest Transfer Agreement was entered on normal commercial terms, and that the terms of the Acquisition and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and are in the interest of the Company and the Shareholders as a whole. Accordingly the Independent Board Committee would recommend the Independent Shareholders to vote in favour of the ordinary resolution at the EGM to approve the Third Equity Interest Transfer Agreement and the transactions contemplated thereunder.

**8. ADDITIONAL INFORMATION**

Your attention is drawn to the additional information set out in the appendices to this circular.

In this circular, amount quoted in US$ have been converted into RMB at the rate of US$1.00 to RMB6.3378. Such exchange rate has been used where applicable, for the purposes of illustration only and does not constitute a representation that any amount were or may have been exchanged at this or any other rates or at all.

Yours faithfully,
For and on behalf of the Board
**Shandong Chenming Paper Holdings Limited**
**Chen Hongguo**
*Chairman*

# 山東晨鳴紙業集團股份有限公司
# SHANDONG CHENMING PAPER HOLDINGS LIMITED*

*(a joint stock company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 1812)**

*To the Independent Shareholders*

Dear Sir or Madam,

## DISCLOSEABLE AND CONNECTED TRANSACTION

We refer to the circular of the Company dated 19 September 2012 (the "**Circular**") to the Shareholders, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed by the Board as members of the Independent Board Committee to advise you as to whether the Third Equity Interest Transfer Agreement was entered into on normal commercial terms, and whether the terms of the Third Equity Interest Transfer Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole.

Your attention is also drawn to the letter from the Board set out on pages 5 to 13 of the Circular, the letter of advice from Bridge Partners set out on pages 15 to 24 of the Circular and the additional information set out in the appendices to the Circular. Having considered the terms of the Third Equity Interest Transfer Agreement and the transactions contemplated thereunder and the advice of Bridge Partners, we are of the opinion that the Third Equity Interest Transfer Agreement was entered into on normal commercial terms, and the terms of the Third Equity Interest Transfer Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Third Equity Interest Transfer Agreement and the transactions contemplated thereunder.

Yours faithfully,
**Independent Board Committee of**
**Shangdong Chenming Paper Holdings Limited**
**Mr. Wang Aigio Mr. Zhang Zhiyuan Mr. Wang Xiangfei Ms. Wang Yumei Ms. Zhang Hong**
*Independent non-executive Directors*

* *For identification purposes only*

*The following is the text of a letter of advice to the Independent Board Committee and the Independent Shareholders from Bridge Partners in relation to the entering into of the Third Equity Interest Transfer Agreement and the transactions contemplated thereunder, dated 19 September 2012 prepared for the purpose of incorporation in this circular:*


寶橋 BRIDGE PARTNERS

**BRIDGE PARTNERS CAPITAL LIMITED**

Unit 605, 6/F, Grand Millennium Plaza
181 Queen's Road Central
Central, Hong Kong


19 September 2012

*To the independent board committee*
*and the independent shareholders of Shandong Chenming Paper Holdings Limited*

Dear Sirs,

## DISCLOSEABLE TRANSACTION AND CONNECTED TRANSACTION

### INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the entering into of the Third Equity Interest Transfer Agreement and the transactions contemplated thereunder, details of which are set out in the "Letter from the Board" contained in the circular of the Company dated 19 September 2012 (the "**Circular**"), of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

As at the Latest Practicable Date, the Vendor is interested in 34% of the equity interest in the Target Company in which the Target Company is a subsidiary of the Company. As such, the Vendor is regarded as a connected person of the Company under Chapter 14A of the Listing Rules. As the applicable percentage ratio exceeds 5% but is less than 25%, the entering into the Third Equity Interest Transfer Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules which will be subject to approval of the Independent Shareholders at the EGM to be convened for the purpose of considering and, if thought fit, approving the Third Equity Interest Transfer Agreement and the transaction contemplated thereunder.

The Independent Board Committee, comprising Mr. Wang Aiguo, Mr. Zhang Zhiyuan, Mr. Wang Xiangfei, Ms. Wang Yumei and Ms. Zhang Hong (all being independent non-executive Directors), has been established to advise the Shareholders as to whether the Acquisition is on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

We, Bridge Partners, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Third Equity Interest Transfer Agreement are on normal commercial terms and the transactions contemplated therein are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## BASIS OF OUR OPINION

In arriving at our opinion and recommendation, we have relied on the information supplied, the opinion and representations expressed by the Directors and the management of the Company. We have reviewed, amongst others, (i) the annual report of the Company for the year ended 31 December 2011 (the "**2011 Annual Report**") and the interim report of the Company for the six months ended 30 June 2012 (the "**Interim Report**"), (ii) the unaudited accounts of the Target Company for the seven months ended 31 July 2012, and (iii) the Valuation Report as at 30 April 2012 issued by 北京國友大正資產評估有限公司 (Beijing Guoyoudazheng Assets Appraisal Company) ("**Guoyoudazheng**"). We have also discussed with the management of the Group with respect to the terms of and reasons for the Acquisition and the financial information of the Target Company. Further, we have discussed with Guoyoudazheng regarding their valuation method, approach and assumptions on the equity interests in the Target Company and reviewed the "Twelfth Five Years Plan for China Paper Industry Development" ("**Twelfth Five Years Plan**") published by the Government of People's Republic of China in December 2011. We consider that we have taken sufficient and necessary steps to form a reasonable basis and an informed view for our recommendation which are in compliance with Rule 13.80 of the Listing Rules.

We have assumed that the information and representations contained or referred to in the Circular and the information and representations that have been provided by the Company and/or the Directors and/or the management of the Company, for which they are solely and wholly responsible, are true, accurate and complete at the time they were made and continue to be true up to and including the date of the Circular.

We have no reason to suspect that any material fact or information has been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Having made all reasonable enquiries, the Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and further confirmed that, to their best knowledge, they believe there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading.

We have not, however, carried out any independent verification on the information provided by the Directors and the management of the Company, nor have we conducted an independent investigation into the business and affairs of the Company, SAPPI Limited ("**Sappi**"), Sappi China Holding BV ("**Sappi China**"), their respective associates and subsidiaries of the Company, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Acquisition.

This letter is issued for the information for the Independent Board Committee and the Shareholders solely in connection with their consideration of the Third Equity Interest Transfer Agreement and the transactions contemplated thereunder and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent. We have no obligation to update this letter after the date of this letter. Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Independent Board Committee and the Shareholders in respect of the Acquisition, we have taken the following principal factors and reasons into consideration:

### 1. Background of and reasons for the Acquisition

***Business of the Group***

The Group is principally engaged in the making and selling of paper products. Set out below are the audited financial information of the Group for the two years ended 31 December 2011 as extracted from the 2011 Annual Report and the unaudited financial information of the Group for the six months ended 30 June 2011 and 30 June 2012.

| | **For the year ended 31 December 2011**<br>*(RMB' million)*<br>*(approximate)*<br>*(Audited)* | **For the year ended 31 December 2010**<br>*(RMB' million)*<br>*(approximate)*<br>*(Audited)* | **% change from 2010 to 2011** | **For the six months ended 30 June 2012**<br>*(RMB' million)*<br>*(approximate)*<br>*(Unaudited)* | **For the six months ended 30 June 2011**<br>*(RMB' million)*<br>*(approximate)*<br>*(Unaudited)* | **% change from 2011 to 2012** |
|---|---|---|---|---|---|---|
| **Operating revenue from principal operations (by industry)** | | | | | | |
| — Machine-made paper | 16,340.10 | 16,163.91 | 1.09% | 9,216.14 | 8,186.16 | 12.58% |
| — Electricity and steam | 660.18 | 444.97 | 48.37% | 415.23 | 414.63 | 0.14% |
| — Building materials | 377.00 | 388.96 | (3.07)% | 163.65 | 194.71 | (15.95)% |
| — Paper chemicals | 99.21 | 74.27 | 33.58% | 40.11 | 39.57 | 1.36% |
| — Hotel | 49.05 | 47.20 | 3.92% | 24.25 | 25.39 | (4.49)% |
| — Others | 9.92 | 10.51 | (5.61)% | 3.33 | 7.45 | (55.30)% |
| Other operating revenue | 212.04 | 73.30 | 189.28% | 101.74 | 49.54 | 105.37% |
| Total operating revenue | 17,747.49 | 17,203.12 | 3.16% | 9,964.45 | 8,917.46 | 11.74% |
| Operating profit/(loss) | 376.05 | 1,433.75 | (73.77)% | (208.64) | 473.93 | (144.02)% |
| Net profit attributable to equity holders of the Company | 608.27 | 1,163.34 | (47.71)% | 94.24 | 483.55 | (80.51)% |

| | As at 31 December 2011<br>*(RMB' million)*<br>*(approximate)*<br>*(Audited)* | As at 31 December 2010<br>*(RMB' million)*<br>*(approximate)*<br>*(Audited)* | % change from 2010 to 2011 | As at 30 June 2012<br>*(RMB' million)*<br>*(approximate)*<br>*(Unaudited)* | As at 30 June 2011<br>*(RMB' million)*<br>*(approximate)*<br>*(Unaudited)* | % change from 2011 to 2012 |
|---|---|---|---|---|---|---|
| Total assets | 45,630.83 | 35,077.13 | 30.09% | 46,856.35 | 39,537.16 | 18.51% |
| Net assets value | 14,987.77 | 15,260.20 | (1.79)% | 14,674.36 | 15,118.41 | (2.94)% |

We noted that the Group recorded operating revenue of approximately RMB17,747.49 million for the year ended 31 December 2011, representing an increase of approximately 3.16% as compared to the operating revenue for the year ended 31 December 2010. The Group recorded operating profit and net profit attributable to equity holders of the Company of approximately RMB376.05 million and RMB608.27 million respectively, dropped by approximately 73.77% and 47.71% as compared to the financial results for the year ended 31 December 2010. With reference to the management discussion and analysis in the 2011 Annual Report, the drop in net profit attributable to equity holders of the Company was primarily due to (i) the business taxes and surcharges of approximately RMB75.72 million (2010: RMB30.12 million) for the payment of the urban maintenance and construction tax and education surcharges by foreign-invested enterprises beginning from 1 December 2010; (ii) the finance expenses of approximately RMB432.02 million mainly due to the increase of bank borrowings resulting from an expanded scale of production, operation and project investments, as well as the substantial increase of interest expenses resulted from a rise in the interest rate for the year ended 31 December 2011; and (iii) the rise in the cost of raw materials.

As for the assets position of the Group, the Group recorded audited total assets of approximately RMB45,630.83 million which was mainly attributable to the increase in fixed assets to total assets of the Group from approximately RMB12,882.36 million as at 31 December 2010 to approximately RMB22,740.90 million as at 31 December 2011. The increase in fixed assets was primarily due to the transfer and capitalization of construction-in-progress accounts to fixed asset accounts as a result of the completion of some new projects of the Company.

According to in the Interim Report, the Group recorded operating revenue of approximately RMB9,964.45 million for the six months ended 30 June 2012, representing an increase of approximately 11.74% as compared to the corresponding period in 2011, mainly due to the fact of growth in sales resulting from an expansion in the production scale of the Company. However, the Group recorded net profit attributable to equity shareholders of the Company of approximately RMB94.24 million for the six months ended 30 June 2012, dropped by approximately 80.51% as compared to the corresponding six-month period in 2011. As referred to the management discussion and analysis in the Interim Report, the drop in net profit attributable to equity shareholders of the Company was mainly due to the drop of gross profit margin of paper products as a result of the market downturn in the world which affected the paper making industry during the period under review.

Moreover, the Group recorded unaudited total assets and net assets value of approximately RMB46,856.35 million and RMB14,674.36 million as at 30 June 2012 respectively. During the period under review, the bills payable increased by approximately 168.84% as compared to the beginning of year 2012 mainly due to an increase in bank acceptance bills issued by the Company for payment of goods during the reporting period.

***Background of the Acquisition***

On 8 August 2012, the Company announced that, among other things, the Purchaser and the Vendor entered into the Third Equity Interest Transfer Agreement, pursuant to which the Purchaser has conditionally agreed to purchase and the Vendor has agreed to sell its 34% equity interest in the Target Company at a consideration of US$41,580,000 (approximately RMB263,525,724). Before the Acquisition, the Company holds 51% of the equity interest in the Target Company. Assuming that the transfers of the equity interests under the First Equity Interest Transfer Agreement and the Second Equity Interest Transfer Agreement have been completed, the Group's equity interest in the Target Company will increase to 100% upon Completion.

According to the Letter from the Board, the principle business of the Target Company is the production and sales of high-grade paper and cardboard (except newsprint paper) and the production and sales of pulp. As advised by the Directors, there is a portion of the paper products made by the Target Company which are being sold by the Target Company directly to the Vendor and Moorim Paper Co. Ltd. ("**Moorim**"), their associates and the overseas customers of the Target Company. According to the unaudited financial statements of the Target Company prepared under the PRC GAAP, the unaudited net assets of the Target Company was approximately RMB1,687.27 million as at 31 July 2012. For the seven months ended 31 July 2012, the unaudited revenue and unaudited net loss of the Target Company was approximately RMB971 million and RMB42.27 million respectively. According to the Company, the unaudited net loss of the Target Company for the seven months ended 31 July 2012 was mainly attributed to the drop of selling price and gross profit margin of paper products as a result of the domestic macro-economic control policy by the PRC government.

For the two years ended 31 December 2011, the Target Company recorded turnovers of approximately RMB1,602.41 million and RMB1,913.37 million respectively. The audited net profits of the Target Company for the two years ended 31 December 2011 were approximately RMB140.70 million and RMB30.00 million respectively. As advised by the management of the Company, the decline in net profits of the Target Company was mainly due to the decrease in fair value of the tangible assets and the increase in the payment of business taxes and surcharges of the Target Company.

2. **Paper and Paper board industry in China**

According to the Twelfth Five Years Plan, the demand and supply for paper and paper board in 2010 had reached 91.73 million tonnes and 92.70 million tonnes respectively, representing increases of approximately 54.7% and 65.5% since 2005 respectively. The total production in the paper industry increased from RMB262,200 million in 2005 to RMB585,000 million in 2010, representing an increase of approximately 123.1%. Further, according to the website of National Bureau of Statistics of China (www.stats.gov.cn), the total gross profit for the manufacture of paper and paper products sector had increased from RMB26,200 million in year 2006 to RMB72,708 million in year 2010. For the past five years, there were 2,378 investors being attracted into the paper manufacturing and paper products sectors while the total number of companies in the manufacture of paper and paper products sector had increased from 7,892 in year 2006 to 10,270 in year 2010. On this basis, it indicates that the paper and paper board industry had grown rapidly over the past five years in China.

According to the Twelfth Five Years Plan, it is expected that the demand and supply for paper and paper board will increase from 91,730,000 tonnes and 92,700,000 tonnes respectively in year 2010 to 114,700,000 tonnes and 116,000,000 tonnes respectively in year 2015. The production of high quality papers (include newspapers, coated papers and white card papers) increased from approximately 20% of total paper production in year 2005 to approximately 37% in year 2010. It is also noted that the PRC government has set guidelines for paper industry (the "**Guidelines**") to promote green production, low carbon and recycling. As advised by the management of the Company, the main paper products for the Target Company include light weight coated paper and recycling papers. We believe that the light weight coated papers (belongs to the high quality papers category) and recycling papers would be constantly under demand in China. Light weight coated papers are commonly used in many varieties of products such as books, manuals, magazines and articles, etc., all of which are widely used products in China and in many other countries around the world. Further, as stated in the Guidelines, domestic enterprises are encouraged to expand the use of recycling papers in the China market in order to reduce waste and improve efficiency.

