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)

OVERSEAS REGULATORY ANNOUNCEMENT

This announcement is made pursuant to Rule 13.10B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Shandong Chenming Paper Holdings Limited (the "Company") published the "Shandong Chenming Paper Holdings Limited: "Reply to Inquiry from the Shenzhen Stock Exchange" dated 16 April 2020 on the website of Shenzhen Stock Exchange. The following is a translation of the official announcement solely for the purpose of providing information.

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

Shandong, PRC
16 April 2020

As at the date of this announcement, the executive Directors are Mr. Chen Hongguo, Mr. Hu Changqing and Mr. Li Xingchun; the non-executive Directors are Mr. Han Tingde and Mr. Li Chuanxuan; and the independent non-executive Directors are Ms. Yin Meiqun, Mr. Sun Jianfei and Mr. Yang Biao.

* *For identification purposes only*

Shandong Chenming Paper Holdings Limited
Reply to Inquiry from the Shenzhen Stock Exchange

Shandong Chenming Paper Holdings Limited ("the Company") received an inquiry letter from the Companies Management Department of the Shenzhen Stock Exchange on 8 April 2020 concerning the annual report of Shandong Chenming Paper Holdings Limited (Companies Department annual report inquiry letter [2020] No. 24) (the "Inquiry Letter"). Our replies to questions involved in the inquiry letter upon careful verification are summarized as follows:

I. As of the end of the reporting period, the Company's gearing ratio reduced from 75.43% as at the beginning of the period to 73.11%. The balance of current liabilities of the Company amounted to RMB52,698,768,900, higher than the balance of current assets as at the end of the reporting period of the Company of RMB7,746,335,000. Besides, the balance of preference shares and perpetual bonds of the Company amounted to RMB4,477,500,000 and RMB2,988,000,000, respectively, as of the end of the reporting period, and dividend and interest of RMB493,494,800 and RMB194,000,000 were paid during the reporting period.

(I) Please explain on whether the Company's failure to accrue interest payable on preference shares and perpetual bonds meets the relevant accounting standards based on the nature, interest agreement, interest payment arrangement, etc. of preference shares and perpetual bonds, and extrapolate to explain the changes in the Company's gearing ratio in the latest three years, taking into account the interest payable on preference shares and perpetual bonds;

Reply:

1. The Company issued two tranches of perpetual bonds in July and September 2017 in an aggregate amount of RMB3 billion bearing interest rate of 6.80% and 6.30%, respectively, and deducting issuance expenses, the Company actually received RMB2,988,000,000.

There is no definite term for the perpetual bonds, which will persist for a long time until the Company exercises the right of redemption; the interest rate of the perpetual bond is determined based onthe base interest rate + initial spread + 300BP. The perpetual bonds are characterized by ceiling interest rate, which has not exceeded the average interest rate of the same type of instruments in the industry in the same period; and they have the right to defer interest payment; the option to redeem perpetual bonds belongs to the Company. Whether to redeem in the future is a matter within the Company's control. Based on the above, the perpetual bonds do not contain any term giving rise to any contractual obligation to deliver cash or other financial assets to any other entity, or to exchange any financial asset or financial liability with any other entity under potential adverse circumstances, which complies with the recognition of equity instruments in "Accounting Standards for Business Enterprises No. 37-Presentation of Financial Instruments". Consequently, they were included under other equity instruments –perpetual bonds by the Company.

Pursuant to the relevant provisions of Chapter VII of the "'Accounting Standards for Business Enterprises No. 37-Presentation of Financial Instruments' Application Guide (2018 Edition)", where the financial instruments or their components are classified as equity instrument, its issue (including refinancing), repurchase, sale or cancellation is treated as a change in equity. The issuer recognizes the distribution to holders of the equity instruments as distribution of profits. According to provisions aforesaid, as perpetual bonds are accounted for as equity instruments, the interest expense is paid out of after-tax profits with reference to ordinary share dividends. The actual payment is disbursed from undistributed profits. These accounting treatments comply with the provisions of relevant Accounting Standards for Business Enterprises.

2. In March, August and September 2016, the Company non-publicly issued preference shares of RMB4.5 billion, and deducting the issuance fee, the Company actually received RMB4,477.5 million.

The preference shares carry fixed dividend rate with single step-up in dividend rate arrangement. The preference shares are non-cumulative, participating and non-convertible preference shares without any clause on the right to sell back. The profit distribution for the holders of the preference shares will be conducted in two ways: (i) shareholders will receive fixed dividend at a fixed dividend rate; (ii) profit will be distributed based on the remaining profit for distribution for the then year.

According to the prospectus, the Company shall distribute fixed dividends to holders of the preference shares at fixed dividend rate if there are distributable profits after making good losses and the contribution to reserve fund according to law. The Board is authorised by the general meeting to declare and pay all dividends on the preference shares in accordance with the issuance plan under the framework and principles considered and approved in the general meeting in respect of the preference shares.

Holders of preference shares participate in the distribution of the retained earnings through receipt of cash which is non-cumulative and non-deferrable. In the event of making good losses and the contribution to reserve fund according to law, after receiving fixed dividends at fixed dividend rate as agreed, holders of preference shares can also participate in the distribution of the retained earnings for the year in proportion. Based on the above, the preference shares do not contain any term giving rise to any contractual obligation to deliver cash or other financial assets to any other entity, or to exchange any financial asset or financial liability with any other entity under potential adverse circumstances, which complies with the recognition of equity instruments in "Accounting Standards for Business Enterprises No. 37-Presentation of Financial Instruments". Consequently, they were included under other equity instruments – preference shares by the Company.

