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**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 published the “Shandong Chenming Paper Holdings Limited Proposal on the Domestic Listed Foreign Shares of the Company Changing Listing Venue to be Listed and Traded on the Main Board of The Stock Exchange of Hong Kong Limited by way of Conversion (Revised Version)” on 17 February 2021 on the website of the 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  
17 February 2021

*As at the date of this announcement, the executive Directors are Mr. Chen Hongguo, Mr. Hu Changqing, Mr. Li Xingchun and Mr. Li Feng; 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*

Stock code: 000488 200488 Security abbreviation: Chenming Paper Chenming B Listing place:  
Shenzhen Stock Exchange



**Shandong Chenming Paper Holdings Limited**  
**Proposal on the Domestic Listed Foreign Shares of the Company Changing Listing**  
**Venue to be Listed and Traded on the Main Board of The Stock Exchange of Hong Kong**  
**Limited by way of Conversion**  
**(Revised Version)**

**Financial Advisor**



**February 2021**

## **COMPANY STATEMENT**

The Company and all members of the board of directors guarantee the truthfulness, accuracy and completeness of the information of this Proposal, and are individually and jointly accept the legal responsibility for false representations, misleading statements or major omissions in the Proposal.

The head of the Company, the head in charge of accounting, and head of the accounting department guarantee the truthfulness, accuracy and completeness of the financial and accounting reports set out in this Proposal.

Any decision or opinion made by the China Securities Regulatory Commission and other government authorities and agencies on this Proposal do not indicate their substantive judgments or guarantees on the value of the shares in the Company or investors' returns. Any statement to the contrary is deemed false and a misrepresentation.

After the change of listing place of the domestic-listed foreign invested shares (B shares), such shares will be subject to the listing, trading and settlement rules in Hong Kong. The original applicable listing and trading rules of Shenzhen Stock Exchange and relevant rules and regulations, and others including the registration and settlement rules of China Securities Depository and Clearing Corporation Limited no longer apply to such shares. The relevant rules applicable to the RMB ordinary shares (A shares) of the Company remain unchanged.

After the completion of this Proposal, the Company will be responsible for the changes in operations and incomes itself; the investment risks arising from this Proposal will be borne by the investors themselves.

If investors have any questions about this Proposal, they should consult their stockbrokers, lawyers, professional accountants or other professional advisers. Investors can also consult the securities department of the Company at 0536-2158008.

## **NOTICE ON SIGNIFICANT MATTERS**

The Company would like to remind investors that they shall remain alert to the following major matters or risk factors, and carefully read the relevant chapters in this Proposal.

### **I. Explanation on the Highlights of the Proposal for Change of Listing Place**

As of 31 December 2020, Shandong Chenming Paper Holdings Limited has issued a total of 706,385,266 domestic-listed foreign invested shares (B shares). This Proposal proposes to apply for the listing of the above-mentioned B shares on the Main Board of the Hong Kong Stock Exchange through change of listing place and by way of conversion, in which way such shares shall become overseas-listed foreign invested shares (H shares) listed on the Hong Kong Stock Exchange.

To fully protect the legitimate rights and interests of holders of B shares, and implement the listing and trading of the domestic-listed foreign invested shares on the Main Board of the Hong Kong Stock Exchange through change of listing place and by way of conversion, the Company will arrange for third party(ies) to provide cash options to all holders of B shares. Investors who originally hold the B shares in the Company can declare and exercise the cash options at a specified time frame for the purpose of the transfer of partial or entire Chenming B shares held to third party(ies) that provides the cash options; investors can also continue to hold and maintain the shares until such shares are successfully listed on the Hong Kong Stock Exchange. Until then, the nature of the B shares they maintain will be changed to H shares.

The holders of B shares of the Company must declare to exercise the cash options during the declaration period. The B shares that are validly declared for exercise of cash options are entitle to the cash consideration paid by the cash options provider at the price agreed in the Proposal. The cash options that are not declared within the specified period will be void. The detailed arrangements of the cash options proposal (including but not limited to the registration date, declaration period, the method of declaration and settlement of cash options etc.) will be disclosed in a timely manner in accordance with provisions under applicable laws and regulations. In case where any investor does not declare to exercise the cash options or the declaration is invalid, the B shares held by such investor will be listed and traded on the Main Board of the Hong Kong Stock Exchange through change of listing place and by way of conversion after the completion of all approval procedures for and implementation of the Proposal.

The shares listed and traded on the Hong Kong Stock Exchange must have sufficient liquidity, and the Hong Kong Listing Rules require that there must be an open market for the shares to be listed. If the proportion of shares subject to exercise of cash options is too high, resulting in low liquidity and insufficient public float, the Company may fail to meet the requirements for listing on the Hong Kong Stock Exchange.

If one of the following occurs, the cash options under this Proposal will not be implemented, and the Proposal will be terminated, and B shares will continue to be traded on the B share market of the SZSE:(1) the declaration of the exercise of the cash options results in the public float of H shares fails to meet the minimum public float requirement of H shares of a listed company required by the Hong Kong Stock Exchange; (2) the declaration of the exercise of the cash options results in the total number of H shares held by the top three public shareholders exceeding 50% of H shares held in public hands, or the number of public shareholders in Hong Kong less than 300; (3) the Proposal has not been approved at the general meeting or verified and approved by the CSRC or other government departments and/or agencies at home and abroad (if necessary) as required; (4) the Company cannot arrange for third party(ies) to provide cash options.

If the abovementioned circumstances do not occur after the end of the declaration period, the cash options will be cleared and delivered. That means, the B shares that are validly declared for exercise of cash options are entitled to the cash consideration paid by the cash options provider at the price agreed in the Proposal. The specific price is HK\$3.33 per share, which represents a premium of 5% over the closing price HK\$3.17 per share quoted on the date when the B-to-H Share Conversion has been passed by a resolution of the board of directors (29 January 2021).

After the implementation of the cash options is completed, the nominee delegated by the board of directors of the Company will open an H share account for the only use by investors to handle agency transactions and registration and settlement, on behalf of all holders of B shares at the Designated Hong Kong Qualified Broker in a timely manner in respect of the B shares held by all holders of B shares, and deposit into the Company's H shares and handle related matters (specific operation rules and arrangements for rights and obligations of parties concerned will be announced separately).

Overseas investors with complete information may transfer their H shares to their existing H share accounts after the H share registration is completed; they may also apply to Hong Kong qualified brokers or other overseas securities companies to open a separate H shares account and transfer their H shares held to the newly opened H share account.

The B shares that are held in inactive accounts, are not declared or validly declared for exercise of cash options will be subject to change of listing place and listed on the Main Board of the Hong Kong Stock Exchange by way of conversion after the completion of all approval procedures and implementation of the Proposal.

The Company will prepare and submit to the general meeting for approval the draft of the Articles of Association of Shandong Chenming Paper Holdings Limited (Draft, applicable upon the change of listing place of B shares) in accordance with the relevant provisions under the Mandatory Provisions for Articles of Association of Companies Listed Overseas, the Circular Regarding Opinions on the Supplements and Amendments of Articles of Association of Companies to be Listed in Hong Kong (Zheng Jian Hai Han [1995] No.1) and Opinions on Further Promotion of Standardized Operations of Overseas Listed Companies and Deepening of Reform, and by reference to Guidelines for the Articles of Association of Listed Companies (2019 amendment) and the Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange. The Articles of Association (Draft, applicable upon the change of listing place of B shares) will take effect on the date when the H shares converted from B shares of the Company are listed after consideration and approved at the general meeting and approved by the relevant competent authorities. After the listing of H shares converted from B shares, a class shareholder meeting shall be held in accordance with the circumstances specified in the Articles of Association (Draft, applicable upon the change of listing place of B shares). The existing Articles of Association continue to be valid until the listing of H shares converted from B shares.

The key timelines of this Proposal are set out as follows, and the date of the general meeting and the detailed schedule and operating procedures of the cash options will be disclosed by separate announcement.

(1) To announce the resolutions of the board of directors and relevant documents of this Proposal;

(2) To issue a notice of an extraordinary general meeting and class shareholders' meetings;

(3) The registration date of equity interests on which holders A shares and H shares shall attend the general meeting and the last trading day on which holders of B shares shall attend the general meeting;

(4) To convene an extraordinary general meeting and class shareholders' meetings to consider this Proposal and related resolutions, and announce the resolutions passed at the extraordinary general meeting and class shareholders' meetings;

(5) To obtain approval from the China Securities Regulatory Commission;

(6) To implement the cash options of B shares and publish of the announcement in relation to the implementation results of cash options of B shares;

(7) To obtain the approval from the Hong Kong Stock Exchange;

(8) The H shares converted from B shares in the Company are listed and traded on the Hong Kong Stock Exchange.

## **II. Notice on Major Risks**

### **(I) Risks related to the failure of obtaining approval for the Proposal**

This Proposal is still subject to the following authorization and approval:

1. Consideration of the B-to-H Share Conversion at the extraordinary general meeting of shareholders and the class shareholders' general meeting, and the approval by: (1) At least two-thirds of the voting rights held by all shareholders present at the general meeting; (2) At least two-thirds of the voting rights held by all shareholders and the holders of B shares present at the class meeting for holders of domestic-listed shares; (3) At least two-thirds of the voting rights held by the shareholders present at the class meeting for holders of overseas-listed shares;

2. The Company submits relevant documents to and obtains approval from the China Securities Regulatory Commission in respect of the application for the listing and trading of its B shares on the Main Board of the Hong Kong Stock Exchange by way of conversion;

3. The Company submits relevant documents to and obtains approval from the Hong Kong Stock Exchange in respect of the application for the listing and trading of its B shares on the Main Board of the Hong Kong Stock Exchange by way of conversion;

4. Review or approval by other government authorities and agencies (if required).

This Proposal will be terminated if any of the above verification or approvals is failed to be obtained.

## **(II) Risks related to the cash options and related risk of termination of the**

### **Proposal**

In this Proposal, third party(ies) will provide cash options to all holders of B shares. If one of the following occurs, the cash options under this Proposal will not be implemented, and the Proposal will be terminated, and B shares will continue to be traded on the B share market of the SZSE:(1) the declaration of the exercise of the cash options results in the public float of H shares fails to meet the minimum public float requirement of H shares of a listed company required by the Hong Kong Stock Exchange; (2) the declaration of the exercise of the cash options results in the total number of H shares held by the top three public shareholders exceeding 50% of H shares held in public hands, or the number of public shareholders in Hong Kong less than 300; (3) the Proposal has not been approved at the general meeting or verified and approved by the CSRC or other government departments and/or agencies at home and abroad (if necessary) as required; (4) the Company cannot arrange for third party(ies) to provide cash options.

The holders of B shares of the Company must declare to exercise the cash options during the declaration period. The B shares that are validly declared for exercise of cash options are entitled to the cash consideration paid by the cash options provider at the price agreed in the Proposal. The cash options that are not declared within the specified period will be void. In particular, Chenming Holdings (Hong Kong) Limited, a wholly-owned overseas subsidiary of Chenming Holdings Company Limited, a controlling shareholder of the Company, has issued a commitment to waive the cash options. The specific cash options equity registration date, cash options declaration period, methods of cash options declaration and settlement will be announced separately. In case where any investor does not declare to exercise the cash options or the declaration is invalid, the B shares held by such investor will be listed on the Main Board of the Hong Kong Stock Exchange through change of listing place and by way of conversion after the completion of all approval procedures for and implementation of the Proposal.

## **(III) Risks arising from different investment environment**

Compared with the H share market, the B share market has different trading characteristics (in terms of trading volume and liquidity, etc.), and the levels of participation of individual investors and institutional investors are also different. Due to these differences, the trading prices of the Company's B shares and the Company's H shares in the future may not be the same. The Company also cannot guarantee that the price of H shares in the future



will be higher than or equal to the price of B shares prior to the change of listing place. At the same time, there is also the possibility of mutual influence between the Company's A share price and H share price.

#### **(IV) Uncontrollable risks in the time of implementation of the Proposal**

The implementation of this Proposal still needs to go through various authorizations and approvals as described in the aforementioned “Risks related to the failure of obtaining approval for the Proposal”, and there is uncertainty in the time of execution of the corresponding legal procedures.