In view of the above, in particular, the constant demand of light weight coated papers and recycling papers, the expected future demand for paper and paper board in year 2015 as described in the Twelfth Five Years Plan and that domestic enterprises are encouraged to expand the use of recycle papers in the China market, we are of the view that the future prospect of paper and paper board sector is promising. We also consider that the Acquisition is an opportunity for the Group to further enhance its asset and revenue base. As such, we concur with the Directors' view that it is beneficial for the Company (through the Purchaser) to increase its shareholding in the Target Company, so that the Target Company can further contribute to the Group in terms of revenue and profits in the long run. Therefore, the Acquisition is in the interests of the Company and the Shareholders as a whole.

3. **Principal terms of the Third Equity Interest Transfer Agreement**

The principal terms of the Third Equity Interest Transfer Agreement are basically same as the First Equity Interest Transfer Agreement and the Second Equity Interest Transfer Agreement. Pursuant to the Third Equity Interest Transfer Agreement, the Purchaser has conditionally agreed to purchase and the Vendor has agreed to sell its 34% equity interest in the Target Company at a consideration of US$41,580,000 (approximately RMB263,525,724). The consideration for the Acquisition will be satisfied in cash by the Purchaser and/or the Group upon the completion of the Third Equity Interest Transfer Agreement. The consideration for the Acquisition shall be funded by the internal resources of the Purchaser and/or the Group. Having considered that the

Group had cash and bank balances (excluding other monetary funds that were pledged for the bank loans/used for guarantee deposit) ("**Free Cash Amount**") of approximately RMB2,317.05 million as at 31 December 2011, we consider that the settlement method of the Acquisition is fair and reasonable.

As discussed with the Company, the Directors consider that the Acquisition will safeguard the continuity and maintain smooth and stable operation of the Target Company in the long run. As stated in the 2011 Annual Report, the Company has been committed to the integrated development of forestry and production of pulp and paper with a longer industry chain and more comprehensive paper types. Therefore, the Acquisition is in line with the development plan of the Group.

As stated in the Letter from the Board, the terms of the Third Equity Interest Transfer Agreement was determined after arm's length negotiations between the parties after taking into account the assets valuation of the Target Company. According to the Valuation Report, the assets valuation of the Target Company as at 30 April 2012 performed by Guoyoudazheng was appraised at RMB2,010,220,700 (the "**Target Company Valuation**"). The consideration of the Third Equity Interest Transfer Agreement is US$41,580,000 (approximately RMB263,525,724), representing a discount of approximately 61.44% of the Target Company Valuation of approximately RMB683,475,038, being the effective interest in 34% of the Target Company Valuation. As enquired with the Company and to the best of the Director' knowledge, they are unaware of any particular reasons for the Vendor to dispose the Target Company at such a discount to the Target Company Valuation.

According to the Valuation Report, the appraised value of the net assets of the Target Company was conducted by one or more of the three generally accepted valuation approaches, namely (1) asset-based approach; (2) market approach; and (3) income approach. We noted from Guoyoudazheng that it is inapplicable to adopt the income approach due to the fact that the instable income of the Target Company in recent years. In addition, as the Target Company is not a public listed company and there are no similar acquisition transactions and companies in the industry that can be compared with the Acquisition and the Target Company in the PRC, thus, Guoyoudazheng considers that the market approach will not be the most appropriate approach for the assessment of the Target Company Valuation when compared with the asset-based approach. According to the Valuation Report, we understand that the asset-based approach represents an asset-based method of determining the value of the assessed assets by considering the fair value of the Target Company by deducting the fair value of liabilities from the fair value of various assets. Since the core assets of the Target Company consist of tangible assets (for example inventories, equipments and land) and there are sufficient information for Guoyoudazheng to appraise the Target Company, therefore, Guoyoudazheng advised that the assets based approach is the most appropriate valuation approach for valuation of the Target Company and adopted the asset-based approach for the appraisal of the net assets of the Target Company.

According to the Valuation Report as at 30 April 2012, the carrying value of the total assets of the Target Company amounted to RMB3,294,144,900 and the appraised value was RMB3,621,544,000; the carrying value and the appraised value of total liabilities amounted to RMB1,611,323,300; and the carrying value of net assets amounted to RMB1,682,821,600 and the appraised value was RMB2,010,220,700.

In assessing the fairness and reasonableness of the Acquisition, we noted that Guoyoudazheng has made various assumptions, including but not limited to, (i) there is no changes in the PRC governmental policies and regulations; (ii) there is an open market; (iii) the continuity of the business enterprise; (iii) the continuous usage of the assets and (iv) the absence of inflation factors. During the course of discussion with Guoyoudazheng, nothing unusual matter has come to our attention that would lead us to believe that the valuation of the Target Company was not prepared on a reasonable basis. We are of the view that the methodology and assumptions which had been adopted were arrived at after due and careful consideration.

Although the Target Company incurred the net loss of approximately RMB42.27 million for the seven months ended 31 July 2012, however, we consider that it should be balanced against the facts that, in particular (i) the consideration of the Third Equity Interest Transfer Agreement is US$41,580,000 (approximately RMB263,525,724), representing a discount of approximately 61.44% of the Target Company Valuation; (ii) the Acquisition is in line with the development plan of the Group and (iii) the Acquisition will safeguard the continuity and maintain smooth and stable operation of the Target Company in the long run, we consider that the terms of the Agreement and the transactions contemplated thereunder (including the consideration of the Third Equity Interest Transfer Agreement) are in the ordinary and usual course of business of the Group, fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole.

4. **Board composition of the Target Company**

At present, the board of directors of the Target Company comprises 5 directors. As confirmed by the Directors, it is expected that a joint venture agreement will be entered between the Company and the Purchaser upon Completion (assuming the transfers of the equity interests under the First Equity Interest Transfer Agreement and the Second Equity Interest Transfer Agreement have been completed) for the purpose of managing the business operations and financial position of the Target Company together. It is also intended that the Company and the Purchaser will appoint 3 and 2 directors to the board of directors of the Target Company respectively.

5. **Future relationship between the Company, the Target Company and the Vendor**

As noted from the Company, the Target Company is owned as to 51% by the Company, 34% by Sappi, 7.5% by Moorim and 7.5% by International Finance Corporation. The principal business of Sappi and Moorim are making and sales of various paper products.

According to the announcement of the Company dated 28 October 2010, the Company entered into the sales and distribution agreement (the "**Sales and Distribution Agreement**") with the Target Company, the Company, Moorim and Sappi China (an associate of Sappi) pursuant to which, among other things, Sappi China will act as the exclusive distributor for the sales of its products in the overseas markets (including Hong Kong, Macau and Taiwan but excluding Japan and South Korea) and the Company will act as the exclusive distributor for the sales of its products in the PRC. The term of the Sales and Distribution Agreement has been extended to 31 December 2013. Pursuant to the Third Equity Interest Transfer Agreement, the Purchaser and the Vendor agree that they intend to negotiate based on good faith and market condition a new sales and distribution agreement in order to ensure a smooth and stable business operation of the Target Company upon Completion.

6. **Possible financial effects of the Acquisition on the Group**

(i) *Earnings and net assets value*

Upon completion of the Acquisition (assuming the transfers of the equity interests under the First Equity Interest Transfer Agreement and the Second Equity Interest Transfer Agreement having been completed), the Group's (together with the Purchaser) equity interest in the Target Company will be increased to 100%. The entire financial results of the Target Company will be consolidated into the financial statements of the Group.

According to the 2011 Annual Report, the audited consolidated net assets of the Group as at 31 December 2011 were approximately RMB14,987.77 million. As the financial results of the Target Company have already been consolidated into the financial statements of the Company, there will not be any material financial effect on the net assets value of the Group.

(ii) *Working capital position*

The consideration for the Acquisition amounted to US$41,580,000 (equivalent to approximately RMB263,525,724) shall be satisfied in cash by the Purchaser and/or the Group upon the completion of the Equity Interest Transfer Agreements. As mentioned before, the Free Cash Amount of the Group was approximately RMB2,317.05 million as at 31 December 2011. It is expected that the Acquisition would result in a reduction in the Free Cash Amount by the same amount of the consideration of the Third Equity Interest Transfer Agreement. Since the Group has sufficient Free Cash Amount to settle the consideration, we consider that the entering into of the Third Equity Interest Transfer Agreement will have no material adverse impact on the Group's working capital position.

(iii) *Gearing position*

As the consideration for the Acquisition will be settled by cash, it is expected that there would be no material change in the gearing position of the Group upon completion of the Acquisition.

Shareholders should note that the aforementioned analysis is for illustrative purposes only and does not purport to represent how the financial position of the Company will be upon the completion of the Third Equity Interest Transfer Agreement (assuming the transfers of the equity interests under the First Equity Interest Transfer Agreement and the Second Equity Interest Transfer Agreement have been completed).

**RECOMMENDATION**

Having taken into account the above factors and reasons, we are of the view that (i) the terms of the Third Equity Interest Transfer Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Acquisition is in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Third Equity Interest Transfer Agreement and the transactions contemplated thereunder and we recommend the Independent Shareholders to vote in favor of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
**Bridge Partners Capital Limited**
**Monica Lin**
*Managing Director*

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. DISCLOSURE OF INTERESTS

**Interests of Directors, chief executives and supervisors of the Company**

As at the Latest Practicable Date, the following Director had or was deemed to have interests and short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules:

(i) *Long positions in the shares of the Company*

| Name | Nature of interest | Number of Shares (A Shares) | Approximate percentage of the existing issued share capital of the Company |
|---|---|---|---|
| *Directors* | | | |
| Chen Hongguo *(Note 1)* | Personal | 6,334,527 | 0.31% |
| Yin Tongyuan | Personal | 2,423,640 | 0.12% |
| Li Feng | Personal | 471,818 | 0.02% |
| Geng Gauanglin | Personal | 437,433 | 0.02% |
| Tan Daocheng | Personal | 185,700 | 0.009% |
| Hou Huancai | Personal | 628,915 | 0.03% |
| Zhou Shaohua | Personal | 123,007 | 0.006% |
| *Supervisor* | | | |
| Gao Junjie | Personal | 39,606 | 0.002% |

(ii) *Interests in associated corporations of the Company*

| Name | Nature of interest | Associated corporation | Number of shares | Approximate percentage of the existing issued share capital of the Shouguang Chenming Holdings Company Limited |
|---|---|---|---|---|
| Chen Hongguo *(Note 2)* | Interest of a controlled corporation | Shouguang Chenming Holdings Company Limited | 231,000,000 | 13.71% |

*Note 1:* Save as the 6,334,527 A Shares personally held, Chen Hongguo was also deemed to be interested in the 429,348 A Shares held by Li Xueqin, his spouse.

*Note 2:* Chen Hongguo and his spouse Li Xueqin together held 43% interest in Shouguang Henglian Enterprise Investment Co., Ltd., ("Shouguang Henglian") and Shouguang Henglian was deemed as controlled by Chen Hongguo. Therefore, 231,000,000 shares of Shouguang Chenming Holdings Company Limited (approximately 13.71% of the total share capital of Shouguang Chenming Holdings Company Limited) held by Shouguang Henglian were deemed to be held by Chen Hongguo.

## 3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

## 4. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration proceedings of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

## 5. INTEREST IN CONTRACTS OR ARRANGEMENT

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement subsisting which is significant in relation to the business of the Group, nor had any Director had any direct or indirect interests in any assets which have been acquired or disposed of by or leased to, or are proposed to be acquired or disposed of by or leased to, any member of the Group since 31 December 2011, being the date to which the latest published audited consolidated financial statement of the Group was made up.

## 6. COMPETING BUSINESS INTEREST

As at the Latest Practicable Date, none of the Directors, the Company's supervisors or their respective associates had any interests in a business which competes or is likely to compete, either directly or indirectly with the business of the Group.

## 7. MATERIAL ADVERSE CHANGE

The Company published its 2012 interim report dated 21 August 2012. It was announced that the Group had recorded a significant decrease in profit for the six month ended 30 June 2012 as compared to a profit recorded for the last corresponding year. The principal cause of the decrease in profit is the low level selling price of the products causing a drop in the gross profit margin of the products because of the downturn of the macroeconomic environment, continuously weak market demand with excess new production capacity in the industry made available.

Save as disclosed above, as at the Latest Practicable Date, the Board confirmed that there was no material adverse change in the financial or trading position since 31 December 2011 (being the date to which the latest published audited consolidated financial statements of the Group were made up) and up to and including the Latest Practicable Date.

## 8. QUALIFICATION AND CONSENT OF EXPERTS

The following is the qualification of the experts who have been named in this circular or has given opinions or advice contained in this circular:

| Name | Qualification |
|---|---|
| Bridge Partners | a licensed corporation under the SFO to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities |
| Guoyoudazheng | certified PRC asset valuer |

Each of Bridge Partners and Guoyoudazheng has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its opinion or letter and references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, each of Bridge Partners and Guoyoudazheng did not have any shareholdings in any member of the Group nor did it has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, none of Bridge Partners, Guoyoudazheng and their respective directors had any direct or indirect interest in any assets which had been acquired, disposed of by or leased to, or which were proposed to be acquired, disposed of by or leased to, any member of the Group since 31 December 2011, being the date to which the latest published audited consolidated financial statements of the Group were made up.

## 9. GENERAL

(a) The registered office and principal place of business of the Company in the PRC is situated at No. 595 Shengcheng Road, Shouguang City, Shandong Province, the People's Republic of China.

(b) The Hong Kong H's share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at Shop 1712-16, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(c) The English text of this circular shall prevail over the Chinese text in the case of any inconsistency.

## 10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during the normal business hours (except Saturday and public holidays) from 10:00 a.m. to 1:00 p.m. and 2:00 p.m. to 5:00 p.m. at the office of Messrs Li and Partners at 22/F, World-Wide House, Central, Hong Kong from the date of this circular and up to and including the date of the EGM:

(i) the Third Equity Interest Transfer Agreement;

(ii) the letter of recommendation from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 14 of this circular;

(iii) the letter of advice from Bridge Partners to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 15 to 24 of this circular;

(iv) the consent letters referred to in the paragraph headed "Qualification and Consent of Experts" in this appendix;

(v) the Article of Association;

(vi) the Procedural Rules; and

(vii) this circular.

# Asset Appraisal Report

## in respect of proposed transfer of equity interest in Jiangxi Chenming Paper Company Limited held by its shareholders

Guo You Da Zheng Ping Bao Zi (2012) No. 171B

**Beijing Guoyoudazheng Assets Appraisal Company**
**25 May 2012**

# Contents

**Disclaimer of the Certified Asset Valuer** . . . . . 31

**Summary of Asset Appraisal Report** . . . . . 32

**The text of Asset Appraisal Report** . . . . . 36

I. Principal, the subject matter of the valuation and users of the valuation report . . . . 36

II. Purpose of the valuation . . . . . 40

III. Subject matter of the valuation and scope of valuation . . . . . 41

IV. Value type and its definition . . . . . 42

V. Valuation date . . . . . 42

VI. Basis for valuation . . . . . 42

VII. Valuation approaches . . . . . 46

VIII. Implementation Process and Status of Evaluation Procedure . . . . . 59

IX. Valuation assumptions . . . . . 60

X. Valuation conclusion . . . . . 61

XI. Special matters . . . . . 62

XII. Limitations on the use of the valuation report . . . . . 64

XIII. Valuation report date . . . . . 65

# Disclaimer of the Certified Asset Valuer

This asset appraisal report is prepared by our valuers on the basis of due and thorough check and verification as well as upon performance of necessary valuation procedures such as valuations and estimation in respect of all of the assets and liabilities involved within the scope of the valuation. With regard to this valuation report, we hereby in particular make the following statements:

I. The certified asset valuer carries out assets valuation based on the relevant laws and regulations and the asset valuation standards on the principle of independence, objectiveness and fairness. Based on the information collected in the course of our practice, the statements in the valuation report are objective, and we assume corresponding legal responsibilities for the reasonableness on the conclusion of the valuation.