Pursuant to the relevant provisions of Chapter VII of the "'Accounting Standards for Business Enterprises No. 37-Presentation of Financial Instruments' Application Guide (2018 Edition) ", where the financial instruments or their components are classified as equity instrument, its issue (including refinancing), repurchase, sale or cancellation is treated as a change in equity. The issuer recognizes the distribution to holders of the equity instruments as distribution of profits. According to provisions aforesaid, as preference shares are accounted for as equity instruments, the fixed dividends are paid out of after-tax profits, and are paid out of undistributed profits when actually paid. Holders of preference shares can also participate in the distribution of the retained earnings for the year in proportion. The floating dividend of preference shares shall be provided from the distributable profit realized in the year after the dividend resolution is passed at the general meeting. These accounting treatments comply with the provisions of relevant Accounting Standards for Business Enterprises.

3. Estimated impact of preference shares and perpetual bonds on gearing ratio when accrued interest

Unit: RMB’0,000

Item	2019	2018	2017
Total assets	9,795,890.99	10,531,873.48	10,562,509.61
Total liabilities	7,161,913.71	7,944,704.36	7,535,091.75
Gearing ratio	73.11%	75.43%	71.34%
Accrued unpaid dividend on perpetual bonds as at the reporting date (Note 1)	6,449.32	6,449.32	12,599.99
Unpaid fixed dividend on preference shares as at the reporting date (Note 2)	11,464.27	11,464.27	11,464.27
Total assets (after consideration)	9,795,890.99	10,531,873.48	10,562,509.61
Total liabilities (after consideration)	7,179,827.29	7,962,617.95	7,559,156.02
Gearing ratio (after consideration)	73.29%	75.60%	71.57%

Note 1: The perpetual bonds 15 Lu Chenming MTN001 in issue amounted to RMB1.3 billion with interest rate of 6%; 15 Lu Chenming MTN002 in issue amounted to RMB1.3 billion with interest rate of 5.78%. The two tranches of perpetual bonds aforesaid were repaid in July and September 2018, respectively.

The perpetual bonds 17 Lu Chenming MTN001 in issue amounted to RMB1.0 billion with interest rate of 6.8%; and 17 Lu Chenming MTN002 in issue amounted to RMB2.0 billion with interest rate of 6.3%.

Note 2: Chenming You 01 in issue amounted to RMB2.25 billion with a fixed dividend ratio of 4.36%; Chenming You 02 in issue amounted to RMB1.0 billion with a fixed dividend ratio of 5.17%; and Chenming You 03 in issue amounted to RMB1.25 billion with a fixed dividend ratio of 5.17%.

Taking into account interest payable on preference shares and perpetual bonds, the gearing ratio for years of 2017 to 2019 is estimated to be 71.57%, 75.60% and 73.29%, respectively.

(II) Assess and explain the estimated impact of repurchasing preference shares in the future on the Company’s cash flow based on the repurchase terms at the time of issuance of preference shares, as well as the Company’s monetary funds, realizable assets, bank credit lines and liabilities due within the next three years; whether the Company has the corresponding debt service risk, disclose in detail the liquidity risk that the Company may face and the preventive measures it intends to take;

Reply:

1. Pursuant to the prospectus in relation to the issuance of preference shares, the option to redeem the preference shares is vested in the Company, i.e. the Company has the redemption right. There is no clause entitling the investor to sell back under the issue of preference shares. Thus, preference shareholders are not entitled to sell their preference shares to the Company. The redemption period of the preference shares starts from the fifth anniversary of the first dividend accruing date (in the event of issuing by tranches, on the first dividend accruing date of each tranche respectively) up to the date on which all the preference

shares have been redeemed in full. From the fifth anniversary of the first dividend accruing date (in the event of issuing by tranches, on the first dividend accruing date of each tranche respectively), the Company is entitled to redeem and cancel all or part of the preference shares on every dividend distribution date. The specific arrangement for the redemption right shall be determined by the Board in accordance with the authorisation of the general meeting.

2. If the Company chooses to redeem in 2021, the Company shall pay RMB4.5 billion. Considering the debt of RMB51 billion to be repaid within 1 to 2 years, the Company shall repay RMB55.5 billion in total.

Liquidity risk refers to the risk of capital shortage when the Company fulfills its obligation to pay cash or other financial assets for settlement. In managing the liquidity risks, the Company's management maintains cash and cash equivalents it deems adequate and monitors them to meet operational needs and reduce the effect of floating cash flow. The management monitors the usage of bank loan so that the Group does not breach borrowing limits or covenants while maintaining sufficient headroom on its undrawn committed borrowing facilities from major financial institute to meet the short-term and long-term liquidity requirements.

3. The measures taken are as follows:

①As of the end of December 2019, the Company's monetary fund amounted to RMB19.3 billion;

②realizable assets amounted to RMB21.9 billion (current assets excluding monetary funds, restricted bill receivables, consumable biological assets, raw materials and work in progress);

③During the reporting period, the banks facilities the Company obtained amounted to RMB82.7 billion, of which RMB48.6 billion was utilized and RMB34.1 billion was unutilized;

④The net cash flow from operating activities of the Company in recent two year exceeded RMB10 billion, while cash flow from operating activities in 2019 and 2018 were RMB12.2 billion and RMB14.1 billion, respectively.

Based on the above, the cash flow of the Company in future may fully cover its debt in due and there is no debt service risk and liquidity risk.

(III) Explain the specific measures the Company intends to take to further reduce its gearing ratio based on the Company's existing business including finance leases and future business development plans, and the Company's gearing ratio for the next two years;

Reply:

1. In 2019, the net income from financial leasing business of the Company was RMB5.9 billion, and the scale of the financial leasing business was reduced to RMB13.6 billion. In 2020, the Company continued to adhere to the operating plan of reducing finance leases by further reducing the scale of the financial leasing business to strictly control risks.