#### **(V) Risk of inconvenient conditions for transaction**

After the implementation of this Proposal is completed, Domestic Investors and Domestically Trading Overseas Investors will involve risks including but not limited to inconvenient conditions for transaction caused by changes in trading stock codes.

#### **(VI) Risk related to the trading systems**

In the future, after the Company's stocks are successfully listed on the Main Board of the Hong Kong Stock Exchange, the original B share investors may choose to conduct H share trading activities through the domestic or overseas securities company trading system based on their own situation and on a voluntary basis, and in compliance with laws, regulations and trading rules. As the H share trading system used later may be different from the previous B share trading system, and the new trading system may involve multiple links at home and abroad, each link may have network interruptions, server stalls, software failures and related technical reasons. Investors may suffer losses due to the risks of market conditions and trading interruptions, delays, errors or failure to sell shares in a timely manner.

#### **(VII) Risk of increase in transaction costs**

After the implementation of this Proposal, Domestic Investors and Domestically Trading Overseas Investors still need to pay corresponding commissions to domestic securities companies, and also need to bear the general transaction costs of H shares; in addition, investors will also need to bear H shares special transaction fees in the stock market, including but not limited to: registration and transfer fees, dividend collection fees, and bonus shares collection fees, etc.

In the future, for Domestic Investors and Domestically Trading Overseas Investors, the proceeds from the sale of stocks in Hong Kong will be aggregated by the designated Hong Kong qualified brokerage firm and remitted back to mainland China, and will be transferred to the settlement reserve account maintained with domestic securities companies. Related remittances will incur cross-border transfer costs, especially when the transaction volume of the day is very small, in such case, the cross-border transfer costs of units corresponding to each share of the day may reach a relatively high level. These costs will ultimately have to be borne by investors who trade through the Domestic Securities Companies' Trading System, which will result in a corresponding increase in transaction costs.

### **(VIII) Risk of differences in trading time**

After the implementation of this Proposal is completed, in the future, there will be certain differences in terms of trading time between that of Domestic Investors and Domestically Trading Overseas Investors and that of Non-domestically Trading Overseas Investors:

#### **1. Differences in average daily transaction time between mainland China and Hong Kong**

H share trading time is 5.5 hours a day, i.e. 9:30-12:00, 13:00-16:00, and stock trading time in domestic market is 4 hours a day, i.e. 9:30-11:30, and 13:00-15:00.

#### **2. Different public holidays in mainland China and Hong Kong**

In the future, such differences may lead to a certain degree of inequality in trading rights between Domestic Investors and Domestically Trading Overseas Investors, and Non-domestically Trading Overseas Investors. When domestic trading investors are in non-trading hours, Non-domestically Trading Overseas Investors still have access to trading; during the days when mainland China is on public holidays while Hong Kong is not, the time of settlement and payment of Domestically Trading Overseas Investors may lag behind that of the Non-domestically Trading Overseas Investors.

### **(IX) Risk of restriction on trading rights**

Since the implementation rules that investor are subject to in dealing with B-to-H Share Conversion involve the institutional rules and different trading systems in mainland and Hong Kong, the Company is currently further studying the specific details of implementation. The Company will promptly disclose relevant implementation details in the progress announcement.

**(X) Risk of inactive accounts**

If the B shares held in inactive accounts are not declared or not validly declared for exercise of cash options, such B shares will be listed on the Main Board of the Hong Kong Stock Exchange through change of listing place and by way of conversion after the completion of all approval procedures for and implementation of the Proposal.

**The Company would like to remind investors that they shall remain alert to the above-mentioned major matters, and make appropriate judgments and investment decisions in combination with other information disclosures; there may be discrepancies between certain totals and the direct sums of individual values, or there may be slight discrepancies in the mantissa between certain proportions and direct sums of individual values due to rounding.**

## CONTENTS

<b>COMPANY STATEMENT</b> .....	<b>2</b>
<b>NOTICE ON SIGNIFICANT MATTERS</b> .....	<b>3</b>
<b>I. Explanation on the Highlights of the Proposal for Change of Listing Place</b> .....	<b>3</b>
<b>II. Notice on Major Risks</b> .....	<b>6</b>
(I) Risks related to the failure of obtaining approval for the Proposal.....	6
(II) Risks related to the cash options and related risk of termination of the Proposal .....	7
(III) Risks arising from different investment environment.....	7
(IV) Uncontrollable risks in the time of implementation of the Proposal .....	8
(V) Risk of inconvenient conditions for transaction.....	8
(VI) Risk related to the trading systems.....	8
(VII) Risk of increase in transaction costs .....	8
(VIII) Risk of differences in trading time.....	9
(IX) Risk of restriction on trading rights .....	9
(X) Risk of inactive accounts .....	10
<b>Definitions</b> .....	<b>15</b>
<b>SECTION I BASIC INFORMATION OF THE COMPANY</b> .....	<b>18</b>
<b>I. Basic Information of the Company</b> .....	<b>18</b>
<b>II. Establishment and Major Changes in Equity of the Company</b> .....	<b>19</b>
(I) Establishment of the Company .....	19
(II) Major Changes in Equity of the Company .....	19
<b>III. Change in Control in Recent Three Years</b> .....	<b>35</b>
<b>IV. Top Ten Shareholders of the Company</b> .....	<b>35</b>
<b>V. Controlling Shareholder and Beneficial Controller of the Company</b> .....	<b>36</b>
(I) Basic information on controlling shareholder.....	36

<b>VI. Principal Business.....</b>	<b>38</b>
<b>VII. Major Financial Information and Financial Indicators.....</b>	<b>40</b>
(I) Major financial data .....	40
(II) Major financial indicators.....	41
<b>SECTION II OVERVIEW OF THIS TRANSACTION PLAN .....</b>	<b>42</b>
<b>I. Basic Information of This Proposal .....</b>	<b>42</b>
<b>II. Background Information of This Proposal.....</b>	<b>44</b>
(I) Inactive B shares trading of the Company.....	44
(II) The circulation of the Company’s shares in Hong Kong will help further promote the Company’s internationalization .....	45
(III) The successful implementation of this Proposal will promote the Company’s business development .....	46
<b>III. Mechanism for Protection of Shareholders’ Interests.....</b>	<b>46</b>
(I) Voting at extraordinary general meeting and class shareholders’ meetings.....	46
(II) Cash options of holders of B Shares .....	48
<b>IV. Treatment of Inactive Accounts .....</b>	<b>50</b>
<b>V. Information Disclosure Planning.....</b>	<b>51</b>
<b>VI. Decision-making Process of The Proposal.....</b>	<b>52</b>
(I) Authorization and approvals obtained.....	52
(II) Authorization and approvals to be obtained.....	52
<b>VII. Changes in Shareholding Structure of the Company before and after Implementation of This Proposal .....</b>	<b>53</b>
<b>VIII. Information on Relevant Domestic Parties Involved in This Proposal .....</b>	<b>53</b>
(I) Applicant for quotation for H shares: Shandong Chenming Paper Holdings Limited.....	53
(II) Financial advisor: Guotai Junan Securities Co., Ltd.....	54
(III) PRC lawyer of the Company: Beijing Lifang & Partners Law Firm .....	54
<b>SECTION III COMPLIANCE ANALYSIS OF THIS PLAN .....</b>	<b>55</b>

<b>I. The Proposal Complies with the Relevant Provisions of the Regulations of the State Council Concerning Domestic-listed Foreign Shares of Joint Stock Limited Companies (Decree No.189 of the State Council)</b> .....	<b>55</b>
<b>II. The Company can Submit an Application for Overseas Listing and Trading to the CSRC</b> .....	<b>55</b>
<b>III. The Company can Submit an Application for Listing and Trading by way of Conversion to the Hong Kong Stock Exchange</b> .....	<b>55</b>
<b>SECTION IV RISK FACTOR OF THIS PLAN</b> .....	<b>57</b>
<b>I. Risks related to the Failure of Obtaining Approval for the Proposal</b> .....	<b>57</b>
<b>II. Risks related to the Cash Options and related Risk of Termination of the Proposal</b> .....	<b>57</b>
<b>III. Risks Arising from Different Investment Environment</b> .....	<b>58</b>
<b>IV. Uncontrollable Risks in the Time of Implementation of the Proposal</b> .....	<b>58</b>
<b>V. Risk of Inconvenient Conditions for Trading</b> .....	<b>59</b>
<b>VI. Risk related to the Trading Systems</b> .....	<b>59</b>
<b>VII. Risk of Increase in Transaction Costs</b> .....	<b>59</b>
<b>VIII. Risk of Differences in Trading Time</b> .....	<b>59</b>
(I) Differences in average daily transaction time between mainland China and Hong Kong .....	60
(II) Different public holidays in mainland China and Hong Kong .....	60
<b>IX. Risk of Restriction on Trading Rights</b> .....	<b>60</b>
<b>X. Risk of Inactive Accounts</b> .....	<b>60</b>
<b>SECTION V SPECIAL NOTES</b> .....	<b>61</b>
<b>I. Restriction on Trading Rights</b> .....	<b>61</b>
<b>II. Differences in Trading Time</b> .....	<b>61</b>
<b>III. Difference in Transaction Costs</b> .....	<b>62</b>
(I) General trading fee.....	62
(II) Special trading fee of H shares.....	62
(III) The cost of odd lots due to differences in trading units .....	63

(IV) Cross-border remittance fees .....	63
<b>IV. Differences in Tax of the Investors .....</b>	<b>63</b>
(I) Income tax on dividends and bonuses .....	64
(II) Income tax on transfer of shares .....	65
(III) Stamp duty on shares trading.....	67
<b>V. Differences in Up and Down Limit .....</b>	<b>67</b>
<b>VI. Differences in T+0 Trading System.....</b>	<b>67</b>
<b>VII. Differences in Settlement System .....</b>	<b>67</b>
<b>VIII. Differences in Tick Size .....</b>	<b>68</b>
<b>IX. Differences in Opening Trading Mechanism .....</b>	<b>68</b>
(I) Opening trading mechanism of B shares in Shenzhen stock market.....	68
(II) Opening trading mechanism in Hong Kong stock market.....	68
<b>X. Deposit Financing .....</b>	<b>69</b>
<b>XI. Reminder of Restriction in Share Rights.....</b>	<b>70</b>
<b>SECTION VI OPINIONS AND EXPLANATIONS OF RELATED PARTIES .....</b>	<b>71</b>
<b>I. Opinions of Independent Directors .....</b>	<b>71</b>
<b>II. Opinions of Financial Advisor .....</b>	<b>71</b>
<b>III. Opinions of Legal Advisor .....</b>	<b>71</b>
<b>IV. Description of Dealing of the Company's Shares by the Company's Directors, Supervisors and Senior Management.....</b>	<b>72</b>

## Definitions

the Company/Chenming Paper	Shandong Chenming Paper Holdings Limited
this Proposal/the Proposal/B-to-H Share Conversion	the proposal on the 706,385,266 domestic listed foreign shares in issue of Chenming Paper changing listing venue to be listed and traded on the Main Board of The Stock Exchange of Hong Kong Limited by way of conversion
A shares of Chenming Paper	RMB ordinary shares in issue of Chenming Paper
Chenming B shares	the domestic-listed foreign invested shares in issue of Chenming Paper
H shares	the overseas-listed foreign invested shares listed in Hong Kong
CSRC	the China Securities Regulatory Commission
SZSE	the Shenzhen Stock Exchange
CSDCC	China Securities Depository and Clearing Corporation Limited
Hong Kong Stock Exchange/the Stock Exchange	The Stock Exchange of Hong Kong Limited
Financial Advisor/Guotai Junan	Guotai Junan Securities Co., Ltd.
Domestic Investors	the domestic investors who conduct trading through the Domestic Securities Companies' Trading System
Legal Advisor/Domestic Lawyer	Beijing Lifang & Partners Law Firm
Domestically Trading Overseas Investors	the overseas investors who have not directly opened a H share account with an overseas securities company and continue to trade through the Domestic Securities Companies' Trading System
Non-domestically Trading	the overseas investors who have opened an



Overseas Investors	independent H share accounts with a qualified overseas securities company, and after the listing of H shares of Chenming, the H shares held by them have been deposited in such account and traded through the Domestic Securities Companies' Trading System
Designated Hong Kong Qualified Broker	the broker as the nominee designated by the board of directors as authorized by the general meeting of Chenming Paper with whom the H share accounts will be opened on behalf of all holders of B shares
Domestic Securities Companies' Trading System	the share trading system provided by the domestic stock broker
Overseas Securities Companies' Trading System	the share trading system provided by the overseas stock broker
Shenzhen-Hong Kong Stock Connect	Shenzhen-Hong Kong Stock Connect
Shanghai-Hong Kong Stock Connect	Shanghai-Hong Kong Stock Connect
Company Law	the Company Law of the People's Republic of China
Securities Law	the Securities Law of the People's Republic of China
SZSE Listing Rules	the Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange (2020 amendment)
Hong Kong Listing Rules	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Articles of Association	the Articles of Association of Shandong Chenming Paper Holdings Limited
Articles of Association (Draft, applicable upon the change of listing place of B shares)	the Articles of Association of Shandong Chenming Paper Holdings Limited (Draft, applicable upon the change of listing place of B shares)
the Last Three Years and One Period/the Reporting Period	2017, 2018, 2019 and the period between January and September 2020

Statutory Festivals/Holidays	the statutory and officially designated festivals and holidays of the People's Republic of China (excluding the statutory festivals and holidays of Hong Kong, Macau Special Administrative Regions and Taiwan)
Yuan, 10,000 Yuan and 100 million Yuan	RMB1, RMB10,000 and RMB100 million

Note: Unless otherwise specified, all values in the Proposal are reserved up to two digits. Any discrepancy between the sum of all values and the total are caused by rounding.