II. Lists of appraised assets and liabilities have been provided and declared by the principal and the subject matter of the valuation with their signatures and seals. The principal and the related parties shall be responsible for the authenticity, legality, and completeness of the data provided as well as the appropriate usage of the valuation report.

III. The certified asset valuer does not have existing or prospective interests in the subject matter of this valuation report; and the certified asset valuer has no existing or prospective interests with the principal and any related parties or any bias towards the principal and any related parties.

IV. The certified asset valuer and other valuers have carried out on-site investigation on the subject matter of the valuation and the related assets thereof that are mentioned in the valuation report. We have paid due attention to the legal ownership of the subject matter of the valuation and the assets thereof. We have verified the legal ownership of the subject matter of the valuation and the assets thereof and faithfully disclosed any findings. We have also requested the principal and the related parties to fulfill their property ownership formalities so as to meet the requirements for issuing the report, but do not give any form of guarantee as to the legal title of the subject matter of the valuation.

V. The analysis, judgment, and conclusions in the valuation report are restricted by the assumptions and limiting conditions set out in the valuation report. Users of this report shall give due consideration to the assumptions, limiting conditions, and explanations for specific issues stated in the valuation report as well as their impacts on the valuation conclusions.

VI. The issued valuation report and the disclosure of the valuation conclusion therein are limited to the valuation purpose as stated in the valuation report. They are effective for use during the effective period of the valuation conclusion. The certified asset valuer signing this report and the valuation institution are not responsible for any consequences from any misuse thereof.

# Summary of Asset Appraisal Report

## in respect of proposed transfer of equity interest in Jiangxi Chenming Paper Company Limited held by its shareholders

Guo You Da Zheng Ping Bao Zi (2012) No. 171B

**Important**

**This summary is extracted from the text of the valuation report. For the details of the asset appraisal and a reasonable understanding of the valuation conclusions, please carefully read the text of the report in details.**

Beijing Guoyoudazheng Assets Appraisal Company has been engaged by Jiangxi Chenming Paper Company Limited ("Jiangxi Chenming") to assess the total assets of Jiangxi Chenming and the related liabilities in respect of the proposed transfer of equity interest in Jiangxi Chenming held by its shareholders. The valuation has been carried out in accordance with the related laws and regulations and the asset valuation standards of the PRC and in compliance with the principles of independence, objectivity and fairness.

The subject matter of the valuation is the total equity of shareholders of Jiangxi Chenming. Total assets and the related liabilities of Jiangxi Chenming were included in the valuation. The valuation represents the market value and the valuation date is 30 April 2012.

The valuer has carried out the necessary valuation procedures and adopted the asset-based approach as the basis to make its valuation estimates which are conditional on, among other things, the continuous use and the open market of the assets. The valuation result based on the asset-based approach is the final conclusions of the valuation report.

As at the valuation date, the valuation result of Jiangxi Chenming based on the asset-based approach is RMB2,010.2207 million.

**Summary of the asset valuation results of Jiangxi Chenming**

Unit: RMB'0000

| Item | | Book value<br>A | Assessed value<br>B | Change<br>C = B-A | Value-added rate (%)<br>D = C/B×100% |
|---|---|---|---|---|---|
| Current assets | 1 | 105,790.84 | 106,335.29 | 544.45 | 0.51 |
| Non-current assets | 2 | 223,623.65 | 255,819.11 | 32,195.46 | 14.40 |
| Of which: long-term equity investments | 3 | 1,000.00 | 2,107.57 | 1,107.57 | 110.76 |
| fixed assets | 4 | 215,140.82 | 201,237.28 | -13,903.54 | -6.46 |
| construction in progress | 5 | 294.46 | 294.46 | — | — |
| intangible assets | 6 | 6,920.69 | 51,916.61 | 44,995.92 | 650.17 |
| deferred income tax assets | 7 | 267.68 | 263.19 | -4.49 | -1.68 |
| **Total assets** | **8** | **329,414.49** | **362,154.40** | **32,739.91** | **9.94** |
| Current liabilities | 9 | 117,651.91 | 117,651.91 | — | — |
| Non-current liabilities | 10 | 43,480.42 | 43,480.42 | — | — |
| **Total liabilities** | **11** | **161,132.33** | **161,132.33** | **—** | **—** |
| **Total equity** | **12** | **168,282.16** | **201,022.07** | **32,739.91** | **19.46** |

The valuer has specified, among other things, the title defects and restrictions on the valuation procedures identified during the valuation, in the valuation report. The following significant events need to be brought to the attention of the persons who use the valuation report:

## I. Title defects

### 1. Charges on assets

Pursuant to the mortgage contract entered into by Jiangxi Chenming, Bank of China Limited Nanchang Changbei sub-branch, International Finance Corporation ("IFC"), and DEG-Deutsche Investitions-und Entwicklungsgesellschaft mbH on 29 November 2006 (IFC investment no. 22164 and Bank of China mortgage no. CBDY2006001), Bank of China Limited Nanchang Changbei sub-branch provided a loan in the amount of US$20 million to Jiangxi Chenming; IFC provided a loan in the amount of US$90 million and DEG provided a loan in the amount of US$10 million. Jiangxi Chenming as a pledgor provided its own land use rights, buildings, machinery and equipment as the collateral.

As agreed in the above mortgage contract, the collateral represented all movable and immovable property of Jiangxi Chenming as at the date when the contract was entered into and in the future, including: 1) the granted land use rights in respect of the project site; 2) any other land use rights acquired by the pledgor after the date when the mortgage contract was entered into; and 3) all buildings, machinery and equipment, which are on the project site at present and in the future or on any other land use rights acquired by the pledgor after the date when the mortgage contract was entered into.

The project sites are listed as follows:

| No. | Site location | Area ($m^2$) | Real estate title certificate no. | Use |
|---|---|---|---|---|
| 1 | Bai Shui Lake Industrial Zone, Nanchang Economic and Technological Development Zone | 1,306,475.20 | Hong Tu Guo Yong Deng Bei (2005) No. 061 | Industry |
| 2 | Ganjiang Road, Ganjiang terminal and the northwest coast of Gan Jiang River, Economic Development Zone | 26,780.00 | Hong Tu Guo Yong Deng Bei (2005) No. 060 | Industry |

As of the valuation date, the principal and interest of the loan provided by Bank of China Limited were repaid. The loan provided by IFC will expire on 15 December 2015 and its outstanding balance is US$2,352,945.00 (RMB14,773,435.77). The loan provided by DEG will expire on 15 December 2014 and its outstanding balance is US$10,666,663.00 (RMB66,972,776.98).

2. **Buildings without title certificates**

As of the valuation date, there were in total 14 buildings of the subject matter of the valuation have not obtained their title certificates. The subject matter being valued has provided the corresponding applications for construction and undertakings on property. The valuation conclusions are drawn assuming that there are good titles to the subject matter of the valuation, and the expenses to be incurred when dealing with the titles in the future are not taken into account. The final determination of the gross floor area of and title to the buildings shall depend on the title certificates issued by the local real estate management authorities upon surveying and mapping. The details of the buildings without title certificates are as follows:

| No. | Name | Structure | Completion | Original value (RMB) | Net asset value (RMB) |
|---|---|---|---|---|---|
| 1 | Raw material office | Brick-concrete | 2005-7-1 | 24,296.78 | 20,912.79 |
| 2 | Loadometer (three blocks) | Brick-concrete | 2005-7-1 | 19,437.43 | 16,730.16 |
| 3 | Security room (two blocks) | Brick-concrete | 2005-7-1 | 11,338.49 | 9,658.12 |
| 4 | Coal unloading room for locomotive | Steel | 2005-7-1 | 5,861,359.68 | 5,021,207.25 |
| 5 | Transit station | Steel-concrete | 2005-7-1 | 4,726,302.73 | 4,048,846.41 |
| 6 | Raw coal sampling room | Brick-concrete | 2005-7-1 | 430,298.23 | 368,620.34 |
| 7 | Coal crushing room | Steel-concrete | 2005-7-1 | 1,464,287.75 | 1,254,400.45 |
| 8 | Boiler room | Steel frame | 2005-7-1 | 1,852,316.67 | 1,586,810.46 |
| 9 | Online testing room | Brick-concrete | 2005-7-1 | 24,296.78 | 20,708.39 |
| 10 | Raw water pump station | Brick-concrete | 2005-7-1 | 16,075.62 | 14,261.00 |
| 11 | Magnetisation room | Brick-concrete | 2010-12-1 | 388,000.00 | 370,811.73 |
| 12 | Pulp mill | Steel-concrete | 2010-3-1 | 17,543,318.35 | 16,746,250.63 |
| 13 | Coal conveyor belt room | Steel-concrete | 2010-12-1 | 2,305,686.59 | 2,236,516.03 |
| 14 | Security room (Bei Da Men) | Brick-concrete | 2009-9-1 | 794,372.80 | 748,199.85 |
| Total | | | | 35,461,387.90 | 32,463,933.61 |

The valuation conclusion of this valuation report is effective for a year from the valuation date, namely the period from 30 April 2012, the valuation date, to 29 April 2013.

This valuation report is dated 25 May 2012.

**The above contents are extracted from the text of the valuation report. For details of the asset appraisal and to have a reasonable understanding of the valuation conclusions, please carefully read the text of the report in details.**

# The text of Asset Appraisal Report

# in respect of proposed transfer of equity interest in Jiangxi Chenming Paper Company Limited held by its shareholders

Guo You Da Zheng Ping Bao Zi (2012) No. 171B

Jiangxi Chenming Paper Company Limited ("Jiangxi Chenming" or the "Company"):

Beijing Guoyoudazheng Assets Appraisal Company has been engaged by the Company to assess the market value of the total equity of Jiangxi Chenming as at 30 April 2012 in respect of the proposed transfer of equity interest in Jiangxi Chenming held by its shareholders. The valuation using the asset-based approach has been carried out in accordance with the related laws and regulations, the asset valuation standards and asset valuation principles of the PRC and the necessary valuation procedures. The asset valuation is reported as follows.

## I. Principal, the subject matter of the valuation and users of the valuation report

The principal and the subject matter of the valuation are Jiangxi Chenming, and the users of the valuation report is the principal and other users of the valuation report as required by the laws and regulations of the PRC.

### (I) Details of the principal and the subject matter of valuation report

1. ***Business registration***

Company name: Jiangxi Chenming Paper Co. Ltd.

Registration no.: 360100510000575

Residence: Bai Shui Lake Industrial Zone, Nanchang Economic and Technological Development Zone

Legal representative: Hou Huancai

Registered capital: US$172.00 million

Company type: Limited liability company (sino-foreign joint venture)

Scope of business: production and sale of high-end paper, paperboard (excluding newsprint paper) and self-produced pulp (exclusive of projects under national special requirements)

Shareholder (founder): Shandong Chenming Paper Holdings Limited, SAPPI, Shinmoorim, IFC

Operation period: From 4 November 2002 to 3 November 2054

Date of establishment: 4 November 2002

2. ***History***

Jiangxi Chenming was established on 4 November 2002 with registered capital of RMB100.00 million, of which RMB90.00 million was contributed by Shandong Chenming Paper Holdings Limited and RMB10 million was contributed by Jiangxi Paper Industry Co. Ltd. On 31 October 2002, 江西立勤會計師事務所有限公司 (unofficial English translation being Jiangxi Liqin Certified Public Accountants Co. Ltd.) conducted an audit of the contribution and prepared the capital verification report with reference number [2002] Gan Li Qin Yan Zi No. 181. The contribution by shareholders to the company after its establishment is as follows:

| Serial no. | Name of shareholder | Contribution amount (RMB'0000) | Shareholding ratio |
|---|---|---|---|
| 1 | Shandong Chenming Paper Holdings Limited | 9,000 | 90% |
| 2 | Jiangxi Paper Industry Co. Ltd. | 1,000 | 10% |
| Total | | 10,000 | 100% |

On 14 April 2004, Jiangxi Chenming became a sino-foreign joint venture and obtained the Certificate of Approval for Foreign Investment Enterprise (Approval number: Zhan Wai Zi Gan Zi [2004] No.0014) issued by the People's Government of Jiangxi Province and the Corporation Business License of the People's Republic of China (Registration number: Qi He Gan Hong Zong Zi No. 002038) issued by the Nanchang City Administration for Industry and Commerce of Jiangxi Province. Meanwhile, the registered capital of Jiangxi Chenming was changed to US$172.00 million.

In June 2004, Shandong Chenming Paper Holdings Limited, Jiangxi Paper Industry Co. Ltd., Shinmoorim, IFC and SAPPI LIMITED entered into the Joint Venture Agreement of Jiangxi Chenming Paper Co. Ltd., pursuant to which the registered capital of the joint venture was US$172,000,000.00, of which Shandong Chenming Paper Holdings Limited contributed US$81,104,880.00 in RMB and in kind, accounting for 47.154% of the registered capital; Jiangxi Paper Industry Co. Ltd. contributed US$6,615,120.00 in RMB in cash and in kind, accounting for 3.846% of the registered capital; Shinmoorim contributed US$12,900,000.00 in US dollars in cash, accounting for 7.5% of the registered capital; IFC contributed US$12,900,000.00 in US dollars in cash, accounting for 7.5% of the registered capital; SAPPI LIMITED contributed US$58,480,000.00 in US dollars in cash, accounting for 34% of the registered capital. The capital increase was audited by 天健會計師事務所有限公司 (unofficial English translation being Pan-China Certified Public Accountants Co., Ltd.) which issued a capital verification report with reference number Tian Jian (2004) Yan Zi No.021. According to the approval issued by the

Department of Foreign Trade of Jiangxi Province (Gan Wai Jing Mao Wai Zi Zi [2004] No. 249) and the Notification of Registration (No. 2004-0276) of Foreign Investment Branch under the Ministry of Commerce dated 20 October 2004, Jiangxi Chenming became a sino-foreign joint venture. The capital contribution by shareholders after the capital increase is as follows:

| Serial no. | Name of shareholder | Contribution amount (US$) | Shareholding ratio |
|---|---|---|---|
| 1 | Shandong Chenming Paper Holdings Limited | 81,104,880.00 | 47.154% |
| 2 | Jiangxi Paper Industry Co. Ltd. | 6,615,120.00 | 3.846% |
| 3 | Shinmoorim | 12,900,000.00 | 7.5% |
| 4 | IFC | 12,900,000.00 | 7.5% |
| 5 | SAPPI LIMITED | 58,480,000.00 | 34% |
| Total | | 172,000,000.00 | 100% |

According to the information memo (Hong Fu Ting Chao Zi [2004] No.249) issued by the Office of the People's Government of Nanchang City to 南昌市國有工業資產經營管理有限公司 (unofficial English translation being Nanchang City State-Owned Industrial Assets Management Co. Ltd.): 南昌市國有工業資產經營管理有限公司 (unofficial English translation being Nanchang City State-Owned Industrial Assets Management Co. Ltd.) confirmed the equity interest of Jiangxi Paper Industry Co. Ltd. in Jiangxi Chenming as the shareholder representative of state asset investment.

On 24 August 2004, 南昌市國有工業資產經營管理有限公司 (unofficial English translation being Nanchang City State-Owned Industrial Assets Management Co. Ltd.) and Shandong Chenming Paper Holdings Limited, according to the information memo issued by the Office of the People's Government of Nanchang City (Hong Fu Ting Chao Zi [2004] No. 652) agreed that Shandong Chenming Paper Holdings Limited was to acquire the equity interest in Jiangxi Chenming held by Jiangxi Paper Industry Co. Ltd.. On 10 February 2005, 南昌市國有工業資產經營管理有限公司 (unofficial English translation being Nanchang City State-Owned Industrial Assets Management Co. Ltd.) and Shandong Chenming Paper Holdings Limited entered into an equity transfer agreement.