2. Measures to further reduce gearing ratio of the Company:

①The current production and operation of the Company are stable, and the profit generated and depreciation is used to pay off interest-bearing liabilities. Besides, the new projects under operation have all achieved production and efficiency in the past few years, which has further increased stable operating cash flow, and the Company has no significant capital expenditure plan in next 2 years;

②further reduce the scale of financial leasing business, and lease repayments are used to repay debts;

③strip off non-principal business assets, focus on principal business development, sell inefficient and invalid assets, and withdraw funds;

④with the help of favorable policy, introduce strategic investors by way of debt-to-equity swaps and industrial investment funds to enhance capital strength.

Through the above measures, it is planned to reduce the gearing ratio to within 65% in the next two years.

II. During the reporting period, the Company made provision for credit impairment loss of RMB1,033,867,900, which include bad debt loss of accounts receivable of RMB173,401,800, bad debt loss of other receivables of RMB280,868,200 and bad debt loss of financial lease payments of RMB523,805,400. Please:

(I) Explain on the name of the major customers or enterprises that have been accrued bad debt loss for accounts receivable and other receivables, the ageing, the reasons for the provision, the Company's collection measures, the specific performance of deterioration in credit of the counterparty, and the reasons for the expected irrecoverability, if such companies have connected relationship with the Company, shareholders holding more than 5% of shares of the Company, directors, supervisors, and senior management of the Company;

Reply:

1. Major accounts receivable with bad debt loss accrued

Unit: RMB'0,000

Name of company	Book balance	Bad debt accrued during the reporting period	Ageing	Reason for the provision	Collection measures	Credit	Relation ship
Customer A	43,036.88	8,411.88	1-2 years	This is a factoring business, and customers apply for renewal based on their operating conditions, while the Company accrues bad debts based on the principle of prudence in combination with business risks.	The accounts receivable is ensured to be recovered by way of tracking customer condition by a specially-designated personnel, prompt on-site collection before expiration, focusing on the condition of the guarantor and collateral in a timely manner.	Short-term liquidity is tight, but business operations are normal.	No

Customer B	4,550.00	2,275.00	4-5 years	Due to poor management, financial indicators deteriorated and the repayment ability of the Company declined.	We have applied to the Intermediate People's Court of Jinan City for compulsory enforcement against the customer, and the court has entered the enforcement procedure.	Financial indicators deteriorated due to poor managemen t of the enterprise.	No
Customer C	2,760.00	2,760.00	Withi n 1 year	Bills receivable were transferred in, and Baota Petrochemical Finance Company defaulted.	Customers who make payments are required to provide corresponding deposits, and specially-designated personnel was arranged to keep an eye on the progress of the working group of Baota Petrochemical.	Default	No

2. Major other receivables with bad debt losses accrued

Unit: RMB'0,000

Name of company	**Book balance**	**Bad debt accrued during the reporting period**	**Ageing**	**Reason for the provision**	**Collection measures**	**Credit**	**Relationship**
Customer A	80,504.07	9,276.94	1-2 years	The provision for bad debts is made based on principle of prudence in combination with payment deadline of debt transfer.	Normal payment according to contract	Normal	No
Customer B	96,000.00	7,276.80	Within 1 year	The overdue credit loss rate is calculated according to the migration rate, and bad debts are provided based on the equity and debt transfer contracts.	Normal collection according to contract	Normal	No
Customer C	51,105.48	5,110.55	Within 1 year	Compensation for its subsidiaries, and the provision for bad debts is made based on principle of prudence in combination with payment deadline of debt transfer.	Normal payment according to contract	Normal	No

(II) Explain the reasons and basis for provision for bad debt loss on financial lease payments of the Company, reason for major amounts for which provisions are made, latest updates of collection and whether relevant provision for bad debts is cautious and sufficient based on the historical bad debt rate of the financial lease payments, the average payback period, information on overdue and the proportion of provision for bad debt loss made by other companies, etc.

Reply: The actual bad debt rate of the financial leasing business of the Company since its launch to present is 0.44% with an average payback period of 2.25 years.

Provision for bad debts in the industry

Unit: RMB'0,000

Name of company	Year	Balance of financial leasing receivables	Balance of impairment provision	Proportion of bad debts
Ping An	2019	18,757,500.00	361,800.00	1.93%
Ping An	2018	16,778,300.00	256,900.00	1.53%
Ping An	2017	11,371,000.00	168,200.00	1.48%
AVIC Capital	2018	11,574,559.64	206,033.44	1.78%
AVIC Capital	2017	7,652,041.72	172,782.34	2.26%
China Development Bank Leasing	2019 Interim Report	13,564,014.60	521,418.60	3.84%
China Development Bank Leasing	2018	12,981,713.10	467,552.60	3.60%
Bohai Finance Holding	2018	13,137,474.00	1,055,469.00	8.03%
Bohai Finance Holding	2017	57,850,758.00	577,711.00	1.00%
Jiangsu Leasing	2019 Interim Report	6,259,916.40	216,853.09	3.46%
Jiangsu Leasing	2018	5,796,596.34	198,606.78	3.43%
Maxwealth Leasing	2018	2,048,365.40	56,330.05	2.75%
Maxwealth Leasing	2017	1,662,756.66	33,605.13	2.02%
Chenming Leasing	2019	1,451,573.09	75,378.77	5.19%
Chenming Leasing	2018	1,955,587.29	22,998.23	1.18%
Average		182,842,156.24	4,391,639.03	2.40%

Information is sourced from annual report published by companies aforesaid.

For customers with no significant increase in credit risk, the Company makes provision for bad debt based on the combination of undue and overdue aging, and estimates the future expected credit loss rate based on the historical actual loss rate.