## SECTION I BASIC INFORMATION OF THE COMPANY

### I. Basic Information of the Company

Name of Company	Shandong Chenming Paper Holdings Limited
English name	Shandong Chenming Paper Holdings Limited
Stock abbreviation and code of A shares	Chenming Paper 000488
Stock abbreviation and code of B shares	Chenming B shares 200488
Stock abbreviation and code of H shares	Chenming Paper 01812
Registered capital	2,984,208,200 Yuan
Establishment date	5 May 1993
Legal representative	Chen Hongguo
Secretary to the Board	Yuan Xikun
Registered address	No. 595 Shengcheng Road, Shouguang City, Weifang City, Shandong Province
Post code	262705
Telephone	0536-2158008
Fax	0536-2158977
Registration Number with Industrial and Commercial Bureau	913700006135889860
Company's website	www.chenmingpaper.com
E-mail	chenmmpaper@163.com
Industry	manufacturing of paper - papermaking and paper products (0322)
Business scope	manufacturing, processing and sales of paper products such as machine-made paper and cardboard, papermaking raw materials, and papermaking machinery. Except for industries where foreign investment is prohibited by the state, where there are stipulations otherwise of industries where foreign

	investment is prohibited by the state, relevant procedures shall be performed according to law. (Projects that are subject to approval according to law may only be carried out after approval by relevant departments, and the validity period is subject to the permit)
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## **II. Establishment and Major Changes in Equity of the Company**

### **(I) Establishment of the Company**

Shandong Chenming Paper Holdings Limited (the “Company”), formerly known as Shandong Shouguang Paper Mill Corporation, was reformed as Shandong Shouguang Paper Holdings Company Limited through “offering to specific investors” in March 1993, which was renamed as Shandong Shouguang Paper Making, Printing and Packaging Group Company Limited in the same month and renamed as Shandong Shouguang Paper Group Company Limited in August 1993. In December 1996, with approval by Lu Gai Zi [1996] No. 270 verified and issued by the People’s Government of Shandong Province and Zheng Wei [1996] No. 59 of the Securities Committee of the State Council, the Company was changed as a joint stock company with limited liability established by share offer. In May 1997, with the approval of Zheng Wei Fa [1997] No. 26 verified and issued by the Securities Committee of the State Council, the Company issued up to 115,000,000 domestic-listed foreign shares at a price of RMB4.75 per share and HK\$4.43 per share. In November 2000, the Company listed on the Main Board of the Shenzhen Stock Exchange and issued 70 million RMB ordinary shares (A shares) under initial public offering at the issue price of RMB20.80 per share.

### **(II) Major Changes in Equity of the Company**

#### **1. In 1997, the Company publicly issued B shares for the first time**

According to approval by Lu Zheng Zi [1996] No. 63 verified and issued by the People’s Government of Shandong Province on 28 February 1997 and Zheng

Wei Fa [1997] No. 26 verified and issued by the Securities Committee of the State Council on 24 December 1996, the Company issued 115,000,000 domestic-listed foreign shares (B shares) to the public on 40 April 1997. After the issuance, the Company's total share capital was increased to 273,855,665 shares. On 20 May 1997, Shenzhen Shekou Xin De Certified Public Accountants issued a capital verification report (Xin De Yan Zi Bao Zi [1997] No. 15). The Company has obtained the "Certificate of Approval for Foreign Investment Enterprise of the People's Republic of China" in September 1997 and obtained a new enterprise legal person business license on 12 September 1997. After the issuance, the shareholding structure of the Company was as follow:

Unit: Share

Class of shares	1997-12-31	B share offering	1998-12-31	Percentage of share
<b>I. Unlisted circulating shares</b>				
State-owned shares	101,693,886	-	101,693,886	37.13%
Domestic legal person shares	2,945,565	-	2,945,565	1.08%
Domestic legal person shares	19,078,279	-	19,078,279	6.97%
Share held by employees	35,137,935	-	35,137,935	12.83%
Subtotal	158,855,665	-	158,855,665	58.01%
<b>II. Listed circulating shares</b>				
Domestic-listed foreign shares	-	115,000,000	115,000,000	41.99%
Subtotal	-	115,000,000	115,000,000	41.99%
<b>Total</b>	<b>158,855,665</b>	<b>115,000,000</b>	<b>273,855,665</b>	<b>100.00%</b>

## 2. In 1997, the first capital reserve capitalization of the Company

On 22 November 1997, the Company held the extraordinary general meeting in 1997 and passed the Interim Distribution Proposal of Converting Capital Reserve into Share Capital by discussion, which has been approved by Lu Ti Gai Qi Zi [1998] No. 1 as verified by Reform Commission of Shandong Province and [1998] Wai Jing Mao Zi Er Han Zi No. 402 as verified by Ministry of Foreign Trade and Economic Cooperation, PRC, to convert capital reserve into share capital of 109,542,266 shares at the ratio of 10:4 based on the Company's share

capital of 273,855,665 shares on 30 June 1997. Upon conversion, the Company's total share capital was increased to 383,397,931 shares, and upon the issuance, the Company's shareholding structure was as follows:

Unit: Share

Class of share	1997-12-31	B share offering	1998-12-31	Percentage of share
<b>I. Unlisted circulating shares</b>				
State-owned shares	101,693,886	40,677,554	142,371,440	37.13%
Domestic legal person shares	2,945,565	1,178,226	4,123,791	1.08%
Overseas legal person shares	19,078,279	7,631,312	26,709,591	6.97%
Share held by employees	35,137,935	14,055,174	49,193,109	12.83%
Subtotal	158,855,665	63,542,266	222,397,931	58.01%
<b>II. Listed circulating shares</b>				
Domestic-listed foreign shares	115,000,000	46,000,000	161,000,000	41.99%
Subtotal	115,000,000	46,000,000	161,000,000	41.99%
<b>Total</b>	<b>273,855,665</b>	<b>109,542,266</b>	<b>383,397,931</b>	<b>100.00%</b>

### 3. In 2000, the Company publicly issued A shares for the first time

On 7 August 2000, the Company held the first extraordinary general meeting in 2000 and passed the plan on Issuing of No More Than 70,000,000 RMB Ordinary Shares (A Shares) by Capital Increase and other proposals by discussion. Under the approval of Zheng Jian Gong Si Zi [2000] No. 151 as verified by the CSRC, the Company issued 70,000,000 RMB ordinary shares (A shares) for the first time on 20 November 2000. On 10 November 2000, Shangdong Zhengyuan Certified Public Accountants Co., Ltd. issued a capital verification report [2000] (Lu Zheng Kuai Yan Zi No. 039). Upon completion of the issuance, the Company's total share capital was increased to 453,397,931 shares, and upon the issuance, the Company's shareholding structure was as follows:

Unit: Share

Class of share	1999-12-31	B share offering	2000-12-31	Percentage of share
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<b>I. Unlisted circulating shares</b>				
State-owned shares	142,371,440	-	142,371,440	31.40%
Domestic legal person shares	4,123,791	-	4,123,791	0.91%
Overseas legal person shares	26,709,591	-	26,709,591	5.89%
Share held by employees	49,193,109	-	49,193,109	10.85%
Subtotal	222,397,931	-	222,397,931	49.05%
<b>II. Listed circulating shares</b>				
RMB ordinary shares	-	70,000,000	70,000,000	15.44%
Domestic-listed foreign shares	161,000,000	-	161,000,000	35.51%
Subtotal	161,000,000	70,000,000	231,000,000	50.95%
<b>Total</b>	<b>383,397,931</b>	<b>70,000,000</b>	<b>453,397,931</b>	<b>100.00%</b>

#### **4. In 2003, the second capital reserve capitalization of the Company**

On 29 April 2003, the Company held 2002 annual general meeting and passed the 2002 profit distribution plan by discussion. It presented 2 bonus shares per 10 shares to all shareholders based on the total share capital of 498,737,724 shares as of 31 December 2002, distributed cash dividend of RMB0.50 per share (tax inclusive), and converted into 6 share capitals per 10 capital reserves to all shareholders. After the distribution, the Company's total share capital was increased from 498,737,724 shares to 897,727,903 shares. On 20 June 2003, Shandong Zhengyuan Hexin Accountants Limited (山东正源和信有限责任会计师事务所) issued a capital verification report (Lu Zheng Xin Yan Zi [2003] No. 1019). After the change, the Company's shareholding structure was as follows:

Unit: Share

<b>Class of share</b>	<b>2002-12-31</b>	<b>Bonus share</b>	<b>Converting capital reserve to share capital</b>	<b>Others (note)</b>	<b>2003-12-31</b>	<b>Percent age of share</b>
<b>I. Unlisted circulating shares</b>						

State-owned shares	156,608,584	31,321,717	93,965,150	-	281,895,451	31.40%
Domestic legal persons shares	4,536,170	907,234	2,721,702	-	8,165,106	0.91%
Share held by employees	54,112,420	10,822,484	32,467,452	-97,402,356	-	-
Subtotal	215,257,174	43,051,435	129,154,304	-97,402,356	290,060,557	32.31%
<b>II. Listed circulating shares</b>						
RMB ordinary shares	77,000,000	15,400,000	46,200,000	97,402,356	236,002,356	26.29%
Domestic-listed foreign shares	206,480,550	41,296,110	123,888,330	-	371,664,990	41.40%
Subtotal	283,480,550	56,696,110	170,088,330	97,402,356	607,667,346	67.69%
<b>Total</b>	<b>498,737,724</b>	<b>99,747,545</b>	<b>299,242,634</b>	<b>-</b>	<b>897,727,903</b>	<b>100.00%</b>

Note: In March 1993, the Company issued 18,591,500 shares to employees at the price of RMB1.2 per share by way of fundraising. Over years of distribution, the shares held by employees increase to 97,402,356 shares as of 20 November 2003. On 21 November 2003, 97,402,356 shares held of employees of the Company were listed for circulation, resulting in the increase to 236,002,356 listed circulating RMB ordinary shares (A shares) of the Company, among which, 402,789 shares held by directors, supervisors and senior management of the Company were frozen on the Shenzhen Stock Exchange.

## **5. In 2004, the Company publicly issued convertible bonds**

On 29 July 2003, the Company held the first extraordinary general meeting in 2003 and passed the Proposal on Issuing Convertible Corporate Bonds by discussion. Upon approval by Zheng Jian Fa Xing Zi [2004] No. 147 as verified by



the CSRC, on 15 September 2004, the Company publicly issued 20 million convertible bonds with face value of RMB100, total issuance of RMB2 billion and term of five years commencing from 15 September 2004 to 15 September 2009. The interest rates of the convertible corporate bonds were 1.50% per annual, 1.80% per annual, 2.10% per annual, 2.50% per annual and 2.79% per annual during the term. The interest shall be paid on the day of every full year commencing from the date of issuance of the convertible corporate bonds and the principal and interest shall be repaid when due. The conversion period lasted from 6 months commencing from the date of issuance of convertible corporate bonds, i.e. 15 March 2005, to the maturity date of the convertible bonds. The convertible corporate bonds under the issuance was listed and traded on the Shenzhen Stock Exchange since 30 September 2004 with Chenming Convertible Bond as abbreviation and bond code of 125488.