As of the valuation date, the shareholding structure of Jiangxi Chenming is as follows:

| Serial no. | Name of shareholder | Contribution amount (US$) | Shareholding ratio |
|---|---|---|---|
| 1 | Shandong Chenming Paper Holdings Limited | 87,720,000.00 | 51% |
| 2 | Shinmoorim | 12,900,000.00 | 7.5% |
| 3 | IFC | 12,900,000.00 | 7.5% |
| 4 | SAPPI LIMITED | 58,480,000.00 | 34% |
| Total | | 172,000,000.00 | 100% |

3. ***Major assets***

Jiangxi Chenming Phase I has a lightweight coated paper project with an annual output of 350,000 tonnes and total investment of US$487 million. Its construction commenced on 16 September 2003. It was completed and commenced operation on 18 March 2005.

The main equipment of the project - the world's most advanced technology and equipment for paper-making machine were imported. The width of the paper-making machine is 7,800mm with design speed of 2,000m/min. The product quality reached international firstrate standard. It has two production lines which produce 550 tonnes of bleached thermomechanical pulp (BTMP) and 400 tonnes of waste paper de-inking pulp (DIP) respectively, both were imported from Austrian's Andritz which produces production equipment of advanced international standards.

To reduce the gap in demand and supply for pulp in China and to replace imported pulp product, Jiangxi Chenming established a plant with annual production of BTMP pulp in late 2008. The production line utilises advanced domestic production crafts and equipment.

4. ***Assets and liabilities and operating results for the latest three years and as at the valuation date***

The balance sheets of Jiangxi Chenming as at 31 December 2009, 31 December 2010, 31 December 2011 and the valuation date are as follows:

Unit: RMB'0000

| **Item** | **31 December 2009** | **31 December 2010** | **31 December 2011** | **30 April 2012** |
|---|---|---|---|---|
| **Current assets** | **69,346.55** | **91,147.09** | **101,623.44** | **105,790.84** |
| **Non-current assets** | **251,363.03** | **239,163.20** | **227,559.74** | **223,623.65** |
| Long-term investments | 1,000.00 | 1,000.00 | 1,000.00 | 1,000.00 |
| Fixed assets | 230,388.13 | 230,442.44 | 218,954.79 | 215,140.82 |
| Construction in progress | 12,019.98 | 432.68 | 412.34 | 294.46 |
| Construction materials | 1.57 | — | — | — |
| Intangible assets | 7,305.10 | 7,144.84 | 6,976.73 | 6,920.69 |
| Deferred income tax assets | 190.16 | 143.24 | 215.88 | 267.68 |
| Other non-current assets | 458.10 | — | — | — |
| **Total assets** | **320,709.59** | **330,310.29** | **329,183.18** | **329,414.49** |
| **Current liabilities** | **28,378.60** | **48,635.13** | **98,859.38** | **117,651.91** |
| **Non-current liabilities** | **131,477.95** | **113,136.32** | **58,483.52** | **43,480.42** |
| **Total liabilities** | **159,856.55** | **161,771.45** | **157,342.90** | **161,132.32** |
| **Net assets (equity)** | **160,853.04** | **168,538.84** | **171,840.28** | **168,282.17** |

The profit and loss accounts of Jiangxi Chenming for 2009, 2010, 2011 and January to April 2012 are as follows:

Unit: RMB'0000

| **Item** | **2009** | **2010** | **2011** | **January-April 2012** |
|---|---|---|---|---|
| **Revenue** | **16,3591.97** | **160,241.30** | **191,336.96** | **50,199.05** |
| Less: Operating cost | 138,611.42 | 133,387.78 | 170,808.42 | 48,445.14 |
| Business taxes and surcharges | — | 102.51 | 945.44 | 62.68 |
| Selling and distribution expenses | 5,953.13 | 7,495.44 | 7,865.39 | 2,412.53 |
| General and administrative expenses | 3,378.90 | 4,207.09 | 4,693.36 | 1,619.05 |
| Finance expenses | 7,078.86 | 5,023.05 | 5,539.89 | 2,328.04 |
| Loss on impairment of assets | 3.40 | — | 11.25 | 118.43 |
| Plus: Gain on change in fair value | -0.69 | — | — | — |
| Investment income | — | — | — | — |
| **Operating profit** | **8,565.57** | **10,025.44** | **1,473.21** | **-4,786.82** |
| Plus: Non-operating income | 2,275.02 | 2,847.48 | 2,027.63 | 1,235.46 |
| Less: Non-operating expenses | 208.30 | 140.19 | 272.04 | 58.56 |
| **Total profit** | **10,632.28** | **12,732.73** | **3,228.80** | **-3,609.92** |
| Less: Income tax expenses | 109.86 | 46.92 | -72.64 | -51.80 |
| **Net profit** | **10,522.42** | **12,685.80** | **3,301.44** | **-3,558.11** |

The information for 2009 was audited by the Beijing branch of Deloitte Touche Tohmatsu CPA Ltd. and it issued an audit report of standard unqualified opinion with reference number De Shi Jing Bao Shen Zi (10) No. P0313. The information for 2010 and 2011 and as at the valuation date has been audited by RSM China Certified Public Accountants (special general partnership), and it has issued audit reports of standard unqualified opinion with reference number Zhong Rui Yue Hua Lu Shen Zi [2011] No. 269, Zhong Rui Yue Hua Lu Shen Zi [2012] No. 179 and Zhong Rui Yue Hua Lu Shen Zi [2012] No. 309 respectively.

5. ***Relationship between the principal and the subject matter of the valuation***

Jiangxi Chenming is the principal as well as the subject matter of this valuation.

## II. Purpose of the valuation

The purpose of this valuation is to conduct a valuation on the total equity of Jiangxi Chenming so as to provide its market value as at the valuation date, which will be used by the shareholders of Jiangxi Chenming as a reference basis for the proposed transfer of their equity of Jiangxi Chenming.

Document on the economical behaviours involved in this valuation is the "Resolution on the conduct of assets valuation" issued by Jiangxi Chenming.

## III. Subject matter of the valuation and scope of valuation

### (I) Subject matter of the valuation and scope of valuation

The subject matter of the valuation of this project was the total equity of Jiangxi Chenming. The scope of valuation was all assets and relevant liabilities of Jiangxi Chenming.

| | | |
|---|---|---|
| Total assets: RMB3,294,144,914.00, including: | | |
| Current assets: | Book value | RMB1,057,908,375.11 |
| Non-current assets: | Book value | RMB2,236,236,538.89 |
| Long-term equity investments: | Book value | RMB10,000,000.00 |
| Fixed assets: | Book value | RMB2,151,408,240.81 |
| Construction in progress: | Book value | RMB2,944,555.35 |
| Intangible assets: | Book value | RMB69,206,915.62 |
| Deferred income tax assets: | Book value | RMB2,676,827.11 |
| Total liabilities: RMB1,611,323,246.82, including: | | |
| Current liabilities: | Book value | RMB1,176,519,066.74 |
| Non-current liabilities: | Book value | RMB434,804,180.08 |

The above figures have been audited by the Shandong Branch of RSM China Certified Public Accountants (special general partnership), and an audit report with reference number Zhong Rui Yue Hua Lu Shen Zi [2012] No. 309 was prepared.

The subject matter of the valuation and scope of valuation are consistent with the subject matter of the valuation and scope of valuation as confirmed by the principal with no off-balance-sheet assets.

### (II) Asset portfolio which have a greater impact on corporate value

Jiangxi Chenming has a lightweight coated paper project with an annual output of 350,000 tonnes with a total investment of US$487 million. The main equipment of the project - the world's most advanced technology and equipment for paper-making machine were imported. The width of the paper-making machine is 7800mm with design speed of 2000m/min. The product quality reached international standard. It has two production lines which produce 550 tonnes of bleached thermomechanical pulp (BTMP) and 400 tonnes of waste paper de-inking pulp (DIP) respectively, both were imported from Austrian's Andritz which produces production equipment of advanced international standards.

(III) **Status of the enterprise's intangible assets**

As of the valuation date, the intangible assets reported by Jiangxi Chenming were land use rights, the details of which are as follows:

| No. | Site location | Area ($m^2$) | Real estate title certificate no. | Use |
|---|---|---|---|---|
| 1 | Bai Shui Lake Industrial Zone, Nanchang Economic and Technological Development Zone | 1,306,475.20 | Hong Tu Guo Yong Deng Bei (2005) No. 061 | Industry |
| 2 | Ganjiang Road, Ganjiang terminal and the northwest coast of Gan Jiang River, Economic Development Zone | 26,780.00 | Hong Tu Guo Yong Deng Bei (2005) No. 060 | Industry |

## IV. Value type and its definition

Based on economical behaviours and other relevant conditions such as valuation purpose, the value type of this valuation was market value, which is the valuation amount of the value if a normal fair transaction was made on the base date of appraisal by the subject matter of the valuation under the circumstances where the buying party and selling party both act willingly and sensibly without being forced.

## V. Valuation date

The valuation date is 30 April 2012.

The valuation date was determined by the principal. The valuation date was determined by taking into consideration of the end of the accounting period and factors beneficial to the realization of this economical behavior.

## VI. Basis for valuation

(I) **Basis of economic behaviour**

Resolution on Performing Asset Valuation issued by Jiangxi Chenming Paper.

(II) **Legal basis**

1. Company Law of the People's Republic of China (amended on the eighteenth session, the Tenth National People's Congress Standing Committee, 27 October 2005);

2. Law of the People's Republic of China on State-owned Assets (Presidential Decree No. 5 of 2008);

3. Land Administration Law of the People's Republic of China (amended on the fourth session of the Ninth National People's Congress Standing Committee on 29 August 1998);

4. Implementation Rules of Provisional Regulations on VAT of the People's Republic of China (Ministry of Finance, State Administration of Taxation Order No. 50);

5. State-owned Assets Valuation and Administration Procedures (State Council Decree No. 91, 1991);

6. Implementation Rules of Administrative Methods on State Asset Valuation (Guo Zi Ban Fa [1992] No. 36);

7. Provisional Regulations on State-owned Assets Supervision and Administration (State Council Decree No. 378, 2003);

8. Interim Measures on Transfer Administration of State-owned Property (SASAC, Ministry of Finance Decree No. 3, 2003);

9. Interim Measures on State-owned Assets Assessment Management (SASAC No. 12, 2005);

10. Notice on Strengthening of Issues Related to Management of State-owned Assets Assessment Guo Zi Wen Chan Quan [2006] No. 274);

11. Other assessment-related laws, regulations and rules, etc.

(III) **Valuation criteria and basis**

1. Asset Valuation Criteria - Basic Norms (Cai Zheng Bu Cai Qi (2004) No. 20);

2. Code of Ethics for Asset Valuation - Basic Norms (Cai Zheng Bu Cai Qi (2004) No. 20);

3. Asset Valuation Standards - Assessment Report (Zhong Ping Xie [2007] No. 189);

4. Asset Valuation Criteria - Valuation Procedures (Zhong Ping Xie [2007] No. 189);

5. Asset Valuation Standards - Machinery and Equipment (Zhong Ping Xie [2007] No. 189);

6. Guide on Valuation Report of the State-owned Assets of an Enterprise (Zhong Ping Xie [2008] No. 218);

7. Guidance on Registered Asset Valuer Concerning Legal Ownership of Assessment Object (Zhong Zhu Xie Hui Xie [2003] No. 18);

8. Guidance on Corporate Valuation (Trial) (Zhong Ping Xie [2004] No. 134);

9. Guidance on Appraisal Asset Value Type (Zhong Ping Xie [2007] No. 189);

10. Accounting Standards for Business Enterprises - Basic Standards (Ministry of Finance Decree No. 33);

11. 38 specific standards such as Accounting Standards for Business Enterprises No. 1 - Inventories (Cai Zheng Bu Cai Kuai [2006] No. 3);

12. Accounting Standards for Business Enterprises - Application Guide (Cai Zheng Bu Cai Kuai [2006] No. 18);

13. Norms on Real Estate Appraisal (GB/T50291-1999).

(IV) **Basis for asset ownership**

1. Motor vehicle license;

2. Building ownership certificates;

3. State-owned land use certificate;

4. Important asset purchase contract or invoice.

(V) **Basis for assessment pricing**

1. Provisional Regulations on Vehicle Purchase Tax of the People's Republic of China (the People's Republic of China State Council Decree No. 294, 22 October 2000);

2. Car Scrap Standards (the former State Economic and Trade Commission, Guo Jing Mao Jing [1997] No. 456);

3. Notice on Adjusting Certain Provisions on Car Scrap Standards (the former State Economic and Trade Commission, Guo Jing Mao Zi Yuan [2000] No. 1202);

4. Lending Rate Table of The People's Bank of China (implemented from 7 July 2011);

5. Offer Manual for Electromechanical Products 2012 (Machinery Industry Information Institute, Edition 2012);

6. Information on Price of National Import and Foreign Electromechanical Products (Machinery Industry Information Institute, 2012);

7. Zhongguancun online, Advertising Offers in April 2012;

8. Urban Land Valuation Procedures (GB/T18508-2001);

9. Urban Land Classification Procedures (GB/T18507-2001);

10. Jiangxi Provincial People's Government Announcement on Unified Annual Output Value Standard and District Integrated Land Price on the Province's Land Acquisition (Gan Fu Zi [2009] No. 22);

11. Notice of Jiangxi Provincial Department of Finance and Jiangxi Provincial Department on Further Regulating the Land Acquisition and Management Fee Collection and Management Issues (Gan Cai Zong [2007] No. 42);

12. Jiangxi Provincial People's Government Announcement on Unified Annual Output Value Standard and District Integrated Land Price on the Province's Land Acquisition (Gan Fu Zi [2009] No. 22);

13. Jiangxi Provincial Implementation Measures on Farmland Occupation Tax;

14. Notice on Announcement of Implementation of Nanchang City Benchmark Premium Update Results (2010);

15. Fixed-amount and Unified-base-price Table of Construction Project Consumption in Jiangxi Province;

16. Rules on Project Composition and Calculation of Construction Costs in Jiangxi Province;

17. List of assets and other information provided by the subject matter of the valuation;

18. Data on financial accounting, operation and other aspects provided by the subject matter of the valuation;

19. Market data, industrial economy and macroeconomic data collected by the valuer;

20. Information out of on-site mapping and surveying by the valuer;

21. Other reference materials.

**VII. Valuation approaches**

The valuation approaches mainly include the asset-based approach, the income approach and the market approach. This valuation has used the asset-based approach.

The asset-based approach refers to the valuation methodology in determining the value of the subject matter of the valuation based on making reasonable valuation on an enterprise's assets and liabilities.

Basic formula for the asset-based approach:

Value of total equity = Sum of the assessed value of the assets - Sum of the assessed value of the liabilities

The subject matter of the valuation in this report is valued based on a going concern basis, and its core assets are real assets such as inventory, equipment and land. Moreover, the selection of economic and technological parameters involved in valuing the assets in the process of applying the asset-based approach is based on sufficient data information. Thus, the asset-based approach can be used to make the valuation.

The income approach refers to the valuation methodology in determining the value of the subject matter of the valuation through capitalising or discounting an enterprise's prospective income.

The income approach refers to the valuation methodology in determining the value of the subject matter of the valuation through capitalising or discounting an enterprise's prospective income. The prerequisites for using the income approach are: ① the prospective income and the risks assumed for generating such prospective income of the assessed enterprise can be forecasted or measured in monetary terms; ② the term during which the assessed enterprise can generate its prospective profit can be forecasted.