The proportion of provision for bad debt of the Company:

Information on overdue	Ratio of provision for bad debt
Not overdue	0.62%
Overdue less than 90 days	1.08%
Overdue 90 days to 1 year	3.72%
Overdue 1 to 2 years	4.71%
Overdue 2 to 3 years	9.59%
Overdue 3 years and above	100.00%

For customers who have contract extensions, credit rating declines, bankruptcy reorganization, and lawsuits involved in the current period, which indicates that the customer's credit risk has increased significantly, provisions for bad debts are made separately. The Company predicts the future cash flow of customers and the possibility of repayment under different circumstances, and recognizes credit loss based on the difference between the present value of future cash flow and the book balance at a rate discounted at the original effective interest rate. A total of 12 customers were made provisions in the period, with a closing balance of RMB5,060,451,200 and a balance of bad debt provision of RMB504,861,600, representing a provision ratio of 9.98%.

The reason for major amount for which provision is made relates to the sales and leaseback business conducted between the finance leasing company and customers. In the first quarter of 2020, the finance leasing company received a payment of RMB533,715,100.

Based on the foregoing, the proportion for bad debt of the financial leasing business of the Company was 5.19% in 2019, which is higher than average of the industry. The provision for bad debt is prudent and sufficient.

III. During the reporting period, the ending book balance of inventory of the Company was RMB4,795,699,500, a decrease of 30.39% compared to the beginning of the period, of which the ending book balance of raw materials and goods in stock were RMB1,972,197,200 and RMB886,102,800, a decrease of 39.79% and 47.58%, respectively. Meanwhile, the provision for impairment on raw materials of the Company was RMB21,269,400 and no impairment provision on goods in stock was made. Please:

(I) Specify the reasons and rationality of the significant reduction in goods in stock of the Company in the current period based on industry condition, inventory characteristics, changes in production and sales policy and sales of the Company;

Reply:

1. Inventory turnover of listed companies in the papermaking sector in 2018

Unit: RMB’0,000

Company	Inventory balance in 2017	Inventory balance in 2018	Average inventory balance	Operating cost in 2018	Turnover days
Chenming Paper	396,657.91	506,785.65	451,721.78	1,984,575.68	81.94
Sun Paper	136,406.45	200,953.01	168,679.73	1,666,331.33	36.44
Bohui Paper	162,152.44	172,398.64	167,275.54	700,181.56	86.01
Huatai	115,350.41	157,542.39	136,446.40	1,258,701.24	39.02
Shanying Paper	234,903.66	249,175.82	242,039.74	1,874,928.27	46.47

The information is sourced from annual report published by such companies. The balances of inventory of Chenming Paper and Sun Paper exclude consumable biological assets and development costs.

2. Inventory turnover of Chenming Paper in 2019

Unit: RMB’0,000

Company	Inventory balance in 2018	Inventory balance in 2019	Average inventory balance	Operating cost in 2019	Turnover days
Chenming Paper	506,785.65	293,968.28	400,376.96	2,177,388.43	66.20

Note: Sun Paper, Bohui Paper, Huatai and Shanying Paper have not published the 2019 annual report.

Affected by the industry, sales decreased in the fourth quarter of 2018, resulting in a large inventory balance at the end of 2018. Beginning in the second quarter of 2019, as the market in the paper industry has improved significantly, the Company produced 5.01 million tons and sold 5.25 million tons of machine-made paper throughout the year to increase operating cash flow and further increase sales. Upfront inventory was consumed and capital occupation reduced. In terms of production and marketing policies, the Company basically adheres to the principle of producing based on sales, and adjusts timely in light of market conditions to reduce capital occupancy.

(II) Explain the specific measurement process of the provision for impairment on inventory of the Company, including but not limited to signs of impairment, parameter selection process, basis, method for determining impairment loss, whether there are under-provision in previous years, and explain the reasons and rationality for not making provision for impairment of goods in stock, etc.;

Reply:

1. The Company makes provision for inventory impairment according to the lower of cost and net realizable value. For the raw materials held for production, the net realizable value is determined based on the estimated selling price of the finished products produced minus the estimated costs to be incurred when completed, the estimated sales expenses and related taxes and fees; for goods of stock and raw materials that are held for sale and directly used for sales, the net realizable value is determined according to the estimated selling price of the inventory minus the estimated sales expenses and related taxes and fees; and the net realizable value of inventory and other goods of stock held by the execution of the sales contract are determined according to the contract price.

2. During the reporting period, the two major pulping projects of the Company were put into production, and the raw material structure was optimized and upgraded. The Company conducted an impairment test on related spare parts of the unused deinking pulp production line, and made a provision for inventory impairment of RMB21,269,400. As the de-inking pulp line was in normal operation in the previous year and no signs of impairment were found, there was no under-provisions in the previous year.

3. During the reporting period, the Company produced 5.01 million tons and sold 5.25 million tons of machine-made paper in total. The production volume was lower than the sales volume. Except for the low price of machine-made paper in the first quarter, the price of machine-made paper has gradually recovered since the second quarter, and there has been no downward trend until the balance sheet date. At the end of the reporting period, the major raw materials for finished products and machine-made paper showed no obvious signs of impairment, and the Company conducted an impairment test on machine-made paper and major raw materials according to the market price of machine-made paper at the end of the period. The raw materials related to machine-made paper production have not signs of impairment after testing, therefore no impairment provision is made for goods of stock at the end of the period.

(III) Specify the circumstances where the use of inventory of the Company is restricted

Reply: the use of inventory of the Company is not restricted.

IV. During the reporting period, the Company transferred 60% of the equity and loan of Haiming Mining through listing on Property And Share Rights Exchange, and the transfer price was RMB1,948,670,000, including RMB421,000,000 for equity transfer and RMB1,527,670,000 for loan transfer; and the Company entered into an

agreement with the counterparty Jiangsu Fuda Enterprise Investment Company Limited, pursuant to which, the Company is required to pay the loan of RMB767,670,000 before 31 August 2019, while the Company has received the equity transfer of RMB221,000,000 in August 2019. Please explain the collection of the said loan transfer amount and the remaining equity transfer amount so far, and further explain the specific impact of the equity and loan transfer on the Company's current investment income, net profit and cash flow, as well as the accounting treatment and standard basis for the corresponding subjects. The auditor for annual review is requested to express opinions.