#### **6. In 2005, the third capital reserve capitalization of the Company**

On 29 April 2005, the Company held the 2004 annual general meeting and passed the 2004 profit distribution plan by discussion. It presented 2 bonus shares per 10 shares to all shareholders based on the total share capital of 897,727,903 shares as at 31 December 2004, distributed cash dividend of RMB1.00 per 10 shares (tax inclusive), and converted into 3 share capitals per 10 capital reserves based on the total share capital of 897,727,903 shares as of 31 December 2004.

After the profit distribution and transfer, the Company's total share capital was increased to 1,353,539,920 shares. On 12 June 2005, Zhongruihua Hengxin CPA (中瑞华恒信会计师事务所) issued a capital verification report (Zhong Rui Hua Heng Xin Yan Zi II [2005] No. 005). After the change, the Company's shareholding structure was as follows:

Unit: Share

<b>Class of share</b>	<b>2004-12-31</b>	<b>Increase in convertible corporate bonds (note 1)</b>	<b>Bonus share</b>	<b>Converting capital reserve to share capital</b>	<b>Others (note 2)</b>	<b>2005-12-31</b>	<b>Percentage of share</b>

<b>I. Unlisted circulating shares</b>							
State-owned shares	281,895,451	-	56,379,090	84,568,635	-	422,843,176	31.24%
Domestic legal person shares	8,165,106	-	1,633,021	2,449,532	-3	12,247,656	0.90%
Subtotal	290,060,557	-	58,012,111	87,018,167	-3	435,090,832	32.14%
<b>II. Listed circulating shares</b>							
RMB ordinary shares	236,002,356	6,947,561	47,200,673	70,801,010	3	360,951,603	26.67%
Domestic-listed foreign shares	371,664,990	-	74,332,998	111,499,497	-	557,497,485	41.19%
Subtotal	607,667,346	6,947,561	121,533,671	182,300,507	3	918,449,088	67.86%
<b>Total</b>	<b>897,727,903</b>	<b>6,947,561</b>	<b>179,545,782</b>	<b>269,318,674</b>	<b>-</b>	<b>1,353,539,920</b>	<b>100.00%</b>

Note 1: Without taking individual consideration of the effect of the bonus share of convertible shares and capital reserve capitalization prior to 11 May 2005.

Note 2: According to the requirements of Shenzhen Branch of China Securities Depository and Clearing Corporation Limited for adjustment, dividends of 3 fractional domestic legal person shares were adjusted to RMB ordinary shares (A shares).

## **7. In 2006, the Company implemented A share distribution and circulation reform**

Upon approval by the “Approval of state-owned share administration for share distribution and circulation reform of Shandong Chenming Paper Holdings Limited” issued by Shandong Provincial State-owned Assets Supervision and Administration Commission (Lu Guo Zi Chan Quan Han [2006] No. 34), the Company considered and approved the Share Distribution and Circulation Reform of Shandong Chenming Paper Holdings Limited at the shareholders’ meeting on share distribution and circulation reform A share market held on 28 February 2006, and published the announcement on implementing the share distribution and circulation reform on 27 March 2006.

The effective date of the share distribution and circulation reform was 28 March 2006. All registered outstanding holders of A shares on the effective date of the share distribution and circulation reform were paid 2.6 consideration shares issued by non-circulating shareholders of the Company for every 10 circulating A shares.

In 2006, the Company's share capital increased by 12,130,235 shares due to the convertible corporate bonds. As of 31 March 2006, the Company total share capital increased to 1,365,665,530 shares, and as of 31 December 2006, the Company's total share capital increased to 1,365,670,155 shares. On 6 June 2006, Zhongruihua Hengxin CPA issued a capital verification report (Zhong Rui Hua Heng Xin Yan Zi II [2006] No. 009). After the change, the Company's shareholding structure was as follows:

Unit: Share

Class of share	2005-12-31	Increase in convertible corporate bonds	Consideration of share distribution and circulation	Share distribution and circulation	Others (note)	2006-12-31	Percentage
<b>I. Unlisted circulating shares</b>							
State-owned shares	422,843,176	-	-94,269,519	-328,573,657	-	-	-
Domestic legal person shares	12,247,656	-	-2,730,517	-9,517,139	-	-	-
Subtotal	435,090,832	-	-97,000,036	-338,090,796	-	-	-
<b>II. Restricted circulating shares</b>							
State-owned legal person shares	-	-	-	328,573,657	-	328,573,657	24.06%
Domestic legal person shares	-	-	-	9,517,139	-	9,517,139	0.70%
Shares held by senior management	-	-	691,083	-	16,027,262	16,718,345	1.22%
Subtotal	-	-	691,083	338,090,796	16,027,262	354,809,141	25.98%
<b>III. Unrestricted circulating shares</b>							
RMB ordinary shares	360,951,603	12,130,235	96,308,953	-	-16,027,262	453,363,529	33.20%
Domestic-listed foreign shares	557,497,485	-	-	-	-	557,497,485	40.82%
Subtotal	918,449,088	12,130,235	96,308,953	-	-16,027,262	1,010,861,014	74.02%
<b>Total</b>	<b>1,353,539,920</b>	<b>12,130,235</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,365,670,155</b>	<b>100.00%</b>

Note: It refers to the listed circulating shares (A shares) purchased by senior management of the Company from the Company that were converted to restricted circulating shares.

### 8. In 2007, the Company completed the conversion of debt to equity

On 13 April 2007, convertible corporate bonds issued by the Company have fulfilled the conditions for redemption. Upon approval at the 21st meeting of the

fourth session of the board of directors of the Company, the Company redeemed the 5,520 convertible corporate bonds outstanding that have not been converted after the market close on 11 May 2007 at the price of 105% of the par value (current interest inclusive) on 14 May 2007, and such convertible corporate bonds were delisted on 21 May 2007.

As of 14 May 2007, the share capital of Chenming Paper increased by 359,754,087 shares due to the conversion of debt to equity. In 2007, the share capital of the Company increased by 340,675,786 shares due to the conversion of convertible corporate bonds to equity. On 16 May 2007, Zhongruihua Hengxin CPA issued a capital verification report (Zhong Rui Hua Heng Xin Yan Zi II [2007] No. 018). After the change, the Company's shareholding structure was as follows:

Unit: Share

Class of share	2006-12-31	Increase in convertible corporate bonds	Increase in lock-up shares	Release of lock-up shares	2007-12-31	Percentage
<b>I. Restricted circulating shares</b>						
State-owned legal person shares	328,573,657	-	-	-	328,573,657	19.26%
Domestic legal person shares (note 1)	9,517,139	-	-	-9,517,139	-	-
Shares held by senior management (note 2)	16,718,345	-	16,400	-5,807,949	10,926,796	0.64%
Subtotal	354,809,141	-	16,400	-15,325,088	339,500,453	19.90%
<b>II. Unrestricted circulating shares</b>						
RMB ordinary shares	453,363,529	340,675,786	-16,400	15,325,088	809,348,003	47.43%
Domestic-listed foreign shares	557,497,485	-	-	-	557,497,485	32.67%
Subtotal	1,010,861,014	340,675,786	-16,400	15,325,088	1,366,845,488	80.10%
<b>Total</b>	<b>1,365,670,155</b>	<b>340,675,786</b>	<b>-</b>	<b>-</b>	<b>1,706,345,941</b>	<b>100.00%</b>

Note 1: The Company implemented share distribution and circulation reform on 29 March 2006. The lock-up period of 9,517,139 original domestic non-state-owned legal person shares (A shares) expired on 17 April 2007, and such shares were listed for trading.

Note 2: According to the Practice Guidance for the Company's Shares Held by the directors, supervisors and senior management of the Listed Companies of Shenzhen Stock Exchange, the shares held by the existing directors, supervisors and senior management would be unlocked up on the basis of the percentage of 25% of the shares (i.e.

3,731,670 shares) held as current period. The shares held by the existing directors, supervisors and senior management remain unchanged; the six-month lock-up period of restricted shares held by then retired senior management of the Company expired and 2,076,279 shares were released; the then deputy general manager Ren Wei of the Company locked 16,400 shares held by senior management was due to purchase and sale of the Company's A shares.

### 9. In 2008, the Company publicly issued H shares for the first time

As approved by the approval document [2008] No. 290 "On Approval of the Issue of Overseas-Listed Foreign Shares by Shandong Chenming Paper Holdings Limited from CSRC and the approval from Hong Kong Stock Exchange, the Company issued overseas-listed foreign shares (H shares) through public offer.

The Company completed the public issuance of 355,700,000 H shares (including 35,570,000 H shares under Hong Kong public offering and 320,130,000 H shares under international offering) during 4 June to 10 June 2008 at an issue price of HK\$9.00 per share. Meanwhile the relevant state-owned legal person shareholders of the Company performed the reduction of state-owned shares, by way of transferring to the Social Security Fund Council such number of shares held by it, representing 35,570,000 shares, totaling 391,270,000 H shares which have been converted into overseas-listed foreign shares (H shares). H shares under the new issue were listed and traded on the Main Board of the Hong Kong Stock Exchange on 18 June 2008. On 10 September 2008, RSM China Certified Public Accountants issued a capital verification report (Zhong Rui Yue Hua Yan Zi [2008] No. 2189). The Company has obtained the "Certificate of Approval for Foreign Investment Enterprise" and completed the business change registration in September 2008. The changes in shareholding before and after the public issuance of H shares of the Company for the first time are set out below:

Unit: Share

Class of shares	2007-12-31	Increase in lock-up shares	Unlock restriction	H share offering	State-owned shares converted	2008-12-31	Percentage of share
<b>I. Restricted circulating shares</b>							
State-owned legal person	328,573,657	-	-	-	-35,570,000	293,003,657	14.21%

shares							
Shares held by senior management (note)	10,926,796	176,774	-120,101	-	-	10,983,469	0.53%
Subtotal	339,500,453	176,774	-120,101	-	-35,570,000	303,987,126	14.74%
<b>I. Unrestricted circulating shares</b>							
RMB ordinary shares	809,348,003	-176,774	120,101	-	-	809,291,330	39.25%
Domestic-listed foreign shares	557,497,485	-	-	-	-	557,497,485	27.04%
Overseas-listed foreign shares	-	-	-	355,700,000	35,570,000	391,270,000	18.97%
Including: 1. New shares	-	-	-	355,700,000	-	355,700,000	17.25%
2. Social security fund	-	-	-	-	35,570,000	35,570,000	1.72%
Subtotal	1,366,845,488	-176,774	120,101	355,700,000	35,570,000	1,758,058,815	85.26%
<b>Total</b>	<b>1,706,345,941</b>	<b>-</b>	<b>-</b>	<b>355,700,000</b>	<b>-</b>	<b>2,062,045,941</b>	<b>100.00%</b>

Note: According to the Practice Guidance for the Company's Shares Held by the Directors, Supervisors and Senior Management of the Listed Companies of Shenzhen Stock Exchange, the shares held by the existing directors, supervisors and senior management would be unlocked up based on the percentage of 25% of the shares (i.e. 27,301 shares) held at the beginning of each year. The shares held by the existing senior management remain unchanged; the six-month lock-up period of restricted shares held by then retired senior management of the Company expired and 92,800 shares were released; Dong Jianwen, the then deputy general manager of the Company, has retired for less than 6 months, and the released shares he held were relocked; and the new deputy general manager Meng Feng locked its shares of the Company. An addition of 176,774 shares held by senior management was frozen.

### **10. In 2013, the Company repurchased B shares**

Upon approval at the 2012 third extraordinary general meeting, 2012 first class meeting for holders of domestic-listed shares (A shares and B shares), 2012 first class meeting for holders of overseas-listed shares (H shares) held on 12 December 2012, the Company repurchased no more than 150 million domestic-listed shares (B shares) at the repurchase price of no more than HK\$4 per share, namely no more than HK\$400 million to total purchase amount, within 12 months after the date of approval at the general meeting and class meetings. Upon expiration of the repurchase period or completion of the

repurchase, the Company cancelled the repurchased B shares according to law and reduced its registered capital accordingly.