The assessed enterprise in this report is assessed on a going concern basis. However, in recent years, the assessed enterprise's trading position has not been stable. In 2009, its net profit was RMB105.2242 million; in 2010, its net profit was RMB126.8580 million; in 2011, its net profit was RMB33.0144 million; and from January to April in 2012, its net profit was -RMB35.5811 million. Jiangxi Chenming's net profit has declined sharply mainly due to the price of light weight coated paper being at a continuously low level in the domestic and international markets. It fell from approximately RMB8,200 per tonne in 2010 to the existing level of approximately RMB6,200 per tonne. Due to the severely excess production capacity in the papermaking industry to which Jiangxi Chenming belongs, and continuous release of production capacity under construction in the years to come, it can be expected that in the years to come the price of light weight coated paper will not greatly rise. Moreover, the prices of the raw materials such as wood and paper pulp for production largely relied upon the international market, the right to fix price is subject to others, and it is difficult to relieve the pressure of cost. Therefore, in the future, Jiangxi Chenming's operation and income will be subject to great uncertainties, and the income and risks in the future cannot be easily forecasted and measured. Therefore, it is not proper to apply the income approach.

The market approach refers to the methodology of determining the value of the subject matter of the valuation through comparing the valuation of the subject matter with that of comparable enterprises, and equity assets such as enterprises, equity or securities with transaction cases in the market. The prerequisites for using the market approach are: ① there is an open market with sufficient market data; ② the market data of comparable enterprises or transaction cases can be collected, and such data are sufficient, proper and reliable.

It is difficult to obtain reliable and accurate comparable transaction cases as the assessed enterprise is not a listed company, and not many transaction cases were entered by equivalent Chinese enterprises in the relevant industries around the valuation date. Therefore, the market approach is not applied.

**Asset-based approach**

1. ***Current assets***

The current assets include, among other things, monetary funds, bills receivable, accounts receivable, prepayments, other receivables and inventory.

(1) Monetary funds refer to bank deposits. For bank deposits, by combining the bank's letter of confirmation and response letter based on account-account verification, account-statement verification and verifying bank statement, a rough calculation is carried to trial balance the bank deposit balance reconciliation statement. If foreign currency is involved, the entry amount of the foreign currency shall be converted to bookkeeping base currency by using the exchange rate prevailing on the valuation date. After verification, the appraised value shall be confirmed by using the verified book value.

(2) Bills receivable: the valuer shall first verify general ledger, detail accounts, accounting statements and valuation breakdown statement. Secondly, the valuer inspects the inventory notes and verifies relevant contents in bills receivable register book. Thirdly, the valuer makes efforts to know the bills acceptance and negotiable endorsement situations, so as to ensure the authenticity of economic behaviours involved in the bills and the accuracy of their amount. Because the bills can be easily realised in a short period of time, and the drawing units of the bills are in good credit, the verified book value can act as appraised value.

(3) Receivables include accounts receivable and other receivables. The valuer, through looks up account books and statements, on the basis of analysing their economic contents and ages, verifies huge amounts through letter of confirmation, and make efforts to know their occurrence time, cause of the debts, situation of clearing up the debts, as well as the capital, credit, operation of the debtors. Based on the above detailed analysis, the valuer evaluates the recoverability of the receivables, and determines the appraised value of the receivables by using a combination of individual identification method and account age analysis method. The appraised value of the bad debt provisions for the receivables is zero.

(4) Prepayments: the valuer verifies account book records, checks the relevant information such as original evidences, business contract, etc. and verifies the authenticity, account age and amount of the transactions. For the prepayments with short account age and being able to be realised within short period of term, the assessed book value can act as the valuation value. For the expense related items which finally form the expenditures, their appraised value is zero.

In the valuation, the appraised value shall be determined by using the verified book value.

(5) Inventory: Inventory includes raw materials, finished products, etc.

When the inventory is assessed, firstly, the valuer checks the internal control system for the inventory, make efforts to know the enterprise's accounting systems for the in and out of inventory. For stock keeping, the valuer checks the enterprise's financial records and statistical statements, carries out on-site inspection, and selectively examines the bills and account books for accepting, sending out, carrying over and keeping the inventory. The valuer finally confirms the enterprise's current inventory management is in a good condition with corresponding internal control system. Meanwhile, the valuer looks up relevant account books and original bills, so as to confirm the authenticity and title ownership of the inventory.

Secondly, the valuer checks the way of pricing and accounting the inventory. Inventory shall be priced at their actual cost.

The valuation approach for the inventory is as follows:

1) *Raw materials*

Through verification, the raw materials are mainly coal, diesel, American waste, domestic waste, auxiliary materials, etc. The valuer, through on-site counting of the coal, diesel, American waste, domestic waste and Australian waste, determines that their appraised value should be the market unit price multiplying their actual quantity. The valuer makes efforts to know that the enterprise's auxiliary materials circulate quickly and the procurement dates of most auxiliary materials within the valuation scope are around the valuation date, and that their book unit prices are basically equal to their market price on the valuation date. Therefore, the valuer, on the basis of their account-account and account-statement verification, determines the appraised value of the auxiliary materials is their book unit price multiplying their actual quantity.

2) *Finished products*

Finished products refer to the products of different specifications and types manufactured by the subject matter of the valuation. The valuer understands that finished products are sold through the sales department. Finished products are sold under normal sale conditions.

For the products sold under normal sale conditions, their appraised value can be determined by using their selling price without tax minus sale expenses, all taxes and the proper proportion of net profit after tax. Sales tax fee include sale expenses and the relevant tax burden. The sale expenses shall be the average sale expense rate in recent years. The relevant tax burden shall be determined by the enterprise's actual tax burden, including business taxes and surcharges and income tax. The proper proportion of net profit after tax shall be determined as to 50 percent of the after-tax profit.

For the slow-moving products, their appraised value can be determined by using their selling price without tax minus sale expenses, all taxes and the total net profit after tax. Sales tax includes sale expenses and the relevant tax burden. The sale expenses shall be the enterprise's average sale expenses in recent years. The relevant tax burden shall be determined by the enterprise's actual tax burden, including business taxes and surcharges and income tax.

(6) Other current assets: Other current assets refer to the enterprise's excess-paid enterprise income tax and tenure tax, and in-process tax amount of value-added tax, which is to be deducted. The valuer verifies them through the review of the information such as the relevant documents, payment vouchers, etc. The valuer understands the entry of other current assets and the method of calculating their relevant taxes in order to confirm whether the entry and the method are authentic and reasonable. In the valuation, the appraised value can be determined by using the book value.

2. ***Non-current assets***

Non-current assets include long-term equity investments, fixed assets, construction in progress, intangible assets, deferred income tax, etc.

(1) *Long-term equity investments*

The valuer has carried out overall assessment of wholly-owned subsidiaries of the Company. The valuation principles have complied with, the valuation approaches adopted, and the valuation procedures in which their assets and liabilities are assessed, are the same as the ones for the Company (i.e. the same standards and scale)

Appraised value of the long-term equity investments held = Appraised value of the total equity of the investee X the proportion of investment.

If the appraised value of the total equity of the investee is negative, the appraised value of such long-term investment is zero.

(2) *Fixed assets valuation*

1) Assets in the category of housing buildings

Replacement cost method is adopted to assess housing buildings.

For the housing buildings cases with no profit and transaction, they shall be assessed and estimated by using the replacement cost method on the principle of estimating housing buildings and land respectively.

The replacement cost method refers to the method of determining the value of house property by multiplying the investment, which is necessary for replacing the same housing property based on the market conditions prevailing at the valuation time and the structural characteristics of the assessed housing property, (briefly referred to as replacement price), by the integrated depreciation rate of the housing property, which is made out through comprehensive valuation.

Appraised value = Full replacement price × Integrated depreciation rate

Full replacement cost = Construction and installation costs + Upfront fee and other fees + Financing costs

Integrated depreciation rate = Theoretical depreciation rate × Weight factor + Survey depreciation rate × Weight factor

A. **Determination of the full replacement price**

a. ***Estimation of the construction and installation costs***

According to the detailed conditions of the assessed housing buildings, they are in reinforced concrete structure. The valuer has made systematic classification for the buildings within the valuation scope according to their structural types, application functions and area distribution, numbered the buildings in the same group, and then selected out typical buildings from the said groups, collected construction completion information of the typical buildings such as their budget/settlement statements, construction completion drawings, etc., after selectively checking and verifying engineering amount, the valuer calculated out quota direct cost by applying 2009 Jiangxi Province Engineering Budget Quota and 2009 Jiangxi Province Installation Project Engineering Budget Quota on the engineering amount in the said budget/settlement statements, and finally calculated out construction and installation cost according to Jiangxi Province Engineering Cost Quota and Jiangxi Province Installation Project Cost Quota. The construction and installation cost of other houses in the same structure shall be calculated by using typical engineering diversity factor adjustment method. The factors affecting the construction and installation cost of housing buildings mainly include the floor number, the floor height, the exterior, the plane form, the depth, the width, the wall materials, the decoration standards, the facilities, the degree of construction difficulty, etc. The valuer has compared the subject matter to be valued with the typical constructions to make out comprehensive adjustment coefficient. The construction and installation cost of the housing buildings to be estimated equals multiplying the construction and installation cost of the typical housing buildings by the comprehensive adjustment coefficient.

For the measurement and calculation of replacement unit price of small size housing buildings, the local construction cost per cubic meter of the housing building in the same structure as on the valuation date shall be utilised to carry out diversity adjustment estimation.

b. ***Upfront fee and Other Fees***

In accordance with the regulations of local government and the industrial standards, the standard for collecting upfront fee and other fees is as follows:

a) Survey and design expenses: by 2.4%, according to the 2002 revised edition of charging Standard for Engineering Survey and Design;

b) Building unit management fee: by 1.5%, according to the Notice on Issuing Financial Management Regulations on Capital Construction (Cai Jian [2002] No. 394);

c) Project supervision fee: by 2.0%, according to the Notice of National Development and Reform Commission (NDRC) and Ministry of Construction (MOC) on Issuing Projects Supervision and Related Services Charging Administrative Regulations (Fa Gai Jia Ge [2007] No. 670);

d) Bidding management fee: by 0.1%, according to the Notice on Issuing Interim Measures for Charging Administration of Biding Agency Services (SDPC Ji Jia Ge [2002] No. 1980);

e) Municipal public facility subsidiary fee: by RMB55/$m^2$, according to the Notice on Issuing Interim Measures of Jiangxi Province on Collecting Urban Municipal Public Facility Subsidiary Fee;

f) Charge of Termite Prevention: by RMB1.5/$m^2$, according to the regulations of Gan Jia Fang Zi (1999) No.1 and Gan Cai Zong Zi (1999) No.33;

g) Environmental evaluation fee: by 0.5%, according to the regulations of Ji Jia Ge [2002] No.125.

The general charging rate shall be the total sum of the above items, with the construction costs or the construction area as the calculation base.

c. ***Financing Cost***

Based on the enterprise's construction scale and original materials, and project construction period determined in line with the national duration quota, it shall be calculated subject to the capital construction loan rate on the base date of evaluation under the condition of uniform capital investment of funds within regular construction period.

| Term of the loan | % per annum |
|---|---|
| 1. Short-term loan | |
| Not less than six months | 6.10 |
| More than six months and not less than one year | 6.56 |
| 2. Medium and long-term loans | |
| More than one year and not less than three years | 6.65 |
| More than three years and not less than five years | 6.90 |
| More than five years | 7.05 |

Financing Cost = (construction and installation costs + upfront fee and other fees) × construction period × interest rate × 1/2

Full replacement cost = construction and installation costs + upfront fee and other fees + financing cost

B. **Determination of the integrated depreciation rate**

The method of combining the theoretical depreciation rate with the survey depreciation rate shall be adopted to determine the integrated depreciation rate of the housing buildings.

a. ***Calculation of the theoretical depreciation rate***

Theoretical depreciation rate = (Economically durable years - The years during which the house has been used)/Economically durable years × 100%

b. ***Measurement of the survey depreciation rate***

Firstly, the valuer puts the main factors affecting the depreciation rate of the housing buildings into such groups as structure (foundation, wall, load bearing, roof covering), decoration (flooring, internal and external decoration, doors and windows, ceiling), facilities (water equipment, toilet, heater, electric illuminator), making reference to the provisions in Depreciation & Damage Level Valuation Standards for Houses issued by the Ministry of Construction, and combines the actual conditions of on-site survey to determine the depreciation valuation value of each group. Then, weight factor is used to determine the survey depreciation rate.

Survey depreciation rate = Structural group value × Weight factor + Decoration group value × Weight factor + Installation group Value × Weight factor

c. ***Integrated depreciation rate***

The weight factor for the theoretical depreciation rate is 0.4, the weight factor for the survey depreciation rate is 0.6.

Integrated depreciation rate = Theoretical depreciation rate × 0.4 + Survey depreciation rate × 0.6

C. **Calculation of the appraised value**

Appraised value = Full replacement price × Integrated depreciation rate

2) Assets in the category of equipment

According to the purpose of the valuation, and in accordance with the principle of continuous application, based on the market price, in combination with equipment's features and information collection conditions, the machines and equipment used in normal production and operation shall be assessed by using the replacement cost assessment method. For the equipment, which has been used for a long time, as which the market price of brand-new equipment in the same type cannot be enquired in the market, and for which there exists active secondary market, for example, general motor-driven vehicles and electronic office facilities, they shall be valued by using the market approach.

① Replacement cost method

Appraised value = Full replacement price × Integrated depreciation rate

A. **Determination of the full replacement price**

a. ***Machinery equipment***

For the domestically manufactured equipment, their full replacement price shall be mainly determined by making reference to the current market price of the equipment in same model or type as in the domestic market, meanwhile, taking necessary transportation and miscellaneous charges, installation and commissioning charges, basic expenses, other expenses, and cost of capital into consideration.

For the imported equipment, their full replacement price shall be mainly based upon CIF or FOB of the equipment in the same type recently, meanwhile, taking such expenses, charges and fees of the equipment in such type into consideration, as overseas transportation expenses, foreign trade commissioning charge, bank commission charge, commodity inspection fee, customs duty, value-added tax, domestic transportation and miscellaneous charges, installation and commissioning charges, basic expenses, other expenses, cost of capital, etc.

Full replacement price = Equipment procurement price + Transportation and miscellaneous charges + Installation and commissioning charges + Basic expenses + Other expenses + Cost of capital + Deductible value-added tax

a) *Procurement price*

It is mainly determined by making enquiry to manufacturers, transaction markets and trade companies, or making reference to price information as Year 2012 Mechanical and Electrical Products Quotation Manual, and making reference to the contract price of the equipment in the same type. The equipment procurement price is exclusive of tax.

b) *Transportation and miscellaneous charges*

It shall be calculated by using different transportation and miscellaneous charge rate, based on the procurement price, taking factors like the distance between manufacturers and equipment location, weight and size of the equipment, etc. into consideration.

c) *Installation and commissioning charges*

Based on the procurement price, it shall be calculated by using different installation charge rates in accordance with features, weight and degree of installation difficulty of the equipment.

For the small size equipment which does not required to install, the installation and commissioning charges shall not be considered.

d) *Basic expenses*

Based on the procurement price, it shall be calculated by using different expense rates in accordance with the features of the equipment and by making reference to Mechanical Industry Construction Project Budget Estimation Compilation Rules and Budget Estimation Indexes.

e) *Other expenses*

Other expenses include management fee, feasibility study report and appraisal fee, design fee, project supervision fee, etc., which shall be calculated in accordance with other expense standards of the construction project in the place where the equipment is located, in combination with the features of the equipment itself. The calculation shall be based upon the sum of equipment procurement price, transportation and miscellaneous charges, basic expenses and installation and commissioning charges.

f) *Financing Cost*

According to the reasonable construction term of the construction project and based on the applicable loan interest rate on the valuation date, the cost of capital shall be calculated according to the uniform investment in construction process.