Reply:

1. Collection of loan and equity transfer amount

On 15 August 2019, the Company and Jiangsu Fuda Enterprise Investment Company Limited entered into the Equity and Loan Transfer Agreement in relation to 60% of the equity and loan of Haiming Mining. According to the agreement, RMB221,000,000 for equity and RMB767,670,000 for loan shall be paid before 31 August 2019, and the remaining RMB960,000,000 (RMB200,000,000 for equity and RMB760,000,000 for loan) shall be paid within two years from 31 August 2019. As of the date of issuance of this reply, the Company has received RMB421,000,000 in equity transfer and RMB807,670,000 in loan transfer on the date agreed in the agreement, and the amount received accounts for about 63% of the consideration of this transaction. The remaining loan of RMB720,000,000 shall be paid in three installments before 31 August 2021 in accordance with the agreement.

2. Specific impact on current investment income, net profit and cash flow

(1) According to the application guide of Accounting Standards for Business Enterprises No. 20 – Business Mergers, it is further stipulated: "It is generally believed that the transfer of control is realized when the following conditions are met: ①An enterprise merger contract or agreement has been approved by the general meeting, etc. ②The merger of enterprises should be approved by the relevant competent authorities of the state and has been approved. ③The parties participating in the merger have been carried out the necessary transfer procedures for property rights.④The merging party or the acquirer has paid most of the consolidated price (generally more than 50%) and has the ability and plan to pay the remaining amount. ⑤The merging party or the acquirer has actually controlled the financial and operating policies of the merged party or acquiree and has the corresponding interest and the corresponding risk."

The contract or agreement of this transaction has been approved by the board of directors of the Company; the Company received RMB221,000,000 in equity transfer in the same year, and the purchaser has the ability to pay the remaining amount according to the agreement; both parties to the transaction have carried out the necessary transfer procedures for property rights; the purchaser has actually controlled the financial and operating policies of the Haiming Mining and has the corresponding interest and the corresponding risk. As a result, the Company lost control of Haiming Mining in 2019. The equity transfer amount was RMB421,000,000, and the share of the net assets of Haiming Mining on the disposal date was RMB257,690,000 on going concern basis, the recognized investment income was RMB163,300,000. Because there is no taxable income after the Company's settlement and tax adjustment in 2019, the impact of the transaction on net profit was RMB163,300,000. The equity transfer amount received in the current period was RMB221,000,000, the cash and cash equivalents held by the Company on the date of loss of control were RMB22,900,000, and the affected net cash received by subsidiaries and other business units in the cash flow statement was RMB198,100,000.

(2) The loan transfer amount shall be at a par price and shall not affect the profits and losses of the Company in the current transaction. According to the Accounting Standards for Business Enterprises No. 31 – Statement of Cash Flows, Article 12 "Investment activities refer to the purchase and construction of long-term assets of enterprises and investments and their disposal activities not included in the scope of cash equivalents", and Article 14 "Financing activities refer to the activities that lead to changes in the enterprise's capital and loan scale and composition". The loan of RMB767,670,000 recovered by the Company in the current period was shown in the Company's single cash flow statement when receiving other cash related to financing activities, and are reclassified in the consolidated cash flow statement to other received cash related to investment activities.

V. On 22 January 2019, according to the Announcement on External Investment disclosed by the Company, the Company intended to inject RMB1,000,000,000 to Huanggang Chenming Pulp & Paper Co., Ltd. (the "Huanggang Chenming") with its own funds. Upon completion of the capital increase, the registered capital of Huanggang Chenming will be increased from RMB1,350,000,000 to RMB2,350,000,000, and the Company will hold 95.74% equity of Huanggang Chenming while the China Development Fund Co., Ltd. ("CD Fund") will hold 4.26% equity. However, according to the annual report disclosed by the Company, the Company held 100% equity in Huanggang Chenming through capital increase during the reporting period. Please explain the specific reasons for the differences in the above disclosure of shareholding ratio, in combination with updates of the Company's actual capital increase to Huanggang Chenming during the reporting period and other agreements between the Company and the CD Fund, and explain the reasonableness of accounting basis and accounting treatment of Huanggang Chenming's investment income in the 2019 annual report. The auditor for annual review is requested to express opinions.

Reply:

1. Specific reasons for the difference in the disclosure of shareholding ratio

In 2015, the Company, the CD Fund and Huanggang Chenming entered into an investment agreement. The CD Fund invested RMB150,000,000 in Huanggang Chenming, and agreed that the CD Fund has the right to require the Company to repurchase its equity at the agreed price within the investment period and after the investment expires. Therefore, Huanggang Chenming has no obligation to deliver financial assets in the future or to pay cash and financial assets under potential adverse conditions. Huanggang Chenming should count the investment received as paid-in capital. The Company has the obligation to deliver financial assets in the future or to pay cash or financial assets under potential adverse conditions, so the Company should reclassify the investments received to financial liabilities at the merger level.

2. Capital increase updates and agreement

During the reporting period, the Company increased the capital of Huanggang Chenming by RMB1,000,000,000. There is no supplementary agreement other than the investment agreement.

3. Accounting basis and accounting treatment of investment income

The Company accounted for Huanggang Chenming by cost method. In the consolidated statement, the profit of Huanggang Chenming is included in the Company's consolidated profit as a whole, and the fixed income of the CD Fund is accounted for in the long-term payable accounting.