On 28 December 2012, Shandong Province Commerce Department issued a Preliminary Reply to Capital Reduction by Shandong Chenming Paper Holdings Limited (Lu Shang Wu Wai Zi Zi [2012] No. 907), which agreed that the Company repurchases no more than 150 million issued domestic-listed foreign shares (B shares). The number of repurchased shares will be determined by the actual amount of shares repurchased and the registered capital should be reduced accordingly.

On 4 February 2013, according to the reply from Shouguang City Branch of the State Administration of Foreign Exchange on approval of the foreign exchange purchase quota in respect of the B shares repurchased by Shandong Chenming Paper Holdings Limited (Zhou Hui Fa [2013] No. 4), the Company was allowed to purchase no more than HK\$400 million foreign exchange for repurchase of no more than 150 million domestic-listed foreign shares (B shares). On 11 December 2013 on expiration of the repurchase period, the Company repurchased a total of 86,573,974 B shares and completed the deregistration of the repurchased shares with Shenzhen Branch of China Securities Depository and Clearing Corporation Limited on 24 December 2013.

On 25 December 2013, the Ruihua Certified Public Accountants (Special General Partnership) issued a capital verification report (Rui Hua Yan Zi [2013] No. 91110005). On 30 December 2013, the Company received the Reply on Capital Reduction of Shandong Chenming Paper Holdings Limited (Lu Shang Wu Wai Zi Z [2013] No. 933) issued by Shandong Province Commerce Department, which agreed that the Company reduced its registered capital from RMB2,062,045,941 to RMB1,975,471,967. On 31 December 2013, the Company received the Certificate of Approval for Foreign Investment Enterprise upon the capital reduction. On 2 January 2014, the Company completed filing procedures for capital reduction with Shandong Province Industry and Commerce Bureau and obtained its business license after capital reduction, with the registered capital of RMB1,975,471,967.

## **11. In 2014, the Company repurchased H shares**

On 21 August 2013, the Company held the 2013 first extraordinary general meeting, 2013 first class meeting for holders of domestic-listed shares (A shares and B shares) and 2013 first class meeting for holders of overseas-listed shares (H shares), which agreed that the Company repurchased no more than 39,127,000 overseas-listed shares (H shares) within the repurchase period upon approval at the general meeting and class meetings at the repurchase price of no more than HK\$4 per share or HK\$160 million in total.

On 10 October 2013, Shandong Province Commerce Department issued a Preliminary Reply to Capital Reduction by Shandong Chenming Paper Holdings Limited (Lu Shang Wu Wai Zi Zi [2013] No. 705), which intended to agree that the Company repurchased no more than 39,127,000 issued overseas-listed foreign shares (H shares). The number of repurchased shares will be determined by the actual amount of shares repurchased and the registered capital should be reduced accordingly.

On 1 November 2013, the reply from Shouguang City Branch of the State Administration of Foreign Exchange consented to the foreign exchange purchase quota in respect of the H shares repurchased by the Company.

As of the end of the term of such repurchase on 9 May 2014, the Company repurchased 39,066,500 H shares, and completed the cancellation of the repurchased 39,066,500 H shares in Computershare Hong Kong Investor Services Limited on 14 May 2014.

On 27 May 2014, the Company received the Reply on Capital Reduction of Shandong Chenming Paper Holdings Limited (Lu Shang Wu Wai Zi Zi [2014] No. 158) issued by Shandong Province Commerce Department and Certificate of Approval for Foreign Investment Enterprise upon the capital reduction, which both agreed that the Company reduced its registered capital from RMB1,975,471,967 to RMB1,936,405,467.



On 28 May 2014, the Company completed filing procedures for capital reduction with Shandong Province Industry and Commerce Bureau and obtained its business license after capital reduction, with the registered capital changing to RMB1,936,405,467.

## **12. In 2016, the Company issued preference shares**

At the 2015 first extraordinary general meeting, 2015 first class meeting for holders of domestic-listed shares (A shares and B shares) and first class meeting for holders of overseas-listed shares (H shares), the Company considered and approved the proposal regarding the plan on non-public issuance of preference shares. On 22 September 2015, the CSRC (Zheng Jian Xu Ke [2015] No. 2130) approved the non-public issuance of no more than 45 million preference share by the Company at par value of RMB100. Such shares shall be issued in multiple tranches, with an initial issuance of no more than 22.50 million shares which shall be completed within 6 months from the date of the approval; and the remaining tranches of issuance shall be completed within 24 months from the date of the approval.

The Company issued 22,500,000 preference shares on 17 March 2016. The actual proceeds raised from the non-public issuance, net of issue expenses, amounted to RMB2,238.75 million; The Company issued 10,000,000 preference shares on 17 August 2016. The actual proceeds raised from the non-public issuance, net of issue expenses, amounted to RMB995 million; The Company issued 12,500,000 preference shares on 22 September 2016. The actual proceeds raised from the non-public issuance, net of issue expenses, amounted to RMB1,243.75 million. After completion of the issuance, changes in the shares of the Company are as follows:

Unit: Share

<b>Item</b>	<b>Before the change</b>	<b>Increase/decrease (+, -)</b>	<b>After the change</b>
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	Amount	Percent age	New issue	Bonus shares	Shares converted from reserves	Others	Subtotal	Amount	Percent age
<b>I. Restricted shares</b>	<b>8,241,219</b>	<b>0.42%</b>	-	-	-	<b>-454,039</b>	<b>-454,039</b>	<b>7,787,180</b>	<b>0.40%</b>
Shares held by other domestic investors	8,241,219	0.42%	-	-	-	-454,039	-454,039	7,787,180	0.40%
Shares held by domestic natural persons	8,241,219	0.42%	-	-	-	-454,039	-454,039	7,787,180	0.40%
<b>II. Unrestricted shares</b>	<b>1,928,164,248</b>	<b>99.58%</b>	-	-	-	<b>454,039</b>	<b>454,039</b>	<b>1,928,618,287</b>	<b>99.60%</b>
1. RMB ordinary shares	1,105,037,237	57.07%	-	-	-	554,039	554,039	1,105,591,276	57.10%
2. Domestic-listed foreign shares	470,923,511	24.32%	-	-	-	-100,000	-100,000	470,823,511	24.31%
3. Overseas-listed foreign shares	352,203,500	18.19%	-	-	-	-	-	352,203,500	18.19%
<b>III. Total number of shares</b>	<b>1,936,405,467</b>	<b>100.00%</b>	-	-	-	-	-	<b>1,936,405,467</b>	<b>100.00%</b>

Note: During the change, the number of restricted shares held by domestic natural persons decreased by 454,039 from 8,241,219 to 7,787,180, due to the fact that: According to the Practice Guidance for the Company's Shares Held by the Directors, Supervisors and Senior Management of the Listed Companies of Shenzhen Stock Exchange, 25% of RMB ordinary shares (A shares), i.e. 9,902 shares, without restriction held by senior management were put under restriction for half a year since the resignation thereof during the reporting period; 100% of domestic-listed foreign shares (B shares), i.e. 100,000 shares, without restriction held by senior management were put under restriction for half a year since the resignation thereof; 563,941 restricted RMB ordinary shares (A shares) held by senior management who have been resigned for more than half a year were released.

### **13. In 2018, the fourth capital reserve capitalization of the Company**

On 13 June 2018, the 2017 profit distribution plan was considered and approved at the 2017 annual general meeting, the 2018 second class meeting for holders of domestic-listed shares and the 2018 second class meeting for holders

of overseas-listed shares. It distributed cash dividend RMB6.00 (tax inclusive) per 10 shares to all holders of ordinary shares based on the total ordinary share capital (A shares and B shares) of 1,584,201,967 shares as at the end of 2017, and converted into 5 share capitals per 10 shares (968,202,734 shares converted in total) to all holders of ordinary shares based on the total share capital of 1,936,405,467 shares (A shares, B shares and H shares). After the change, the Company's shareholding structure was as follows:

Unit: Shares

Class of shares	Before the change	Increase or decrease in the number of shares	After the change
	Amount	Number of shares converted from capital reserve	Amount
A shares	1,113,278,456	556,639,228	1,669,917,684
B shares	470,923,511	235,461,755	706,385,266
H shares	352,203,500	176,101,750	528,305,250
<b>Total share capital</b>	<b>1,936,405,467</b>	<b>968,202,734</b>	<b>2,904,608,200</b>

#### **14. In 2020, restricted A share incentive scheme was implemented**

On 29 May 2020, the tenth extraordinary meeting of the ninth session of the board of directors and the fifth extraordinary meeting of the ninth session of the supervisory committee of the Company considered and approved the the Resolution on the Matters Relating to Adjustments to the 2020 Restricted A Share Incentive Scheme of the Company and the Resolution in Relation to the Grant of Restricted Shares to the Participants. The independent directors of the Company issued their independent opinions thereon, agreed that the board of directors of the Company shall make adjustments to the list of proposed participants and the number of shares to be granted, and d considered that the participants were legally and validly qualified, and that the grant date determined on 29 May 2020 was in compliance with relevant regulations. A total of 111 participants were granted restricted shares and a total of 79.6 million restricted shares were granted.

After the change, the Company's shareholding structure was as follow:

Unit: Share

Class of shares	Before the change		Change in number of shares	After the change	
	Amount	Percentage (%)		Amount	Percentage (%)
Restricted circulating shares	10,545,599	0.36	79,600,000	90,145,599	3.02
Unrestricted circulating shares	2,894,062,601	99.64	0	2,894,062,601	96.98
<b>Total</b>	<b>2,904,608,200</b>	<b>100</b>	<b>79,600,000</b>	<b>2,984,208,200</b>	<b>100</b>

### III. Change in Control in Recent Three Years

As of 31 December 2020, Chenming Holdings Company Limited held 457,322,919 A shares of Chenming Paper, which represents 15.32% of Chenming Paper's total share capital and therefore was a controlling shareholder of the Company. Chenming Holdings (Hong Kong) Limited, a wholly-owned overseas subsidiary of Chenming Holdings Company Limited, held an aggregate of 364,131,563 B shares and H shares of the Company, which represents 12.20% of the total share capital. Chenming Holdings Company Limited and Chenming Holdings (Hong Kong) Limited held an aggregate of 27.52% of Chenming Paper's total share capital. The State-owned Assets Supervision and Administration Bureau of Shouguang City indirectly held 45.21% equity interest of the largest shareholder Chenming Holdings Company Limited through Shandong Shouguang Jinxin Investment Development Holdings Group Co., Ltd. which it has 100% control over, and was a beneficial controller of the Company. The control rights of the Company in recent three years remain unchanged.

### IV. Top Ten Shareholders of the Company

As of 31 December 2020, the Company had an aggregate of 2,984,208,200 shares, comprising 1,749,517,684 A shares, 706,385,266 B shares and 528,305,250 H shares.

As of 31 December 2020, the shareholdings of top ten shareholders of the Company are as follow:

No.	Name of shareholder	Nature of sharehold	Number of shares held	Nature of	Percentage of total share
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		er	(shares)	share	capital
1	CHENMING HOLDINGS COMPANY LIMITED	State-owned legal person	457,322,919	A shares	15.32%
2	HKSCC NOMINEES LIMITED	Overseas legal person	373,359,125	H shares	12.51%
3	CHENMING HOLDINGS (HONG KONG) LIMITED	Overseas legal person	210,717,563	B shares	12.20%
			153,414,000	H shares	
4	CENTRAL HUIJIN ASSET MANAGEMENT LTD.	State-owned legal person	60,206,850	A shares	2.02%
5	HONG KONG SECURITIES CLEARING COMPANY LIMITED	Overseas legal person	34,168,330	A shares	1.14%
6	Chen Hongguo	Domestic natural persons	31,080,044	A shares	1.04%
7	National Social Security Fund 418	Others	18,840,000	A shares	0.63%
8	NINGBO ASIA PAPER TUBE & CARTON CO., LTD. (宁波亚洲纸管纸箱有限公司)	Domestic non-state-owned legal person	18,400,000	A shares	0.62%
9	VANGUARD TOTAL INTERNATIONAL STOCK INDEX FUND	Overseas legal person	14,771,945	B shares	0.50%
10	VANGUARD EMERGING MARKETS STOCK INDEX FUND	Overseas legal person	13,121,946	B shares	0.44%

Note 1: CHENMING HOLDINGS (HONG KONG) LIMITED is an overseas wholly-owned subsidiary of Chenming Holdings Company Limited. Shareholder Chen Hongguo is the legal representative, chairman and general manager of Chenming Holdings Company Limited.