Cost of capital = (Procurement price + Transportation and miscellaneous charges + Installation and commissioning charges + Basic expenses + Other expenses) × Loan interest rate × Construction term × 1/2

g) *Deductible value-added tax*

Pursuant to Notification Concerning Several Matters Related to National Implementation of Value-added Tax Reform (Cai Shui (2008) No.170), if it complies with the conditions for deducting value-added tax, the deductible value-added tax shall be deducted from its replacement cost.

B. **Determination of the integrated depreciation rate**

Integrated depreciation rate = Weight factor × Survey depreciation rate + Weight factor × Theoretical depreciation rate.

a) ***Survey Depreciation rate***

The determination of survey depreciation rate is mainly based on the actual conditions of enterprise equipment. According to technical state, working environment and repairing and maintenance condition of the equipment and actual survey condition, scores are collected item by item for every part of the equipment and the survey depreciation rate is determined.

b) ***Theoretical Depreciation rate***

The theoretical depreciation rate is determined on the basis of the economic life and serviced life of the equipment.

Theoretical depreciation rate = (Economic life - serviced life)/ Economic life × 100%

c) ***Weight factor***

For the complex structured and large equipment, the depreciation rate is determined by adopting serviced life method in combination with survey method and it is calculated comprehensively by 0.4 percent of weightiness of serviced life method and 0.6 percent of weightiness of survey method.

For the lightly structured, simple and normal service equipment, the depreciation rate is mainly determined by serviced life method in combination with serviced life and maintenance.

C. **Determination of Assessed Value**

The assessed value = Integrated depreciation rate × Replacement cost

② Market approach

A. Vehicles

Chosen and assessed vehicle trading cases with strong relativity and substitutability are within the same scope of supply and demand in recent second-hand vehicle trading market. According to the conditions of the subject matter of the valuation and comparable cases, we make the analysis, comparison and correction of the remaining service life, remaining traveled mileage, transaction date and vehicle condition, etc., which affect the price of the secondary market, and valuate the market price of the subject matter of the valuation. Computational formula is as follows:

Prospective price = Comparable actual price × correction factor of vehicle traveled distance × correction factor of vehicle service life × correction factor of vehicle condition × correction factor of vehicle transaction date × Correction factor of vehicle trading condition successively

Prospective price = (Case A + Case B + Case C)/3

The assessed value of vehicle market approach = Prospective price.

B. Electronic Office Equipment

The valuer chooses no less than 3 market trading cases with same or similar unit type and trading time compared with the equipment awaiting valuation and takes the mathematic average value as the valuation result for the equipment awaiting assessment.

(3) *Construction in progress*

For the assessment method of the construction in process, the replacement cost method applies. For projects under normal construction condition and projects with relatively short construction period and small purchasing price changes, the enterprise pays equipment funds pursuant to contracts. In the investigating and verifying project image processes and with the premise of the determination of equipment installment budging, determine the assessing value by evaluating the book share after verification. For the projects with payment amount of more than RMB0.50 million and the construction period of more than half a year, the assessed value will be determined after considering proper cost of capital.

(4) *Intangible Assets*

The intangible assets include land-use right.

On the basis of data supplied by the assessed units and relevant materials collected by the scenery investigation and researches by the evaluators, the assessment of land-use right adopts cost approach and benchmark floor-price coefficient correction methods after comprehensive analysis and comparison and finally determines the assessed value by the weightiness of the two methods.

① Cost Approach Method

A. The Theory of Cost Approach Method

Cost approach method is a valuation methodology of determining the land price through the sum of general expenses for land development combined with a certain profit, interest, taxes payable and land value-added income.

B. The Formula of Cost Approach Method

The fundamental formula of cost approach method is as follows:

Land premium = Land acquisition fee + Land development fee + taxes + interest + return on investment +land appreciated value.

② Benchmark Floor-price Coefficient Correction Method

A. Fundamental Theories

Benchmark floor-price coefficient correction method is a methodology by adopting the assessing results of town floor price and floor-price coefficient correction table, making the comparison between the influence degree of land regional and individual factors and indexes of regional and individual factors in the explanatory table of floor-price coefficient correction in accordance with substitution principle and making amendments after obtaining the correction factors. Finally, it will make the amendments for the evaluation date of the land awaiting evaluation and service life respectively according to the land price evaluating base date and service life and obtain the price of the land awaiting evaluation within the appraisal period.

B. Basic formula

The formula is as follows:

Parcel premium = the applicable benchmark premium $\times$ K1 $\times$ K2 $\times$ k3 $\times$ k4 $\times$ $(1 + \Sigma K)$

Where: K1 — due date correction coefficient
K2 — year-period correction factor
K3 — development degree correction factor
K4 — volume rate correction factor
$\Sigma K$ — sum of correction factor of various factors affecting the premium

(5) *Deferred Income Tax Assets*

The deferred income tax assets is the discrepancy between the book value of assets and its tax base in the subsequent measurement process of enterprise assets accounting caused by difference between enterprise accounting principle and tax regulations.

The deferred income tax assets are determined by the enterprise, according to the deductible temporary differences and calculation results from applicable income tax rate. Valuers will make investigations and have a good understanding of reasons and forming processes caused by the difference and verify whether it could bring deductible amounts and whether the accounting amounts is in conformity with regulations of the enterprise's accounting system and tax laws in the process of determining the taxable income during the period of obtaining repossessed value or satisfying the liabilities in future. It determines the assessed value by the verified book value on that basis.

3. ***Liabilities***

Verify the actual debtor and amount of obligation for all liabilities and determine the assessed value by base date of assets evaluation and the actual liabilities taken by the assessed enterprises.

## VIII. Implementation Process and Status of Evaluation Procedure

Beijing Guoyoudazheng Assets Appraisal Company accepted the engagement of Jiangxi Chenming to carry out valuation on its total equity, and after negotiation, the valuation date was set on 30 April 2012. Beijing Guoyoudazheng Assets Appraisal Company drew up a valuation plan and determined the valuation plan on 6 May 2012, formally started the evaluation on 7 May 2012, completed on-site work on 13 May 2012, and presented a formal report on 25 May 2012. The main valuation contents are as follows:

### (I) The early preparatory stage of valuation

1. On 7 May 2012, the basic valuation issues including the purpose, scope and base date, etc. were agreed with the principal and evaluated entity, Engagement Letter was signed with the principal, and the valuation work plan was developed.

2. Works involving making of asset inventory, filling out and declaration of the Assets Evaluation Schedule were conducted by cooperation with the evaluated entity. Members of the evaluation project group accessed to the site to gain a preliminary understanding of the assets entrusted to be valued, assisted the entity to conduct declaration of the assets, and collected documentary materials required for asset evaluation.

### (II) On-site verification and valuation Stage

1. The principal and evaluated entity introduced the general situation, history and current status assets of the entity, and the valuation project group obtained knowledge of the entity's financial system, operational status, technical state of fixed assets and other cases;

2. Checks were conducted on the Assets Evaluation Schedule and financial recording data provided by the evaluated entity, and issues found were adjusted by cooperation with the evaluated entity;

3. Based on the Assets Evaluation Schedule and in line with the requirements of assets evaluation standards, full verification on fixed assets was carried out, and real assets of inventory type in liquid assets were checked randomly;

4. Property certificate documents of the assets entrusted to be valued were referred to and gathered;

5. Specific evaluation methods for assets of all types were determined according to actual states and characteristics of the assets entrusted to be valued;

6. Technical data and acceptance materials related to the involved assets were referred and gathered; and price information was collected through market investigation and queries on relevant materials;

7. Preliminary valuation and estimation were made on assets and liabilities within the valuation scope based on verification.

(III) **Aggregation stage of valuation**

Preliminary results of the valuation on various assets were analysed and summarised, and then the valuation results were adjusted, modified and improved as required.

(IV) **The stage for compiling and submitting valuation report**

The asset valuation report was completed, and then modified and corrected in accordance to Evaluation Agency Internal Three-step Checking System and Programme after exchanging opinion with the principal on evaluation draft and taking full consideration of opinions concerned; and the formal asset appraisal report was issued finally.

**IX. Valuation assumptions**

(I) We assume the transactions can be executed;

(II) We assume there is an open market;

(III) We assume the assets can be continuously used;

(IV) We assume the enterprise will be conducted on a going-concern basis;

(V) We assume the prevailing macroeconomic environment of the PRC will not experience material changes;

(VI) We assume the social and economic environment where the company operates and the policies of taxation and tax rate will not experience material changes;

(VII) We assume the future management of the company has a responsibility to fulfill its duties and the existing management and operation model will be maintained for continuing operation;

(VIII) We assume the scope and manner of operation of the company will move forward in line with the existing ones based on the existing operation and management level;

(IX) We do not take into account the effect of inflation in this valuation.

The valuer confirms that the above assumptions are generally held on the valuation date in accordance with the requirements of the asset valuation. If the future economic environment encounters material changes and the assumptions change, the valuer will not be liable for the deduced valuation results due to the changes of assumptions.

## X. Valuation conclusion

The valuer has used the asset-based approach to make its valuation estimates.

As of 30 April 2012, the valuation date, on a going concern basis, the book value of the total assets of Jiangxi Chenming is RMB3,294.1449 million and their assessed value is RMB3,621.5440 million. The added value is RMB327.3991 million with a value-added rate of 9.94%. The book value of the liabilities is RMB1,611.3233 million and their assessed value is RMB1,611.3233 million. The book value of the total equity of the shareholders is RMB1,682.8216 million and its assessed value is RMB2010.2207 million. The added value is RMB327.3991 million with a value-added rate of 19.46%. The details of the valuation conclusions are set out on the valuation breakdown report.

**Summary of the asset valuation results of Jiangxi Chenming**

Unit: RMB'0000

| Item | | Book value | Assessed value | Change | Value-added rate (%) |
|---|---|---|---|---|---|
| | | A | B | C = B-A | D=C/B×100% |
| Current assets | 1 | 105,790.84 | 106,335.29 | 544.45 | 0.51 |
| Non-current assets | 2 | 223,623.65 | 255,819.11 | 32,195.46 | 14.40 |
| Of which: long-term equity investments | 3 | 1,000.00 | 2,107.57 | 1,107.57 | 110.76 |
| fixed assets | 4 | 215,140.82 | 201,237.28 | -13,903.54 | -6.46 |
| construction in progress | 5 | 294.46 | 294.46 | — | — |
| intangible assets | 6 | 6,920.69 | 51,916.61 | 44,995.92 | 650.17 |
| deferred income tax assets | 7 | 267.68 | 263.19 | 4.49 | -1.68 |
| **Total assets** | **8** | **329,414.49** | **362,154.40** | **32,739.91** | **9.94** |
| Current liabilities | 9 | 117,651.91 | 117,651.91 | — | — |
| Non-current liabilities | 10 | 43,480.42 | 43,480.42 | — | — |
| **Total liabilities** | **11** | **161,132.33** | **161,132.33** | **—** | **—** |
| **Total equity** | **12** | **168,282.16** | **201,022.07** | **32,739.91** | **19.46** |

## XI. Special matters

### (I) Title defects

#### 1. *Charges on assets*

Pursuant to the mortgage contract entered into by Jiangxi Chenming, Bank of China Limited Nanchang Changbei sub-branch, International Finance Corporation ("IFC"), and DEG-Deutsche Investitions-und Entwicklungsgesellschaft mbH on 29 November 2006 (IFC investment no. 22164 and Bank of China mortgage no. CBDY2006001), Bank of China Limited Nanchang Changbei sub-branch provided a loan in the amount of US$20 million to Jiangxi Chenming; IFC provided a loan in the amount of US$90 million and DEG provided a loan in the amount of US$10 million. Jiangxi Chenming as a pledgor provided its own land use rights, buildings, machinery and equipment as the collateral.

As agreed in the above mortgage contract, the collateral represented all movable and immovable property of Jiangxi Chenming as at the date when the contract was entered into and in the future, including: 1) the granted land use rights in respect of the project site; 2) any other land use rights acquired by the pledgor after the date when the mortgage contract was entered into; and 3) all buildings, machinery and equipment, which are on the project site at present and in the future or on any other land use rights acquired by the pledgor after the date when the mortgage contract was entered into.

The project sites are listed as follows:

| No. | Site location | Area ($m^2$) | Real estate title certificate no. | Use |
|---|---|---|---|---|
| 1 | Bai Shui Lake Industrial Zone, Nanchang Economic and Technological Development Zone | 1,306,475.20 | Hong Tu Guo Yong Deng Bei (2005) No. 061 | Industry |
| 2 | Ganjiang Road, Ganjiang terminal and the northwest coast of Gan Jiang River, Economic Development Zone | 26,780.00 | Hong Tu Guo Yong Deng Bei (2005) No. 060 | Industry |

As of the valuation date, the principal and interest of the loan provided by Bank of China Limited was repaid. The loan provided by IFC will expire on 15 December 2015 and its outstanding balance is US$2,352,945.00 (RMB14,773,435.77). The loan provided by DEG will expire on 15 December 2014 and its outstanding balance is US$10,666,663.00 (RMB66,972,776.98).

2. ***Buildings without title certificates***

As of the valuation date, there were in total 14 buildings of the subject matter of the valuation have not obtained their title certificates. The subject matter being valued has provided the corresponding applications for construction and undertakings on property. The valuation conclusions are drawn assuming that there are good titles to the subject matter of the valuation, and the expenses to be incurred when dealing with the titles in the future are not taken into account. The final determination of the gross floor area of and title to the buildings shall depend on the title certificates issued by the local real estate management authorities upon surveying and mapping. The details of the buildings without title certificates are as follows:

| No | Name | Structure | Completion | Original value (RMB) | Net asset value (RMB) |
|---|---|---|---|---|---|
| 1 | Raw material office | Brick-concrete | 2005-7-1 | 24,296.78 | 20,912.79 |
| 2 | Loadometer (three blocks) | Brick-concrete | 2005-7-1 | 19,437.43 | 16,730.16 |
| 3 | Security room (two blocks) | Brick-concrete | 2005-7-1 | 11,338.49 | 9,658.12 |
| 4 | Coal unloading room for locomotive | Steel | 2005-7-1 | 5,861,359.68 | 5,021,207.25 |
| 5 | Transit station | Steel-concrete | 2005-7-1 | 4,726,302.73 | 4,048,846.41 |
| 6 | Raw coal sampling room | Brick-concrete | 2005-7-1 | 430,298.23 | 368,620.34 |
| 7 | Coal crushing room | Steel-concrete | 2005-7-1 | 1,464,287.75 | 1,254,400.45 |
| 8 | Boiler room | Steel frame | 2005-7-1 | 1,852,316.67 | 1,586,810.46 |
| 9 | Online testing room | Brick-concrete | 2005-7-1 | 24,296.78 | 20,708.39 |
| 10 | Raw water pump station | Brick-concrete | 2005-7-1 | 16,075.62 | 14,261.00 |
| 11 | Magnetisation room | Brick-concrete | 2010-12-1 | 388,000.00 | 370,811.73 |
| 12 | Pulp mill | Steel-concrete | 2010-3-1 | 17,543,318.35 | 16,746,250.63 |
| 13 | Coal conveyor belt room | Steel-concrete | 2010-12-1 | 2,305,686.59 | 2,236,516.03 |
| 14 | Security room (Bei Da Men) | Brick-concrete | 2009-9-1 | 794,372.80 | 748,199.85 |
| Total | | | | 35,461,387.90 | 32,463,933.61 |

(II) **Restrictions on the valuation procedures**

1. Instead of making technical testing to the technical parameters and functions of various pieces of the equipment as at the valuation date, the valuer has made its judgement through on-site inspection based on the premises that the related technical information and operation records provided by the subject matter of the valuation is assumed to be true and effective and without the support of any testing equipment.