VI. Please make a supplementary disclosure of the following information:

(I) Please supplement the names of major customers and major suppliers, the major transactions, whether there is a related relationship, whether there is a long-term cooperation agreement between the major customers and major suppliers, and the Company, and explain the balance and ageing of accounts receivable and the recovery of accounts receivable of the major customers so far;

Reply:

Table 1: Table of major customers

Unit: RMB'0,000

Name of customer	Sales	Major transaction	Whether it is a related party or not	Current balance	Aging	Recovery from January to March 2020	Nature
Customer A	100,452.86	Machine-made paper	Non-related party	5,231.75	Within 1 year	33,070.16	Long-term cooperation
Customer B	73,722.14	Machine-made paper	Non-related party	8,586.51	Within 1 year	26,116.40	Long-term cooperation
Customer C	53,483.74	Machine-made paper	Non-related party	21,793.09	Within 1 year	22,532.23	Long-term cooperation
Customer D	48,496.27	Machine-made paper	Non-related party	5,321.64	Within 1 year	16,707.38	Long-term cooperation
Customer E	43,202.56	Machine-made paper	Non-related party	6,577.07	Within 1 year	4,354.36	Long-term cooperation

Table 2: Table of major suppliers

Unit: RMB'0,000

Name of supplier	Purchases	Major transaction	Whether it is a related party or not	Nature
Customer A	126,430.16	Raw coal	Non-related party	Long-term cooperation
Customer B	94,805.03	Wood pulp	Non-related party	Long-term cooperation
Customer C	67,865.91	Wood chip	Non-related party	Long-term cooperation
Customer D	57,753.18	Wood chip	Non-related party	Long-term cooperation
Customer E	53,772.34	Wood pulp	Non-related party	Long-term cooperation

(II) Please disclose in detail the top five accounts receivable based on closing balance of debtors in table form, including the name of unit, closing balance, proportion of the closing balance to accounts receivable, closing balance of corresponding bad debt provision, and explain the time, reason and background of relevant transactions, the related relationship between the Company and the debtors as well as the performance ability and recovery risk of the debtors;

Reply:

Table of top five accounts receivable

Unit: RMB'0,000

Name of customer	Closing balance	Proportion of closing balance	Closing balance of bad debt	Transaction time	Reason and background	Related relationship	Performance ability	Recovery risk
Customer A	43,036.88	13.98%	8,607.38	July 2019	Factoring business	Non-related party	Normal	Controllable
Customer B	21,793.09	7.08%	256.53	Continuous	Sales of machine-made paper	Non-related party	Normal	Nil
Customer C	14,813.90	4.81%	550.41	March 2019	Factoring business	Non-related party	Normal	Nil
Customer D	5,158.86	1.68%	63.45	Continuous	Sales of machine-made paper	Non-related party	Normal	Nil
Customer E	4,602.45	1.50%	56.61	Continuous	Sales of machine-made paper	Non-related party	Normal	Nil
Total	**89,405.18**	**29.05%**	**9,534.38**	-	-	-	-	-

The above-mentioned customers are all long-term cooperative customers of the Company, the operation is normal, and there is no risk of performance.

(III) Please disclose in detail the top five prepayments based on closing balance of prepaid parties in table form, including the name of unit, the closing balance, aging, proportion of the balance of prepayment, and explain the time, reason and background of relevant transactions, the related relationship between the Company and the prepaid parties, whether it constitutes the occupation of non-operating funds, necessity of payment, agreement on liability for breach, estimated recovery time, etc.;

Reply:

Table of top five prepayments

Unit: RMB'0,000

Name of unit	Closing balance	Aging	Proportion of closing balance	Transaction time	Reason and background	Related relationship	Whether it constitutes the occupation of non-operating funds	Necessity of payment	Agreement on liability for breach	Estimated recovery time
Customer A	12,720.99	Within 1 year	21.08%	Continuous	Raw coal	Non-related party	No	Prepayment operation to save procurement cost	Charged 0.5% penalty if not delivered on time.	Within 1 month
Customer B	7,714.86	Within 1 year	12.78%	Continuous	Wood pulp procurement	Non-related party	No	Prepayment operation to save procurement cost	Charged 0.5% penalty if not delivered on time.	Within 1 month
Customer C	2,595.70	Within 1 year	4.30%	Continuous	Wood pulp procurement	Non-related party	No	Prepayment operation to save procurement cost	Charged 0.5% penalty if not delivered on time.	Within 1 month

Customer D	2,560.78	Within 1 year	4.24%	Continuous	Raw coal procurement	Non-related party	No	Prepayment operation to save procurement cost	Charged 0.5% penalty if not delivered on time.	Within 1 month
Customer E	1,629.47	Within 1 year	2.70%	Continuous	Natural gas procurement	Related party	No	Prepayment operation to save procurement cost	Charged 0.6% penalty if not delivered on time.	Within 1 month
Total	**27,221.80**		**45.10%**							

The above are the Company's long-term stable cooperative bulk material suppliers, with whom our transactions are mainly by way of prepayment, and the closing balance of remaining prepayment has been digested in January 2020.

(IV) Please disclose in detail the top five other receivables based on closing balance of debtors in table form, including the name of unit, nature of amount, closing balance, aging, proportion of the aggregated closing balance of other receivables, closing balance of corresponding bad debt provision, and explain the time, reason and background of relevant transactions, the related relationship between the Company and the debtors as well as the performance ability and recovery risk of the debtors;

Reply:

Table of top five other receivables

Unit: RMB'0,000

Name of customer	**Closing balance**	**Proportion of closing balance**	**closing balance of bad debt**	**Aging**	**Nature**	**Transaction time**	**Reason and background**	**Related relationship**	**Performance ability**	**Recovery risk**
Customer A	96,000.00	35.57%	7,276.80	Within 1 year	Equity transfer	August 2019	Transfer of equity and loan of Haiming Mining	Non-related party	Normal	Nil
Customer B	80,504.07	29.83%	18,116.10	1-2 year(s)	Loan transfer	July 2018	Loan transfer in financing lease business	Non-related party	Normal	Nil
Customer C	51,105.48	18.93%	5,110.55	Within 1 year	Loan transfer	August 2019	Debt payment for its subsidiaries	Non-related party	Normal	Nil
Customer D	6,445.65	2.39%	439.38	1-2 year(s)	Shareholder loan	November 2017	Shareholder loan under the investment agreement	Joint venture	Normal	Nil
Customer E	1,000.00	0.37%	75.79	Within 1 year	Current payment	October 2019	Deposit for procurement of raw materials	Related party	Normal	Nil
Total	**235,055.20**	**87.09%**	**31,018.62**							