Note 2: As of 31 December 2020, Chenming Holdings Company Limited pledged a total of 238,470,000 shares, representing 29.03% of the shares it held and 7.99% of the total share capital of the Company.

Note 3: HKSCC NOMINEES LIMITED is a wholly-owned subsidiary of Hong Kong Securities Clearing Company Limited.

## V. Controlling Shareholder and Beneficial Controller of the Company

### (I) Basic information on controlling shareholder

As of 31 December 2020, Chenming Holdings Company Limited held 457,322,919 A shares of Chenming Paper, representing 15.32% of the total share capital of

Chenming Paper. Chenming Holdings (Hong Kong) Limited, a wholly-owned overseas subsidiary of Chenming Holdings Company Limited, held an aggregate of 364,131,563 B shares and H shares of the Company, which represents 12.20% of the total share capital of the Company. Chenming Holdings Company Limited is a controlling shareholder of the Company. Its basics are detailed below:

<b>Company name</b>	Chenming Holdings Company Limited
<b>Registered capital</b>	RMB1,238,787,742.5
<b>Unified social credit code</b>	91370783783485189Q
<b>Establishment date</b>	30 December 2005
<b>Legal representative</b>	CHEN Hongguo
<b>Place of registration</b>	No. 595 Shengcheng Road, Shouguang City
<b>Contact number</b>	0536-2153396
<b>Email address</b>	cmkg123456@163.com
<b>Business scope</b>	Investment in papermaking, electric power, thermal power and forestry projects with its own capital (financial, securities, futures, wealth management, fund-raising and other related businesses are not allowed; and no financial businesses such as deposit absorption, financing guarantees, wealth management on behalf of clients, etc. are allowed without the approval of financial regulatory authorities); sales of mineral products (excluding mining), papermaking raw materials, building materials, chemical raw materials and products (excluding hazardous chemicals and precursor chemicals), steel, electricity, heat, natural gas for urban fuel; domestic trade agency services; information technology consulting services; conference and exhibition services; professional design services; financial consulting services; business management consulting services (projects subject to approval in accordance with the law can only be carried out after approval by relevant departments)

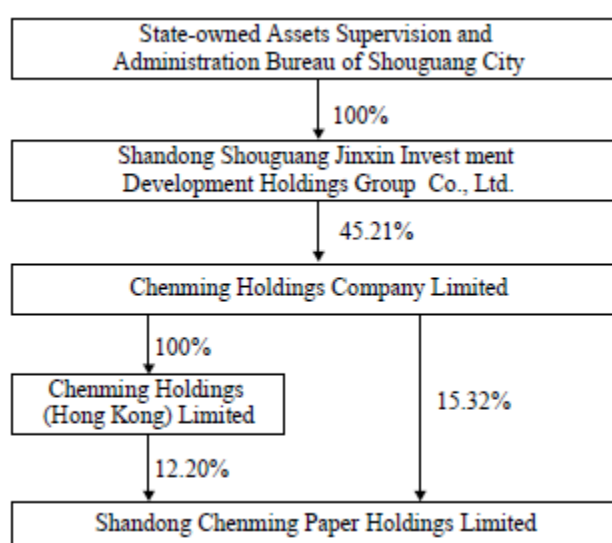
## (II) Information of the beneficial controller

The State-owned Assets Supervision and Administration Bureau of Shouguang City held 100% equity interest of Shandong Shouguang Jinxin Investment Development Holdings Group Co., Ltd. ("Jinxin Investment") and held

45.21% equity interest of Chenming Holdings Company Limited, the largest shareholder, indirectly through Jinxin Investment, and is the beneficial controller of the Company.

**(III) Shareholding structure of the controlling shareholder and beneficial controller**

The chart below illustrates the relationship between the Company and the beneficial controller as of 31 December 2020:



**VI. Principal Business**

The Company is a large conglomerate principally engaged in pulp production and paper making with synergistic development in finance, forestry, logistics and construction materials, with A shares, B shares and H shares. The Company has committed itself to implementing a pulp and paper integration strategy, introduced world-leading pulp production and paper making technology and equipment. Its product series include high-end offset paper, white paper board, coated paper, light weight coated paper, household paper, electrostatic copy paper, thermal paper and glassine paper, with each major product ranking among the highest in terms of market share in China. The Company has scientific research institutions including the national enterprise

technology centre, the postdoctoral working station as well as state certified CNAS pulp and paper testing centre



## VII. Major Financial Information and Financial Indicators

Major financial data and financial indicators of the Company (on consolidated basis) over the Last Three Years and One Period are set out below:

### (I) Major financial data

Unit: 10,000 Yuan

Item	January to September 2020 /30 September 2020	2019/31 December 2019	2018/31 December 2018	2017/31 December 2017
Total assets	9,459,508.96	9,795,890.99	10,531,873.48	10,562,509.61
Net assets attributable to shareholders of the Company	2,335,205.67	2,516,974.39	2,504,873.15	2,777,852.91
Total revenue	2,207,311.07	3,039,543.41	2,887,575.62	2,947,245.36
Net profit attributable to shareholders of the Company	107,655.43	165,656.66	250,982.89	376,932.55
Net profit after extraordinary gains or losses attributable to shareholders of the Company	53,121.90	70,232.91	195,369.98	342,577.90
Net cash flows from operating activities	726,885.01	1,223,270.72	1,409,970.19	2,376.60

Note: The financial data of the first three quarters in 2020 are unaudited, and the financial information in years 2017 to 2019 has been audited by Grant Thornton (Special General Partnership).

## (II) Major financial indicators

Item	January to September 2020	2019	2018	2017
Basic earnings per share (RMB per share)	0.19	0.33	0.51	1.13
Diluted earnings per share (RMB per share)	0.19	0.33	0.51	1.13
Basic earnings per share after extraordinary gains or losses (RMB per share)	-	0.01	0.32	0.90
Rate of return on weighted average net assets	3.07%	5.57%	8.51%	15.80%
Rate of return on diluted average net assets after extraordinary gains or losses	2.27%	2.79%	7.80%	12.33%

## **SECTION II OVERVIEW OF THIS TRANSACTION PLAN**

### **I. Basic Information of This Proposal**

Shandong Chenming Paper Holdings Limited (hereinafter referred to as the “Chenming Paper” or “Company”) is proposed to apply for the listing and trading of the issued 706,385,266 domestic-listed foreign shares (B shares) on the Main Board of the Hong Kong Stock Exchange through change of listing place and by way of conversion into overseas-listed foreign shares (H shares).

In order to fully protect the legitimate rights and interests of investors of B shares, and for the purpose of implementing the B-to-H Share Conversion, the Company will arrange third party(ies) to provide cash options to all holders of B shares. In particular, Chenming Holdings (Hong Kong) Limited, a wholly-owned overseas subsidiary of Chenming Holdings Company Limited, a controlling shareholder of the Company, has issued a commitment to waive the cash options. Investors who originally held the Company’s B shares may choose to declare and exercise the cash options at a specified time by selling a part or the whole of B shares they hold to third party(ies) that provide cash options; they may also choose to maintain and retain their B shares until they are listed on the Hong Kong Stock Exchange, but the nature of the shares held will be changed from B shares to H shares.

The holders of B shares of the Company must declare to exercise the cash options during the declaration period. The B shares that are validly declared for exercise of cash options are entitled to the cash consideration paid by the cash options provider at the price agreed in the Proposal. The cash options that are not declared within the specified period will be void. The detailed arrangements of the cash options proposal (including but not limited to the registration date, declaration period, the method of declaration and settlement of cash options etc.) will be disclosed in a timely manner in accordance with provisions under applicable laws and regulations. In case where any investor does not declare to exercise the cash options or the declaration is invalid, the B shares held by such investor will be listed and traded on the Main Board of the Hong Kong Stock Exchange through change of listing place and by way of conversion after the completion of all approval procedures for and implementation of the Proposal.

The shares listed and traded on the Hong Kong Stock Exchange must have sufficient liquidity, and the Hong Kong Listing Rules require that there must be an open market for the shares to be listed. If the proportion of shares subject to exercise of cash options is too high, resulting in low liquidity and insufficient public float, the Company may fail to meet the requirements for listing on the Hong Kong Stock Exchange.

If one of the following occurs, the cash options under this Proposal will not be implemented, and the Proposal will be terminated, and B shares will continue to be traded on the B share market of the SZSE: (1) the declaration of the exercise of the cash options results in the public float of H shares fails to meet the minimum public float requirement of H shares of a listed company required by the Hong Kong Stock Exchange; (2) the declaration of the exercise of the cash options results in the total number of H shares held by the top three public shareholders exceeding 50% of H shares held in public hands, or the number of public shareholders in Hong Kong less than 300; (3) the Proposal has not been approved at the general meeting or verified and approved by the CSRC or other government departments and/or agencies at home and abroad (if necessary) as required; (4) the Company cannot arrange for third party(ies) to provide cash options.

If the abovementioned circumstances do not occur after the end of the declaration period, the cash options will be cleared and delivered. That means, the B shares that are validly declared for exercise of cash options are entitled to the cash consideration paid by the cash options provider at the price agreed in the Proposal. The specific price is HK\$3.33 per share, which represents a premium of 5% over the closing price HK\$3.17 per share quoted on the date when the B-to-H Share Conversion has been passed by a resolution of the board of directors (29 January 2021).

After the implementation of the cash options is completed, the nominee delegated by the board of directors of the Company will open an H share account for the only use by investors to handle agency transactions and registration and settlement, on behalf of all holders of B shares at the Designated Hong Kong Qualified Broker in a timely manner in respect of the B shares held by all holders of B shares, and deposit into the Company's H shares and handle related matters (specific operation rules and arrangements for rights and obligations of parties concerned will be announced separately).

Overseas investors with complete information may transfer their H shares to their existing H share accounts after the H share registration is completed; they may also apply to Hong Kong qualified brokers or other overseas securities companies to open a separate H shares account and transfer their H shares held to the newly opened H share account.

The B shares that are held in inactive accounts, are not declared or validly declared for exercise of cash options will be subject to change of listing place and listed on the Main Board of the Hong Kong Stock Exchange by way of conversion after the completion of all approval procedures and implementation of the Proposal.

The Company will prepare and submit to the general meeting for approval the draft of the Articles of Association of Shandong Chenming Paper Holdings Limited (Draft, applicable upon the change of listing place of B shares) in accordance with the relevant provisions under the Mandatory Provisions for Articles of Association of Companies Listed Overseas, the Circular Regarding Opinions on the Supplements and Amendments of Articles of Association of Companies to be Listed in Hong Kong (Zheng Jian Hai Han [1995] No.1) and Opinions on Further Promotion of Standardized Operations of Overseas Listed Companies and Deepening of Reform, and by reference to Guidelines for the Articles of Association of Listed Companies (2019 amendment) and the Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange. The Articles of Association (Draft, applicable upon the change of listing place of B shares) will take effect on the date when the H shares converted from B shares of the Company are listed after consideration and approved at the general meeting and approved by the relevant competent authorities. After the listing of H shares converted from B shares, a class shareholder meeting shall be held in accordance with the circumstances specified in the Articles of Association (Draft, applicable upon the change of listing place of B shares). The existing Articles of Association continue to be valid until the listing of H shares converted from B shares.

## **II. Background Information of This Proposal**

### **(I) Inactive B shares trading of the Company**

At present, the Company has an aggregate of 2,984,208,200 shares, comprising 1,749,517,684 RMB ordinary shares (A shares), representing approximately 58.63% of the total share capital; 706,385,266 domestic-listed foreign shares (B shares), representing approximately 23.67% of the total share capital; and 528,305,250 overseas-listed foreign shares (H shares), representing approximately 17.70% of the total share capital. Compare to A shares and H shares, B shares trading has been inactive and its trading volume, turnover rate and other indicators are underperformed. For example, the trading data between 1 January 2020 to 31 December 2020 is shown in the table below:

<b>Class of securities</b>	<b>Trading volume (0'000 shares) during the period</b>	<b>Turnover rate during the period (%)</b>	<b>Average daily turnover rate (%)</b>
A shares	891,611.19	537.32	2.21
H shares	93,168.29	176.35	0.63
B shares	41,793.59	59.17	0.24

The trading of outstanding B shares in the market is less active than that of A shares and H shares, which will directly lead to the market's valuation and resource orientation to be difficult to perform normally.