2. Instead of conducting any technical testing to the hidden works and the internal structure of the buildings and structures, which are invisible in an observation, the valuer has made its judgement through on-site inspection based on the premises that the related construction information provided by the subject matter of the valuation is assumed to be true and effective and without the support of any testing equipment.

(III) **Significant events after the valuation date**

Having conducted a due diligence, the valuer is not aware of any significant events which have occurred between the valuation date and the valuation report date and may affect the valuation conclusion of the valuation. After the valuation date and during the effective period of the valuation conclusion, if there are changes in relation to the asset quantity and the consideration level, the following principles will apply:

1. The amount of the assets should be correspondingly adjusted based on the original valuation method when there is a change in relation to the asset quantity;

2. The principal should engage a qualified valuation institution to make a valuation again on a timely basis when there is a change in relation to the asset price level which has significant effect on the appraised asset value;

3. The principal should give full consideration to the changes in relation to the asset quantity and the price level after the valuation date when it determines the final asset price and make corresponding adjustments.

(IV) For the defects of the Company which may have an impact on the asset valuation, the valuation institution and the valuers accept no related responsibility for the unknown defects which are not specified when the valuer is engaged and are not still unknown even the valuer has carried out the valuation procedures.

The above special matters need to be brought to the attention of the persons who use the valuation report.

**XII. Limitations on the use of the valuation report**

(I) This valuation report shall only be used for the purpose and function specified in the valuation report. It shall not be used for any other purpose and function. The appraiser who has signed the valuation report and the related asset appraisal company accept no responsibility for the consequences due to inappropriate use;

(II) The valuation report is solely to be used by the users of the valuation report agreed in the asset valuation engagement letter entered into by Beijing Guoyoudazheng Assets Appraisal Company and the principal, and the report users required by the laws and regulations of the PRC;

(III) Any part or all of the contents of the valuation report shall not be extracted, quoted or disclosed to the public media unless agreed by the valuer;

(IV) Since the valuation date, the valuation conclusions is effective for use for a year from the valuation date provided that the market conditions or the asset position do not experience material changes, namely for a period from 30 April 2012, the valuation date, to 29 April 2013;

(V) If the policy changes have a significant effect on the valuation conclusions, the valuation date should be set again for valuation.

**XIII. Valuation report date**

This valuation report is dated 25 May 2012.

**Beijing Guoyoudazheng Assets Appraisal Company**

Authorised representative:

Certified Asset Valuer:

25 May 2012

# Supplement to Asset Appraisal Report
## in respect of proposed transfer of equity interest in Jiangxi Chenming Paper Company Limited held by its shareholders

Guo You Da Zheng Ping Bao Zi (2012) No. 171B

**Beijing Guoyoudazheng Assets Appraisal Company**
**11 September 2012**

# Supplement to Asset Appraisal Report

## in respect of proposed transfer of equity interest in Jiangxi Chenming Paper Company Limited held by its shareholders

Guo You Da Zheng Ping Bao Zi (2012) No. 171B

Dear Jiangxi Chenming Paper Company Limited (hereinafter referred to as "Jiangxi Chenming"),

Based on your opinion and to further facilitate shareholders' understanding of the purpose of the asset appraisal report, Beijing Guoyoudazheng Assets Appraisal Company (hereinafter referred to as "we") has prepared a supplemental explanation according to the relevant laws and regulations and the standards and principles of asset appraisal of the PRC. Details are as follows.

On page 58 of the asset appraisal report, technical terms relating to the existence of valuation of intangible assets such as "due date correction coefficient", "year-period correction factor", "development degree" and "volume rate correction factor" as well as technical expressions such as "applicable benchmark premium". Definitions of these technical terms and expressions are as follows:

Due date correction coefficient: benchmark land value on valuation date changes when time passes, therefore it will be necessary to conduct valuation date adjustment to align the land value with the benchmark land value on the land value valuation date. Generally, valuation date adjustment is made based on the level of changes of land price index.

Development degree: development degree of land refers to the status of the construction and development of the infrastructure of land, which usually includes roads, power supply, water supply, telecommunications, drainage, ventilation, heating and whether the site is cleared, which is commonly known as "Seven connections and one leveling".

Volume rate correction factor: volume rate at the time of benchmark land value valuation is the average volume rate of homogeneous areas. Volume rate of different sites may be different. Also, volume rate has a great impact on the land value, which is difficult to be taken into account in the preparation of the benchmark land value adjustment coefficient table. Therefore, if the impact of volume rate is not taken into account in the factor adjustment coefficient table, further adjustments will be necessary to adjust the average volume rate to the actual volume rate.

Applicable benchmark premium: for the benchmark land value of the region where the site is situated, if the site is situated in the region of tier two lands, then the tier two benchmark land value will be applicable; if the site is situated in the region of tier three lands, then tier three benchmark land value will be applicable.

On pages 50 to 52 of the asset appraisal report, when estimating the construction and installation costs in the course of asset appraisal for housing buildings, technical terms such as "2009 Jiangxi Province Engineering Cost Quota" are used and confirmation and applicability of certain coefficients are involved. Below are our explanations:

The cost quota for construction and installation works is the amount of manpower, raw materials and machinery necessary for the completion of qualified flat units under normal working conditions. These cost quota requirements reflect the specific quantitative relationship between qualified construction works and production wastage. The cost quota of construction works is determined by the agency designated by the State according to the State's current management framework and management system and the different usages and applicability of the cost quota, and is approved and issued according to the relevant procedures. The purpose of adopting the cost quota for construction works is to minimise manpower, raw materials and capital consumption, in order to complete more high quality construction works to achieve economic efficiency.

The upfront fees and other fees stated in the report are applicable to buildings. Apart from urban public utility charges and termite treatment costs, other up-front fees and other expenses are also applicable to structures.

Depreciation rate is applicable to buildings and structures.

The final assessed value in the asset appraisal report is higher that the book value by 19.46% as set out on page 61 of the asset appraisal report. For the higher assessed value, our reasons are as follows:

(I) For the current assets,

1. the assessed appreciation of the accounts receivable amounts to RMB102,348.10 and the appreciation rate is 0.03% because the assessed value is determined by the valuer with the total accounts receivable less the assessed risk loss. The assessed provision for bad debts is zero in accordance with the related requirement of the valuation practice.

2. the assessed depreciation of the prepayments amounts to RMB-256,280.28 and the depreciation rate is -1.10% because some expense items are assessed as zero.

3. the assessed appreciation of other receivables amounts to RMB43,285.73 and the appreciation rate is 0.63% because the assessed value is determined by the valuer with the total other receivables less the assessed risk loss and the assessed risk loss rate is lower than the bad debt provision ratio of the company due to the risk loss ascribed to be zero by the valuer according to the internal employees and the related parties. The assessed provision for bad debts is zero in accordance with the related requirement of the valuation practice.

4. the assessed appreciation of the inventory amounts to RMB5,555,207.70 and the appreciation rate is 1.23% because:

   The assessed appreciation of the raw materials amounts to RMB3,058,070.91 and the appreciation rate is 1.17% because the coals, American waste 10#, domestic waste 37#, domestic waste 10#, Australian waste 10# and diesel, included in the raw materials, are valued based on the market value as at the valuation date and the market value of the above raw materials as at the valuation date is higher than the acquisition costs.

   The assessed appreciation of the finished products amounts to RMB2,463,131.52 and the appreciation rate is 1.29% because the assessed value of the finished products are determined based on the net profit after tax with their selling price (tax exclusive) less the selling expenses, total taxation and appropriate amounts. The unit price of the finished products is higher than their unit cost on the valuation date.

(II) For the non-current assets,

1. the assessed appreciation of the buildings amounts to RMB14,930,431.65 mainly because: the completion time of most building-related fixed assets is close to the valuation date and the assessed value slightly appreciates but within a reasonable range.

2. the assessed depreciation of the equipment amounts to RMB-153,965,872.46 mainly because:

   the material cost and labour cost of the machinery and equipment have continuously increased in recent years but the valuer takes freight and miscellaneous charges, the installation and test cost, other expenses and the capital cost into account and the above expenses are not included in the original book value on one hand and the value-added tax of the machinery and equipment is not charged to the cost after the value-added tax reform, and the price of the imported paper making machinery significantly falls due to the international economic doldrums, the RMB appreciation and the strict regulation on the paper making industry on the other hand. The assessed value of the machinery and equipment slightly decreases due to the composite effect of the above factors. For the depreciation rate, the accounting depreciation period of Jiangxi Chenming is 8-20 years and the valuation uses 8-18 years as the reference period of economic use. The assessed value of the machinery and equipment is lower than their book value due to the depreciation rate used in the valuation being lower than the accounting depreciation rate.

   The accounting depreciation period of some vehicles is 5 years and their book value is lower but the price in the secondary market is higher than the book value so the assessed value is slightly higher than the book value.

   The assessed value of the electronic equipment is lower than the book value due to the rapid replacement in the market and the rapidly falling transaction prices in the secondary market.

Due to the composite effect of the above 3 factors, equipment-related assets depreciate because the machinery and equipment make up a larger proportion;

3. the assessment on the appreciation of the intangible assets of RMB449,959,184.38 was mainly due to an increase in the land value which was a result of the repeated upward adjustment of the benchmark premium on land transfer in recent years by the land management department in PRC. Taxation is not taken into account because no related taxation shall be charged for the equity transfer among shareholders in respect of real estate in accordance with to the related laws and regulations of the PRC.

**Beijing Guoyoudazheng Assets Appraisal Company**
11 September 2012

Proposed amendments to the Articles of Association are set out as follows:

| Before amendment | After amendment |
|---|---|
| **Article 113**<br><br>Any shareholder entitled to attend and vote at the general meeting shall have the right to appoint one (1) or several persons (who may not be shareholders) to act as his proxy to attend and vote at the meeting on his behalf. The proxy so appointed by the shareholder may, pursuant to the instructions of the shareholder, exercise the following rights:<br><br>(1) the right which the shareholder has to speak at the meeting;<br><br>(2) the right to demand a poll alone or jointly with others;<br><br>(3) the right to exercise voting rights on a show of hands or on a poll, provided that where more than one proxy is appointed, the proxies may only exercise such voting rights on a poll. ...... | **Article 113**<br><br>Any shareholder entitled to attend and vote at the general meeting shall have the right to appoint one (1) or several persons (who may not be shareholders) to act as his proxy to attend and vote at the meeting on his behalf. The proxy so appointed by the shareholder may, pursuant to the instructions of the shareholder, exercise the following rights:<br><br>(1) the right which the shareholder has to speak at the meeting;<br><br>(2) the right to demand a poll alone or jointly with others;<br><br>(3) **Unless pursuant to the listing rules of the stock exchange on which the shares of the Company are listed or otherwise required by other securities laws and regulations, the right to exercise voting rights on a show of hands or on a poll, provided that where more than one proxy is appointed, the proxies may only exercise such voting rights on a poll.** ...... |

| | |
|---|---|
| **Article 125**<br><br>At any shareholders' general meeting, a resolution shall be decided on a show of hands unless a poll is demanded by the following persons before or after deciding on a show of hands:<br><br>(1) the chairman of the meeting;<br><br>(2) at least two (2) shareholders entitled to vote or their proxies; or<br><br>(3) one or more shareholders (including proxies) individually or jointly holding more than 10% (inclusive) of the voting shares represented by all shareholders present at the meeting.<br><br>Unless a poll is so demanded, a declaration by the chairman of the meeting that a resolution has, on a show of hands, been carried, and an entry to that effect in the minutes of the meeting shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour or against such resolution at the meeting.<br><br>The demand for a poll may be withdrawn by the person who makes such demand. | **Article 125**<br><br>**Unless pursuant to the listing rules of the stock exchange on which the shares of the Company are listed or otherwise required by other securities laws and regulations, or a poll is demanded by the following persons before or after deciding on a show of hands, a resolution shall be decided on a show of hands at any shareholders' general meeting:**<br><br>(1) the chairman of the meeting;<br><br>(2) at least two (2) shareholders entitled to vote or their proxies; or<br><br>(3) one or more shareholders (including proxies) individually or jointly holding more than 10% (inclusive) of the voting shares represented by all shareholders present at the meeting.<br><br>Unless a poll is so demanded, a declaration by the chairman of the meeting that a resolution has, on a show of hands, been carried, and an entry to that effect in the minutes of the meeting shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour or against such resolution at the meeting.<br><br>The demand for a poll may be withdrawn by the person who makes such demand. |

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|---|---|
| **Article 132**<br><br>The following matters shall be resolved by a special resolution at a shareholders' general meeting:<br><br>(1) increase or reduction of the share capital and issue of shares of any class, stock warrants or other similar securities;<br><br>(2) issuance of corporate bonds;<br><br>(3) the division, merger, dissolution and liquidation of the Company;<br><br>(4) amendments to the Articles of Association;<br><br>(5) purchase or disposal of material assets or any guarantee made within a year, and the amount of which exceeds 30% of the latest audited total assets of the Company;<br><br>(6) option incentives;<br><br>(7) modification and cancellation of shareholders' rights; and<br><br>(8) any other matters considered by the shareholders' general meeting, by way of an ordinary resolution, to have a substantial impact on the Company and to require approval by a special resolution. | **Article 132**<br><br>The following matters shall be resolved by a special resolution at a shareholders' general meeting:<br><br>(1) increase or reduction of the share capital and issue of shares of any class, stock warrants or other similar securities;<br><br>(2) issuance of corporate bonds;<br><br>(3) the division, merger, dissolution and liquidation of the Company;<br><br>(4) amendments to the Articles of Association;<br><br>(5) purchase or disposal of material assets or any guarantee made within a year, and the amount of which exceeds 30% of the latest audited total assets of the Company;<br><br>(6) option incentives;<br><br>(7) modification and cancellation of shareholders' rights;<br><br>(8) **adjustment of the profit distribution policy of the Company;** and<br><br>(9) any other matters considered by the shareholders' general meeting, by way of an ordinary resolution, to have a substantial impact on the Company and to require approval by a special resolution. |
| **Article 151**<br><br>The chairman of the meeting shall determine whether the resolutions of the General Meeting are approved. The chairman's decision is the final decision, and the results of the votes shall be announced in the meeting and recorded in the minutes of the meeting. | **Article 151**<br><br>**The chairman of the meeting shall determine whether the resolutions of the general meeting are approved in accordance with the related requirements of the Articles of Association and the votes. The chairman's decision is the final decision, and the results of the votes shall be announced in the meeting and recorded in the minutes of the meeting.** |