VII. As of the end of the reporting period, the Company's operating income increased by RMB1,519,677,900 as compared to that in last year, cash inflows from operating activities increased by RMB2,564,433,500 as compared to that in last year, accounts receivable decreased by RMB879,403,700 as compared to that in last year, bills receivable decreased by RMB1,213,116,500 as compared to that in last year, and accounts receivable financing increased by RMB442,915,900. Please:

(I) Explain the name, amount, proportion, related relationship of the top five companies of bills receivable under accounts receivable financing, solvency of the drawer based on the classification of invoice companies, and background, time, maturity and current recovery of bills as well as the future recovery plan;

Reply:

Top five companies of bills receivable

Unit: RMB'0,000

Name of company	Amount	Proportion	Whether it is a related party	Date of draft	Date of maturity	Forming background	Current situation
Customer A	3,000.00	6.77%	Non-related party	2019/12/31	2020/6/29	Sales of paper	External payment
Customer B	2,000.00	4.52%	Non-related party	2019/12/31	2020/6/29	Sales of paper	External payment
Customer C	1,450.00	3.27%	Non-related party	2019/9/26	2020/3/26	Sales of paper	External payment
Customer D	1,240.00	2.80%	Non-related party	2019/9/29	2020/3/29	Sales of paper	External payment
Customer E	800.00	1.81%	Non-related party	2019/12/31	2020/7/1	Sales of paper	External payment

The invoices for the subsisting notes receivable at the end of the reporting period are all issued by the customers of paper sales of the Company, and the Company has endorsed and paid to upstream suppliers in the first quarter.

(II) Specify the reasons for decrease in balance of bills receivable of the Company in combination with such factors as the development of business, the changes in sales model, the changes in revenue recognition policy and credit policy during the reporting period, and explain the rationality of the trend of the changes in bills receivable in combination with the changes in operating income, cash flow and accounts receivable;

Reply:

1. During the reporting period, the Company achieved revenue of RMB30,395 million, with the sales of 5.25 million tonnes of machine-made paper, adhering to the sales model of basing production on market demand, and adjusted it in due course according to market conditions. The revenue recognition policy is that the Company recognizes revenue when customers obtain control of the relevant goods or services. The method for recognizing revenue from machine-made paper sales is that, for domestic sales, the revenue is recognized on the day when the goods are delivered to customers and are duly signed thereby; for foreign sales, the revenue is recognized on the day when the goods are shipped and declared. In terms of credit policy, in order to reduce the risk of customers, the Company gradually cut down the payment days given to customers, by cash on delivery or giving payment days up to 30 days, then gradually shifting to prepayment procedures.

Affected by the change of the Company's credit policy, the Company recorded the return of bills amounting to RMB18 billion in 2019, representing a decrease of RMB1.3 billion as compared to RMB19.3 billion in 2018. At the same time, in order to improve the efficiency of the use of funds and reduce the cost of capital occupation, it increased the intensity of external payment of bills return, which is the main reason for the decrease of bills receivable.

2. The balance of bills receivable of the Company in 2019 and 2018 were RMB442,915,900 and RMB1,213,116,500, respectively, with a decrease of RMB770,200,600 at the end of the period; the operating income in 2019 and 2018 were RMB30,395,434,100 and RMB28,875,756,200, respectively, with an increase of RMB1,519,677,900; the cash received from selling goods and providing labor services in 2019 and 2018 were RMB34,573,214,100 and RMB32,087,951,800, respectively, with an increase of RMB2,485,262,300. The aggregate amount of the decrease in bills receivable and the increase in operating income was RMB2,289,878,500, which is basically in line with the trend of cash received from selling goods and providing labor services.

VIII. Explain in detail the Company's consumable biological assets at the end of the reporting period, including but not limited to category, quantity, unit price, location, etc., and specify the basis and rationality of the changes in the fair value of consumable biological assets during the reporting period. The auditor for annual review is requested to express opinions.

Reply:

1. Details of consumable biological assets at the end of the reporting period

Unit: ten thousand mu, RMB'0,000

Unit	Species	Mu	Unit price	Book value	Assessed value
Zhanjiang	Eucalyptus	176,507.43	1,697.33	29,959.14	69,866.08
	Slash pine	347,720.90	2,134.48	74,220.30	43,307.17
	Cedar	87,269.50	2,382.13	20,788.69	15,654.18
Subtotal		611,497.83		124,968.13	125,199.11
Yangjiang	Eucalyptus	39,431.80	1,844.43	7,272.93	14,265.06
	Slash pine	20,428.00	2,555.97	5,221.33	1,835.32
	Cedar	14,281.00	2,873.39	4,103.48	2,881.05
Subtotal		74,140.80		16,597.74	18,981.44
Nanchang	Slash pine	41,760.55	1,807.62	7,548.74	9,345.76
	Tea-oil tree	1,074.00	4,061.36	436.19	197.52
Subtotal		43,492.00		8,084.80	9,644.47
Total		729,130.63		149,650.67	153,825.01
Huanggang				119.96	119.96
Fuyu				155.5	155.5
Total amount				149,926.13	154,100.46

2. During the reporting period, there was a decrease in change of fair value of consumable biological assets of the Company by RMB19.75 million. The main reason for the change is that the Company's forestry assets were measured at fair value.

Since there was no quoted price from active market, an asset appraisal firm was therefore engaged to evaluate the forestry assets, and the difference between the fair value of consumable biological assets that was recognized based on the evaluation results and the evaluation value of the previous period was regarded as the change in fair value.