**(II) The circulation of the Company's shares in Hong Kong will help further promote the Company's internationalization**

First of all, upon completion of the B-to-H Share Conversion, the proportion and market capitalization of the Company's tradable H shares will further increase. Considering that third party(ies) may be introduced as the providers of cash options, the shareholders' structure of the Company's H shares will be further diversified.

Secondly, PRC shares in Hong Kong are closely related to the policies and economic development in the PRC. In recent years, the economic growth of China has grown significantly, and PRC shares in the Hong Kong market have also been favored by more investors. After the interconnection of Shenzhen-Hong Kong Stock Connect and Shanghai-Hong Kong Stock Connect, the Company became a subject under the Shenzhen-Hong Kong Stock Connect, which is conducive to the gradual reduction of the valuation difference between the two places, and continuously guides the market to realize valuation reshaping and value maximization. Therefore, the Hong Kong stock market shows a positive trend for PRC shares including the Company.

Furthermore, the overseas capital market has been providing companies with a broad financing platform, which is conducive to companies participating in overseas capital operations, making full use of overseas capital and market incentives to further strengthen core competitiveness and promote the

development of the industrial structure in the direction of advanced development.

**(III) The successful implementation of this Proposal will promote the Company's business development**

The industry in which the Company operates has broad development prospects. As a part of our development strategy, the Company has to maintain a large-scale and centralized production and operation mode and conduct scientific research innovation and development in the future. On the one hand, the Company can further deepen its market image and improve market competitiveness after completion of B-to-H Share Conversion, and has stronger bargaining power and market influence in raw material procurement, product pricing, and industry policy formulation. On the other hand, after the implementation of this Proposal, the Company can further play the refinancing function of the overseas capital market, obtain financial support to increase technological innovation capabilities and scientific research and development, and actively develop new products and proprietary technology with high technological content and high added value.

**III. Mechanism for Protection of Shareholders' Interests**

**(I) Voting at extraordinary general meeting and class shareholders' meetings**

**1. Requirements for passing the votes**

As the B-to-H Share Conversion is within the scope of "other matters that are significant to the company and required to be passed by a special resolution" under the Company Law and the Articles of Association, matters regarding this Proposal shall be approved by the shareholders at the general meeting by a special resolution.

In addition, for class shareholders meeting, as the current Articles of Association provided that, “in case the Company intends to alter or abolish the rights of classified shareholders, it should be carried out after shareholders’ general meeting adopts in special resolution and the affected classified shareholders respectively adopt in shareholders’ general meeting convened according to Articles 173 to 180 of the Articles of Association”, therefore, the Company has to hold a class meeting to review matters regarding this Proposal, which shall be approved by more than two-thirds of the voting rights held by all shareholders and holders of B shares present at the class meeting for holders of domestic-listed shares and more than two-thirds of the voting rights held by holders of H shares present at the class meeting for holders of overseas-listed shares.

The Company will separately count the votes of all shareholders and class shareholders at the general meetings, and implement this Proposal after the votes of all class shareholders meet the above requirements.

## **2. Combination of physical and online voting**

The shareholders’ general meeting is convened by a combination of physical voting and online voting. For online voting, the Company will provide an online voting platform to all shareholders through the online voting system of the Shenzhen Stock Exchange for the general meeting. Shareholders may exercise their voting rights through the system during online voting session. The notice of the shareholders’ general meeting will specify the voting procedures for shareholders to vote online.

## **3. Mechanism of solicitation of voting rights by the independent director**

In order to increase the participation of minority shareholders in voting, general meetings and class meetings will adopt a mechanism of solicitation of voting rights by the independent director.



## **(II) Cash options of holders of B Shares**

In order to fully protect the legitimate rights and interests of holders of B shares, the Company decided to arrange for third party(ies) to provide cash options to all holders of B shares of the Company. Holders of B shares registered on the registration date for implementation of the cash options may exercise all or part of the cash option, except in the following cases:

(1) The restricted shares held by the Company's directors, supervisors and senior management members (if any);

(2) The shares (if any) whose beneficial holders have undertaken to the Company to waive the cash option.

Chenming Holdings (Hong Kong) Limited, a wholly-owned overseas subsidiary of Chenming Holdings Company Limited, a controlling shareholder of the Company, has issued a commitment to waive the cash options.

The Company has not determined the third party(ies) to provide the cash options yet. If the Company cannot arrange for third party(ies) to provide the cash options, the cash options of the Proposal will not be implemented, the transaction will be terminated, and the Company's B shares will remain to be listed and traded on the B share market of the Shenzhen Stock Exchange.

### **1. Implementation plan**

After the B-to-H Share Conversion is (1) approved by voting by more than two-thirds of the voting rights held by all shareholders present at the general meeting; (2) approved by voting by more than two-thirds of the voting rights held by all shareholders and holders of B shares present at the class meeting for holders of domestic-listed shares ; (3) approved by voting by more than two-thirds of the voting rights held by shareholders present at the class meeting for holders of overseas-listed shares of the Company; (4) verified and approved by the CSRC or other government departments and/or agencies at home and abroad (if necessary), the Company will announce the declaration period and

declaration and settlement methods of the cash options by way of announcement.

The Company's holders of B shares shall declare the exercise of the cash options during the declaration period. The B shares that are effectively declared are entitled the cash consideration paid by the cash options provider at the price agreed in this Proposal, and the cash options that are not declared within the specified period will be void. The specific equity registration date, cash options declaration period, cash options declaration and settlement methods will be otherwise announced. If the investor does not participate in the declaration of the cash option or the declaration is invalid, the B shares held by the investor will be listed and traded on the main board of the Hong Kong Stock Exchange by introduction after all the approval procedures and the implementation of this Proposal are completed.

Upon expiration of the declaration period, for B shares for which the exercise of cash options are effectively declared within the declaration period, the cash options provider will pay the cash consideration at the price agreed in this Proposal.

## **2. Exercise price**

Holders of B shares who declare to exercise the cash option are entitled to cash consideration paid by the cash options provider on the cash options exercise date for each B share for which they effectively declare the exercise of cash options. The exercise price represents a premium of 5% over the closing price of HK\$3.17 per share (i.e. HK\$3.33 per share) on the date when the B-to-H Share Conversion was approved by the board of directors (i.e. 29 January 2021). If ex-rights, ex-dividends and other matters occur between the announcement date of the board resolution and the implementation date of the cash option for holders of B shares, the price of the cash options will also be adjusted accordingly.

### **3. Currency of cash option consideration**

In this Proposal, the third party provides cash options consideration denominated in Hong Kong dollars.

### **4. Relevant information disclosure**

The detailed arrangements of the cash options plan (including but not limited to the registration date, declaration period, the method of declaration and settlement of cash options etc.) will be disclosed in a timely manner in accordance with laws, regulations and the provisions of the SZSE.

### **5. Circumstances where the cash option is not implemented**

During the declaration period announced in the relevant announcement on the implementation of the cash options, holders of B shares who intend to exercise the cash option may declare the cash options in a prescribed manner and procedure. However, if one of the following occurs, the cash options under this Proposal will not be implemented, and the Proposal will be terminated, and B shares will continue to be traded on the B share market of the SZSE: (1) the declaration of the exercise of the cash options results in the public float of H shares fails to meet the minimum public float requirement of H shares of a listed company required by the Hong Kong Stock Exchange; (2) the declaration of the exercise of the cash options results in the total number of H shares held by the top three public shareholders exceeding 50% of H shares held in public hands, or the number of public shareholders in Hong Kong less than 300; (3) the Proposal has not been approved at the general meeting or verified and approved by the CSRC or other government departments and/or agencies at home and abroad (if necessary) as required; (4) the Company cannot arrange for third party(ies) to provide cash options.

### **IV. Treatment of Inactive Accounts**

For holders of B shares who have inactive accounts and have not participated in the declaration of cash options, their B shares will be listed on the

Main Board of the Hong Kong Stock Exchange after all approval procedures are obtained and implementation of the B-to-H Share Conversion is completed.

## **V. Information Disclosure Planning**

The Company will timely disclose the updates of the Proposal in accordance with relevant laws and regulations and the provisions of the SZSE. The important updates to be disclosed will include but not limited to:

- (1) The general meeting resolution to approve the Proposal;
- (2) obtaining of the acceptance letter from the CSRC on the Company's application for this Proposal;
- (3) Domestic operating guide for the listing for trading of the H shares converted from B shares;
- (4) Obtaining of the approval from the CSRC;
- (5) Announcement on the estimated time for trading suspension of B shares and implementation of cash options;
- (6) Announcement on the implementation of cash options;
- (7) Indicative announcement on the implementation of cash options (for many times);
- (8) Announcement on the implementation results of the cash options;
- (9) The Company's B shares delisting from the SZSE;
- (10) Obtaining of the approval from the Hong Kong Stock Exchange;
- (11) The listing and trading of the B-to-H Share Conversion on the Hong Kong Stock Exchange.

## **VI. Decision-making Process of The Proposal**

### **(I) Authorization and approvals obtained**

The Company held the 17th meeting of the ninth session of the board of directors, and reviewed and approved this Proposal and related matters by communication voting.

### **(II) Authorization and approvals to be obtained**

1. Consideration of the B-to-H Share Conversion at the extraordinary general meeting of shareholders and the class shareholders' general meeting, and the approval by: (1) At least two-thirds of the voting rights held by all shareholders present at the general meeting; (2) At least two-thirds of the voting rights held by all shareholders and the holders of B shares present at the class meeting for holders of domestic-listed shares; (3) At least two-thirds of the voting rights held by the shareholders present at the class meeting for holders of overseas-listed shares;

2. The Company submits relevant documents to and obtains approval from the China Securities Regulatory Commission in respect of the application for the listing and trading of its B shares on the Main Board of the Hong Kong Stock Exchange by way of conversion;

3. The Company submits relevant documents to and obtains approval from the Hong Kong Stock Exchange in respect of the application for the listing and trading of its B shares on the Main Board of the Hong Kong Stock Exchange by way of conversion;

4. Review or approval by other government authorities and agencies (if required).

## VII. Changes in Shareholding Structure of the Company before and after Implementation of This Proposal

Based on current status of shares, the changes in shareholding structure of the Company before and after the B-to-H Share Conversion is detailed below:

Before the B-to-H Share Conversion			Before the B-to-H Share Conversion		
-	Number of shares held (share)	Percentage of total share capital	-	Number of shares held (share)	Percentage of total share capital
<b>RMB ordinary shares (A shares)</b>	<b>1,749,517,684</b>	<b>58.63%</b>	<b>RMB ordinary shares (A shares)</b>	<b>1,749,517,684</b>	<b>58.63%</b>
Including: Chenming Holdings Company Limited	457,322,919	15.32%	Including: Chenming Holdings Company Limited	457,322,919	15.32%
<b>Domestic-listed foreign shares (B shares)</b>	<b>706,385,266</b>	<b>23.67%</b>	<b>Domestic-listed foreign shares (B shares)</b>	-	-
Including: Chenming Holdings (Hong Kong) Limited (note)	210,717,563	7.06%	-	-	-
<b>Overseas-listed foreign shares (H shares)</b>	<b>528,305,250</b>	<b>17.70%</b>	<b>Overseas-listed foreign shares (H shares)</b>	<b>1,234,690,516</b>	<b>41.37%</b>
Including: Chenming Holdings (Hong Kong) Limited	153,414,000	5.14%	Including: Chenming Holdings (Hong Kong) Limited	364,131,563	12.20%
<b>Total number of shares</b>	<b>2,984,208,200</b>	<b>100.00%</b>	<b>Total number of shares</b>	<b>2,984,208,200</b>	<b>100.00%</b>

Note: Chenming Holdings (Hong Kong) Limited is a wholly-owned overseas subsidiary of Chenming Holdings Company Limited.