| | |
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| **Article 166**<br><br>**The trade of the Company's shares shall be suspended during the convening of the General Meeting.** The convener shall ensure that a shareholders' general meeting is held continuously until final resolutions have been reached. In the event that the shareholders' general meeting is suspended or the shareholders fail to reach any resolution due to force majeure or other special reasons, necessary measures shall be taken to resume the meeting as soon as possible or the meeting shall be terminated directly and an announcement of such termination shall be made promptly. At the same time, the convener shall report to the local securities supervisory authorities of PRC and the stock exchange. | **Article 166**<br><br>The convener shall ensure that a shareholders' general meeting is held continuously until final resolutions have been reached. In the event that the shareholders' general meeting is suspended or the shareholders fail to reach any resolution due to force majeure or other special reasons, necessary measures shall be taken to resume the meeting as soon as possible or the meeting shall be terminated directly and an announcement of such termination shall be made promptly. At the same time, the convener shall report to the local securities supervisory authorities of PRC and the stock exchange. |
| **Article 310**<br><br>The financial statements of the Company shall, in addition to being prepared in accordance with PRC accounting standards and regulations, be prepared in accordance with either international accounting standards or that of the overseas place where the Company's shares are listed. If there is any material difference between the financial statements prepared respectively in accordance with the two accounting standards, explanations shall be made in the financial statements. When the Company is to distribute its after-tax profits, the lower of the after-tax profits shown in the two financial statements shall be adopted. | **Article 310**<br><br>**The financial statements of the Company shall be prepared in accordance with PRC accounting standards and regulations, and, if necessary, be prepared in accordance with either international accounting standards or that of the stock exchange of the overseas place where the Company's shares are listed.** If there is any material difference between the financial statements prepared respectively in accordance with the two accounting standards, explanations shall be made in the financial statements. When the Company is to distribute its after-tax profits, the lower of the after-tax profits shown in the two financial statements shall be adopted. |
| **Article 311**<br><br>The Company shall publish its annual financial report within 120 days of the end each fiscal year, its interim financial report within sixty (60) days of the end of the six (6) months before each fiscal year, and its quarterly financial report within thirty (30) days of the end of three (3) and nine (9) months before each fiscal year. | **Article 311**<br><br>**The Company shall disclose its annual report within three months of the end of each fiscal year, its interim report within two months of the end of the six (6) months before each fiscal year, and its quarterly report within one month of the end of three (3) and nine (9) months before each fiscal year.** |

| **Article 317** | **Article 317** |
|---|---|
| The company will on principle distribute dividends to shareholders once every year according to their shareholdings. The company can also distribute the interim cash dividend.<br><br>The Company's profit distribution policy shall keep continuity and stability. Profits accumulatively distributed in cash over the past three years shall be no less than 30% of the annual distributable profits over the three years (i.e. the total cash dividends of the past three years ÷ average of the net profits of the three years≧30%).<br><br>Holders of shares that have been paid up before payment calls by the Company are entitled to dividends, except that holders of prepaid shares are not entitled to dividends declared thereafter. | (1) The company will on principle distribute dividends to shareholders once every year according to their shareholdings. The company can also distribute the interim cash dividend.<br><br>**The Company shall pay attention to the reasonable returns to the investors and the sustainable development of the Company when distributing its profit, and the Company's profit distribution policy shall keep continuity and stability.**<br><br>Holders of shares that have been paid up before payment calls by the Company are entitled to dividends, except that holders of prepaid shares are not entitled to dividends declared thereafter.<br><br>**(2) During the decision and discussion of the profit distribution policy, the Board and the shareholders' general meeting of the Company shall consider the views of independent directors and public investors, in particular the medium and minority investors, through various means such as telephone calls and emails, and respond to the concerns of the investors on a timely basis.**<br><br>**(3) The Company may distribute dividend in cash, in shares or in a combination of both cash and shares. The Board of the Company may propose to distribute interim dividend based on the profit of the Company and its capital requirement.** |

| | |
|---|---|
| | (4) **The Company shall actively prom ote profit distribution in cash. The Company shall distribute its profit in cash, providing that its cash flow can fulfill the Company's normal operation and long-term development.** Profits accumulatively distributed in cash over the past three years shall be no less than 30% of the average annual distributable profits over the three years (i.e. the total cash dividends of the past three years ÷ average of the net profits of the three years≧30%).<br><br>**The Company may distribute dividend in shares for its profit distribution based on its accumulated distributable profit, reserves and cash flow providing that sufficient distribution in cash and the reasonable capital size of the Company are ensured. The specific proportion of cash and share shall be determined by the Board based on the operations of the Company and the related requirements of China Securities Regulatory Commission ("CSRC") and submitted to the shareholders' general meeting for consideration and approval.**<br><br>**(5) The Board of the Company shall make a reasonable profit distribution proposal based on, among other things, the requirements of the Articles of Association, and the profit and capital needs of the Company.**<br><br>**1. The Board shall seriously study and discuss the matters such as the timing, conditions and minimum proportion of the distribution in cash by the Company when considering and approving the cash distribution plan and independent directors shall clearly state their views.** |

| | |
|---|---|
| | **2. The profit distribution proposal considered and approved by the Board shall be submitted to the shareholders' general meeting for consideration and approval. When the cash distribution plan is considered and approved at the shareholders' general meeting, to facilitate the medium and minority shareholders attending the shareholders' general meeting they may be offered the facilities such as online voting. For any year of which profit is achieved and the Board of the Company does not make a profit distribution proposal in cash, the annual report for that year shall disclose the reason and the independent directors shall express their views in this regard. The supervisory committee shall supervise the distribution policy and decision process of the Company implemented by the Board and the management.**<br><br>**(6) The Company may be required to adjust its profit distribution policy in view of its production and operations, investment planning and long-term development, and the external operating environment providing that the adjusted profit distribution policy shall not breach the related requirements of CSRC and the stock exchange; the resolution to adjust the profit distribution policy by the Board and the supervisory committee shall be passed by simple majority votes of all directors, independent all directors, independent directors and all supervisors respectively and independent directors shall express their views about the adjusted profit distribution policy.**<br><br>**The proposal to adjust the profit distribution policy shall be passed at the shareholders' general meeting by more than two-thirds of the shareholders present with voting rights.** |

Proposed amendments to the Procedural Rules are set out as follows:

| Before amendment | After amendment |
|---|---|
| **Article 36**<br><br>**The trade of the Company's shares shall be suspended during the convening of the General Meeting.** The convener shall ensure that a shareholders' general meeting is held continuously until final resolutions have been reached. In the event that the shareholders' general meeting is suspended or the shareholders fail to reach any resolution due to force majeure or other special reasons, necessary measures shall be taken to resume the meeting as soon as possible or the meeting shall be terminated directly and an announcement of such termination shall be made promptly. At the same time, the convener shall report to the local securities supervisory authorities of PRC and the stock exchange. | **Article 36**<br><br>The convener shall ensure that a shareholders' general meeting is held continuously until final resolutions have been reached. In the event that the shareholders' general meeting is suspended or the shareholders fail to reach any resolution due to force majeure or other special reasons, necessary measures shall be taken to resume the meeting as soon as possible or the meeting shall be terminated directly and an announcement of such termination shall be made promptly. At the same time, the convener shall report to the local securities supervisory authorities of PRC and the stock exchange. |

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| **Article 48**<br><br>The following matters shall be resolved by a special resolution at a shareholders' general meeting:<br><br>(1) increase or reduction of the share capital and issue of shares of any class, stock warrants or other similar securities;<br><br>(2) issuance of corporate bonds;<br><br>(3) the division, merger, dissolution and liquidation of the Company;<br><br>(4) amendments to the Articles of Association;<br><br>(5) purchase or disposal of material assets or any guarantee made within a year, and the amount of which exceeds 30% of the latest audited total assets of the Company;<br><br>(6) option incentives;<br><br>(7) modification and cancellation of shareholders' rights; and<br><br>(8) any other matters considered by the shareholders' general meeting, by way of an ordinary resolution, to have a substantial impact on the Company and to require approval by a special resolution. | **Article 48**<br><br>The following matters shall be resolved by a special resolution at a shareholders' general meeting:<br><br>(1) increase or reduction of the share capital and issue of shares of any class, stock warrants or other similar securities;<br><br>(2) issuance of corporate bonds;<br><br>(3) the division, merger, dissolution and liquidation of the Company;<br><br>(4) amendments to the Articles of Association;<br><br>(5) purchase or disposal of material assets or any guarantee made within a year, and the amount of which exceeds 30% of the latest audited total assets of the Company;<br><br>(6) option incentives;<br><br>(7) modification and cancellation of shareholders' rights;<br><br>(8) **adjustment of the profit distribution policy of the Company;** and<br><br>(9) any other matters considered by the shareholders' general meeting, by way of an ordinary resolution, to have a substantial impact on the Company and to require approval by a special resolution. |

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| **Article 57**<br><br>At any shareholders' general meeting, a resolution shall be decided on a show of hands unless a poll is demanded by the following persons before or after deciding on a show of hands:<br><br>(1) the chairman of the meeting;<br><br>(2) at least two (2) shareholders entitled to vote or their proxies; or<br><br>(3) one or more shareholders (including proxies) individually or jointly holding more than 10% (inclusive) of the voting shares represented by all shareholders present at the meeting.<br><br>Unless a poll is so demanded, a declaration by the chairman of the meeting that a resolution has, on a show of hands, been carried, and an entry to that effect in the minutes of the meeting shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour or against such resolution at the meeting.<br><br>The demand for a poll may be withdrawn by the person who makes such demand. | **Article 57**<br><br>**Unless pursuant to the listing rules of the stock exchange on which the shares of the Company are listed or otherwise required by other securities laws and regulations, or a poll is demanded by the following persons before or after deciding on a show of hands, a resolution shall be decided on a show of hands at any shareholders' general meeting:**<br><br>(1) the chairman of the meeting;<br><br>(2) at least two (2) shareholders entitled to vote or their proxies; or<br><br>(3) one or more shareholders (including proxies) individually or jointly holding more than 10% (inclusive) of the voting shares represented by all shareholders present at the meeting.<br><br>Unless a poll is so demanded, a declaration by the chairman of the meeting that a resolution has, on a show of hands, been carried, and an entry to that effect in the minutes of the meeting shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour or against such resolution at the meeting.<br><br>The demand for a poll may be withdrawn by the person who makes such demand. |

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| **Article 63**<br><br>A voting ticket that is incomplete, wrongly completed, illegible, or not yet cast, will be deemed waiver of voting rights. The votes represented by his shares will be treated as "abstention". The chairman of the meeting shall determine whether the resolutions of the General Meeting are approved. The chairman's decision is the final decision, and the results of the votes shall be announced in the meeting and recorded in the minutes of the meeting. | **Article 63**<br><br>A voting ticket that is incomplete, wrongly completed, illegible, or not yet cast, will be deemed waiver of voting rights. The votes represented by his shares will be treated as "abstention".<br><br>**The chairman of the meeting shall determine whether the resolutions of the general meeting are approved in accordance with the related requirements of the Articles of Association and the votes. The chairman's decision is the final decision, and the results of the votes shall be announced in the meeting and recorded in the minutes of the meeting.** |

# 山東晨鳴紙業集團股份有限公司
# SHANDONG CHENMING PAPER HOLDINGS LIMITED*

*(a joint stock company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 1812)**

## NOTICE OF 2012 SECOND EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN THAT** the 2012 second extraordinary general meeting (the "**EGM**") of Shandong Chenming Paper Holdings Limited (the "**Company**") will be held at 1:30 p.m. on 5 November 2012, at the conference room of the research and development centre of the Company, eastern side of Mihe Bridge, South Ring Road, Shouguang City, Shandong Province, the People's Republic of China (the "**PRC**") for the purpose of passing the following resolutions:

### ORDINARY RESOLUTION

1. "**THAT**

(a) the Third Equity Interest Transfer Agreement dated 8 August 2012 (the "**Third Equity Interest Transfer Agreement**") entered into between Sappi Limited as the vendor and Chenming (HK) Limited, a wholly owned subsidiary of the Company as purchaser in relation to the sale and purchase of 34% equity interest of Jianghi Chenming Paper Holding Limited and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

(b) any one of the directors of the Company be and is hereby authorized to do all such acts and things, to sign and execute all such documents or agreements or deeds or on behalf of the Company as he may consider necessary, appropriate, desirable or expedient for the purposes of giving effect to or in connection with the Third Equity Interest Transfer Agreement and the transactions contemplated thereunder."

### SPECIAL RESOLUTIONS

2. "**THAT** the amendments to the articles of association of the Company (details of which are set out in Appendix III to the circular of the Company dated 19 September 2012) be approved and confirmed, and that the Board be authorised to take all such actions and execute all such documents or instruments for and on behalf of the Company as the Board may, in its absolute discretion, consider necessary or expedient in order to effect, and to deal with other related issues arising from or relating to the amendments to the articles of association of the Company accordingly."

* *For identification purposes only*

3. "**THAT** the amendments to the procedural rules of the general meeting of the Company (details of which are out in Appendix IV to the circular of the Company dated 19 September 2012) be approved and confirmed, and that the Board be authorised to take all such actions and execute all such documents or instruments for and on behalf of the Company as the Board may, in its absolute discretion, consider necessary or expedient in order to effect, and to deal with other related issues arising from or relating to the amendments to procedural rules of the general meeting of the Company accordingly."

By order of the Board
**Shandong Chenming Paper Holdings Limited**
**Chen Hongguo**
*Chairman*

Shandong, the PRC
19 September 2012

*Notes:*

1. The register of members of the Company will be temporarily closed from 6 October 2012 to 5 November 2012 (both days inclusive) during which no transfer of H shares of the Company will be registered in order to determine the list of holders of H shares of the Company for attending the EGM. The last lodgment for the transfer of the H shares of the Company should be made on 5 October 2012 at Computershare Hong Kong Investor Services Limited by or before 4:30 p.m. The holders of H shares of the Company or their proxies being registered at the close of business on 5 October 2012 are entitled to attend the EGM by presenting their identity documents. The address of Computershare Hong Kong Investor Services Limited, the H share registrar of the Company, is Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. The holders of A shares and B shares of the Company being registered on 29 October 2012 at Shenzhen Branch of China Securities Depository and Clearing Corporation Limited after the closing of Shenzhen Stock Exchange are entitled to attend the EGM by presenting their identity documents.

2. Each shareholder having the rights to attend and vote at the EGM is entitled to appoint one or more proxies (whether a shareholder or not) to attend and vote on his behalf. Should more than one proxy be appointed by one shareholder, such proxy shall only exercise his voting rights on a poll.

3. Shareholders can appoint a proxy by an instrument in writing (i.e. by using the proxy form enclosed). The proxy form shall be signed by the person appointing the proxy or an attorney authorised by such person in writing. If the proxy form is signed by an attorney, the power of attorney or other documents of authorization shall be notarially certified. To be valid, the proxy form and the notarially certified power of attorney or other documents of authorisation must be delivered to (i) in case of H shares of the Company, the Company's H share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong; and (ii) in case of A shares and B shares of the Company, the capital operation department of the Company at No. 2199 Nongsheng Road, Shouguang City, Shandong Province, the PRC, as soon as possible and in any event not later than 24 hours before the time scheduled for the holding of the EGM or any adjournment thereof.

4. Shareholders who intend to attend the EGM are requested to deliver the duly completed and signed reply slip for attendance to the capital operation department of the Company at No. 2199 Nongsheng Road, Shouguang City, Shandong Province, the PRC in person, by post or by facsimile on or before 15 October 2012 for shareholders of H shares of the Company and on or before 4 November 2012 for shareholders of A shares and B shares of the Company.

5. Shareholders or their proxies shall present proofs of their identities upon attending the EGM. Should a proxy be appointed, the proxy shall also present the proxy form.

6. The EGM is expected to last for half day. The shareholders and proxies attending the EGM shall be responsible for their own travelling and accommodation expenses.

7. As required under the Rules governing the Listing of the Securities on The Stock Exchange of Hong Kong Limited, the above resolutions will be decided by way of poll.

8. The Company's registered address:
   No. 595 Shengcheng Road, Shouguang City, Shandong Province, the PRC
   Postal code: 262700
   Telephone: (86)-536-2158011
   Facsimile: (86)-536-2158640

*As at the date of this notice, the executive directors are Mr. Chen Hongguo, Mr. Yin Tongyuan, Mr. Li Feng, Mr. Geng Guanglin, Mr. Tan Daocheng, Mr. Hou Huancai and Mr. Zhou Shaohua, the non-executive directors are Mr. Cui Youping, Ms. Wang Fengrong and Mr. Wang Xiaoqun and the independent non-executive directors are Mr. Wang Aiguo, Mr. Zhang Zhiyuan, Mr. Wang Xiangfei, Ms. Wang Yumei and Ms. Zhang Hong.*