IX. Add the details of projects, specific time points of conversion into fixed assets and the basis therefor, and the basis for accounting treatment of the Company's construction in progress converted into fixed assets during the reporting period, and the specific depreciation provision upon the corresponding construction in progress converted into fixed assets. The auditor for annual review is requested to express opinions.

Reply:

Table of the conversion of major assets during the reporting period

Unit: RMB'0,000

Name of project	Amount of conversion into fixed assets	Time point of conversion into fixed assets	Basis for conversion into fixed assets and accounting treatment	Depreciation method	Amount of depreciation
500,000 tonnes cultural paper transformation project	161,171.94	January 2019	The operating rate having reached to 93% with a designed production capacity of 500,000 tonnes as of the time point of conversion into fixed assets, ready for intended use	Straight-line method	6,485.24
510,000 tonnes high-end cultural paper project	186,865.19	June 2019	The operating rate having reached to 92% with a designed production capacity of 510,000 tonnes as of the time point of conversion into fixed assets, ready for intended use	Straight-line method	4,854.60
400T/d mechanical pulp project	22,015.24	June 2019	The operating rate having reached to 98% with a designed production capacity of 140,000 tonnes as of the time point of conversion into fixed assets, ready for intended use	Straight-line method	478.27
Back pressure unit project	2,645.25	November 2019	Ready for intended use	Straight-line method	19.78
Reclaimed water recycle membrane treatment project	29,316.37	December 2019	Ready for intended use	Straight-line method	
Chemical Pulp Project	431,487.24	December 2019	The operating rate having reached to 95% with a designed production capacity of 1 million tonnes as of the time point of conversion into fixed assets, ready for intended use	Straight-line method	
Integration project of forestry, pulp and paper	3,088.92	December 2019	Ready for intended use	Straight-line method	
Membrane treatment project	7,450.51	December 2019	Ready for intended use	Straight-line method	
Total	844,040.66				118,37.90

X. Add the additional projects of the fixed assets for which the Company has not duly completed the certificate of title by the end of the reporting period, explain the progress of obtaining relevant property right certificate since the beginning of 2019, the expected progress of obtaining, the specific impact on the Company's operation, and whether there are substantial obstacles for obtaining as well as the solutions the Company intends to take.

Reply: Each of the property right certificate of the Company in 2019 is still in progress, and to be obtained by the end of 2020 as soon as possible, which has no impact on the Company's operation.

Set out below is the information related to new changes in this reporting period, whether there are substantial obstacles for obtaining and proposed solutions:

Unit: RMB'0,000

Name of unit	New changes in 2019	Whether there are substantial obstacles for obtaining	Proposed solutions
Housing and building structure (Zhanjiang Chenming)	12,362.72	No	The project team sending off specially-assigned personnel to coordinate the handling
Housing and building structure (Meilun Paper)	14,050.00	No	The project team sending off specially-assigned personnel to coordinate the handling
Housing and building structure (Jiangxi Chenming)	2,352.76	No	The project team sending off specially-assigned personnel to coordinate the handling
Housing and building structure (Shandong Chenming)	5,704.79	No	The project team sending off specially-assigned personnel to coordinate the handling
Housing and building structure (Shandong Investment)	9,331.19	No	Continuing to communicate with relevant government departments for coordinating the handling
Housing and building structure (Wuhan Chenming)	8,149.33	No	Continuing to communicate with relevant government departments for coordinating the handling
Housing and building structure (Chengdu Chenming)	1,328.96	No	Continuing to communicate with relevant government departments for coordinating the handling

XI. During the reporting period, 3 independent directors of the Company shall participate in 9 board meetings, 4 independent directors shall participate in 5 board meetings, while the above 7 independent directors attended only one board meeting convened on the spot, and they attended the rest of the meetings via communication. Please elaborate on, among others, the reasons why the board meetings that the above independent directors attended are held less frequently on the spot, whether it has arranged the time for on-site inspections such as the construction and implementation of the Company's operating condition, management and internal control systems as well as the implementation of the resolutions of the board of directors in accordance with the provisions of Article 3.5.6 of the "Guidelines for the Standardized Operation of Listed Companies (Revised in 2020)", and whether it has fulfilled the duty of diligence.

Reply: The independent directors of the Company are experts and scholars in professional fields such as accounting, finance and law, and they reside in Jinan, Beijing, Shanghai, Guangzhou and other places. In order to improve work efficiency, the meeting of the board of directors of the Company is generally convened via communication. The Company convened a total of 14 board meetings in 2019, and all independent directors participated in the meetings on time without absence. Before each board meeting, the Company submits the matters to be considered to the independent directors via e-mail, telephone communication, etc., so that they can fully understand the matters to be considered, and the independent directors of the

Company are fully aware of the matters to be considered, attending the board meeting via communication and also performing well the duties as independent directors.

In addition to the above methods, the independent directors of the Company communicate with the executive directors, executives, external auditors and other personnel of the Company from time to time through telephone, WeChat, email, on-site communication, etc., express professional opinions on its development strategy, internal control, etc. effectively monitor its production and operation activities, and ensure the scientificity of its decision-making. Meanwhile, they review and express their independent opinions on significant issues such as the daily related party transactions of the Company, financial assistance, provision of guarantees, provision for asset impairment, foreign investment, and disposal of assets, as well as paying close attention to the impact of external environment and market changes on the Company and keeping abreast of the operation of the Company.

In conclusion, the independent directors of the Company fully understand the actual operation of the Company through various approaches, and are capable of effectively inspecting and supervising the Company's management, internal control, decision-making implementation, etc., and fulfilling the duty of diligence.

Announcement is hereby made.

Board of Directors
Shangdong Chenming Paper Holdings Limited*
16 April 2020

** For identification purposes only*