## VIII. Information on Relevant Domestic Parties Involved in This Proposal

### (I) Applicant for quotation for H shares: Shandong Chenming Paper Holdings Limited

Legal representative: Chen Hongguo

Residence: No. 595 Shengcheng Road, Shouguang City Weifang City, Shandong Province

Tel: 0536-2158008

Fax: 0536-2158977

Contact person: Yuan Xikun, Chu Shifang

**(II) Financial advisor: Guotai Junan Securities Co., Ltd.**

Legal representative: He Qing

Residence: No. 681 Shangcheng Road, China (Shanghai) Pilot Free Trade Zone

Tel: 0755-23970028

Fax: 0755-23970028

Project signatories: Xu Huixuan, Zhao Zhonghong and Zhou Zhulawa

**(III) PRC lawyer of the Company: Beijing Lifang & Partners Law Firm**

Person in charge: Xie Guanbin

Residence: 12/F, Shun Tak Tower, Yard 1 Xiangheyuan Road, Dongcheng District, Beijing

Tel: 010-64096099

Fax: 010-64096260/64096261

Handling lawyers: Liu Sidian and Yang Yichen

## **SECTION III COMPLIANCE ANALYSIS OF THIS PLAN**

### **I. The Proposal Complies with the Relevant Provisions of the Regulations of the State Council Concerning Domestic-listed Foreign Shares of Joint Stock Limited Companies (Decree No.189 of the State Council)**

According to Article 24 of the Regulations Concerning Domestic-listed Foreign Shares of Joint Stock Limited Companies (《关于股份有限公司境内上市外资股的规定》) (Decree No.189 of the State Council) promulgated by the State Council (promulgated in 1995), “with the approval of the Securities Commission of the State Council, domestic-listed foreign shares or their derivative mean may be listed and tradable outside China. The derivative mean mentioned in the preceding sentence refers to warrant certificate and foreign depository receipts of shares”.

Whereas, according to the Institutional Reform Program of the State Council in April 1998, the Securities Commission of the State Council has merged with the CSRC. Therefore, after the approval by the CSRC, the change of listing place of the Company’s domestic-listed foreign shares and the listing and trading of such shares on the Main Board of the Hong Kong Stock Exchange complies with the above requirements.

### **II. The Company can Submit an Application for Overseas Listing and Trading to the CSRC**

According to the relevant provisions of the Regulatory Guidelines for the Application Documents and Examination Procedures for the Overseas Share Issuance and Listing by Joint Stock Companies (《关于股份有限公司境外发行股票和上市申报文件及审核程序的监管指引》) (CSRC Announcement [2012] No. 45) promulgated by the CSRC, a joint stock company established in accordance with the Company Law of the People’s Republic of China shall proactively submit an application to the CSRC for the issue and listing of shares outside China in compliance of the listing conditions of the overseas listing places.

Therefore, with regard to matters such as the selection of listing place (including overseas listing), the Company may submit an application for overseas listing to the CSRC after the approval by the general meeting.

### **III. The Company can Submit an Application for Listing and Trading by way of Conversion to the Hong Kong Stock Exchange**

According to the relevant provisions of the Hong Kong Listing Rules, relevant securities can be listed by way of conversion into other types of securities. The B-to-H Share



Conversion of Chenming Paper refers to the change of listing place of B shares and the listing and trading of such shares on the Main Board of the Hong Kong Stock Exchange by way of conversion, which not involves the issuance of new shares, therefore, the Company's total share capital and total shares remain unchanged, and there is no overseas fundraising in Chenming Paper, only the conversion of listed shares from B shares to H shares, does not involve any share subscription, and no subscription for H shares in foreign currency.

## SECTION IV RISK FACTOR OF THIS PLAN

In evaluating this Proposal, in addition to the other contents of the Proposal and related documents disclosed at the same time as the Proposal, investors shall also carefully consider the following risk factors.

### **I. Risks related to the Failure of Obtaining Approval for the Proposal**

The Proposal is still subject to the following authorization and approval:

1. Consideration of the B-to-H Share Conversion at the extraordinary general meeting of shareholders and the class shareholders' general meeting, and the approval by: (1) At least two-thirds of the voting rights held by all shareholders present at the general meeting; (2) At least two-thirds of the voting rights held by all shareholders and the holders of B shares present at the class meeting for holders of domestic-listed shares; (3) At least two-thirds of the voting rights held by the shareholders present at the class meeting for holders of overseas-listed shares;

2. The Company submits relevant documents to and obtains approval from the China Securities Regulatory Commission in respect of the application for the listing and trading of its B shares on the Main Board of the Hong Kong Stock Exchange by way of conversion;

3. The Company submits relevant documents to and obtains approval from the Hong Kong Stock Exchange in respect of the application for the listing and trading of its B shares on the Main Board of the Hong Kong Stock Exchange by way of conversion;

4. Review or approval by other government authorities and agencies (if required).

This Proposal will be terminated if any of the above verification or approvals is failed to be obtained.

### **II. Risks related to the Cash Options and related Risk of Termination of the Proposal**

In this Proposal, third party(ies) will provide cash options to all holders of B shares. If one of the following occurs, the cash options under this Proposal will not be implemented, and the Proposal will be terminated, and B shares will continue to be traded on the B share market of the SZSE:(1) the declaration of the exercise of the cash options results in the public float of H shares fails to meet the minimum public float requirement of H shares of a listed company required by the Hong Kong Stock Exchange; (2) the declaration of the exercise of the cash options results in the total number of H shares held by the top three public shareholders exceeding 50% of H shares held in public hands, or the number of public

shareholders in Hong Kong less than 300; (3) the Proposal has not been approved at the general meeting or verified and approved by the CSRC or other government departments and/or agencies at home and abroad (if necessary) as required; (4) the Company cannot arrange for third party(ies) to provide cash options.

The holders of B shares of the Company must declare to exercise the cash options during the declaration period. The B shares that are validly declared for exercise of cash options are entitled to the cash consideration paid by the cash options provider at the price agreed in the Proposal. The cash options that are not declared within the specified period will be void. In particular, Chenming Holdings (Hong Kong) Limited, a wholly-owned overseas subsidiary of Chenming Holdings Company Limited, a controlling shareholder of the Company, has issued a commitment to waive the cash options. The specific cash options equity registration date, cash options declaration period, methods of cash options declaration and settlement will be announced separately. In case where any investor does not declare to exercise the cash options or the declaration is invalid, the B shares held by such investor will be listed on the Main Board of the Hong Kong Stock Exchange through change of listing place and by way of conversion after the completion of all approval procedures for and implementation of the Proposal.

### **III. Risks Arising from Different Investment Environment**

Compared with the H share market, the B share market has different trading characteristics (in terms of trading volume and liquidity, etc.), and the levels of participation of individual investors and institutional investors are also different. Due to these differences, the trading prices of the Company's B shares and the Company's H shares in the future may not be the same. The Company also cannot guarantee that the price of H shares in the future will be higher than or equal to the price of B shares prior to the change of listing place. At the same time, there is also the possibility of mutual influence between the Company's A share price and H share price.

### **IV. Uncontrollable Risks in the Time of Implementation of the Proposal**

The implementation of this Proposal still needs to go through various authorizations and approvals as described in the aforementioned "Risks related to the Failure of Obtaining Approval for the Proposal", and there is uncertainty in the time of execution of the corresponding legal procedures.

## **V. Risk of Inconvenient Conditions for Trading**

After the implementation of this Proposal is completed, Domestic Investors and Domestically Trading Overseas Investors will involve risks including but not limited to inconvenient conditions for transaction caused by changes in trading stock codes.

## **VI. Risk related to the Trading Systems**

In the future, after the Company's stocks are successfully listed on the Main Board of the Hong Kong Stock Exchange, the original B share investors may choose to conduct H share trading activities through the domestic or overseas securities company trading system based on their own situation and on a voluntary basis, and in compliance with laws, regulations and trading rules. As the H share trading system used later may be different from the previous B share trading system, and the new trading system may involve multiple links at home and abroad, each link may have network interruptions, server stalls, software failures and related technical reasons. Investors may suffer losses due to the risks of market conditions and trading interruptions, delays, errors or failure to sell shares in a timely manner.

## **VII. Risk of Increase in Transaction Costs**

After the implementation of this Proposal, Domestic Investors and Domestically Trading Overseas Investors still need to pay corresponding commissions to domestic securities companies, and also need to bear the general transaction costs of H shares; in addition, investors will also need to bear H shares special transaction fees in the stock market, including but not limited to: registration and transfer fees, dividend collection fees, and bonus shares collection fees, etc.

In the future, for Domestic Investors and Domestically Trading Overseas Investors, the proceeds from the sale of stocks in Hong Kong will be aggregated by the designated Hong Kong qualified brokerage firm and remitted back to mainland China, and will be transferred to the settlement reserve account maintained with domestic securities companies. Related remittances will incur cross-border transfer costs, especially when the transaction volume of the day is very small, in such case, the cross-border transfer costs of units corresponding to each share of the day may reach a relatively high level. These costs will ultimately have to be borne by investors who trade through the Domestic Securities Companies' Trading System, which will result in a corresponding increase in transaction costs.

## **VIII. Risk of Differences in Trading Time**

After the implementation of this Proposal is completed, in the future, there will be certain differences in terms of trading time between that of Domestic Investors and

Domestically Trading Overseas Investors and that of Non-domestically Trading Overseas Investors:

**(I) Differences in average daily transaction time between mainland China and Hong Kong**

H share trading time is 5.5 hours a day, i.e. 9:30-12:00, 13:00-16:00, and stock trading time in domestic market is 4 hours a day, i.e. 9:30-11:30, and 13:00-15:00.

**(II) Different public holidays in mainland China and Hong Kong**

In the future, such differences may lead to a certain degree of inequality in trading rights between Domestic Investors and Domestically Trading Overseas Investors, and Non-domestically Trading Overseas Investors. When domestic trading investors are in non-trading hours, Non-domestically Trading Overseas Investors still have access to trading; during the days when mainland China is on public holidays while Hong Kong is not, the time of settlement and payment of Domestically Trading Overseas Investors may lag behind that of the Non-domestically Trading Overseas Investors.

**IX. Risk of Restriction on Trading Rights**

As the implementation rules for investor operations for B-to-H Share Conversion involve institutional rules and different trading systems of the mainland China and Hong Kong, the Company is currently further studying the specific implementation details. The Company will disclose relevant implementation details in the progress announcement in a timely manner.

**X. Risk of Inactive Accounts**

If the B shares held in inactive accounts are not declared or not validly declared for exercise of cash options, such B shares will be listed on the Main Board of the Hong Kong Stock Exchange through change of listing place and by way of conversion after the completion of all approval procedures for and implementation of the Proposal.

## SECTION V SPECIAL NOTES

The Company's application for listing and trading of B shares as stock shares on the Main Board of the Hong Kong Stock Exchange involves changes in the listing place of the shares held by the original holders of B shares. Investors may have the option to conduct trading activities through the Domestic Securities Companies' Trading System or Overseas Securities Companies' Trading System based on their own situation and voluntary principles, and subject to the laws, regulations and trading rules. However, in view of the following differences, investors are reminded to pay attention to the following important matters:

### **I. Restriction on Trading Rights**

Since the implementation rules that investor are subject to in dealing with B-to-H Share Conversion involve the institutional rules and different trading systems in mainland and Hong Kong, the Company is currently further studying the specific details of implementation. The Company will promptly disclose relevant implementation details in the progress announcement, and certain classes of shareholders may be exposed to the risk of restricted rights in trading H shares.

### **II. Differences in Trading Time**

After the completion of implementation of this Proposal, there will be certain differences between the trading hours of the Domestic Investors and the Domestically Trading Overseas Investors and the Non-domestically Trading Overseas Investors in the future:

#### **1. Differences in average daily transaction time between mainland China and Hong Kong**

H share trading time is 5.5 hours a day, i.e. 9:30-12:00, 13:00-16:00, and stock trading time in domestic market is 4 hours a day, i.e. 9:30-11:30, and 13:00-15:00.

#### **2. Different public holidays in mainland China and Hong Kong**

In the future, such differences may lead to a certain degree of inequality in trading rights between Domestic Investors and Domestically Trading Overseas Investors, and Non-domestically Trading Overseas Investors. When domestic trading investors are in non-trading hours, Non-domestically Trading Overseas Investors still have access to trading; during the days when mainland China is on public holidays while Hong Kong is not, the time

of settlement and payment of Domestically Trading Overseas Investors may lag behind that of the Non-domestically Trading Overseas Investors.

### III. Difference in Transaction Costs

As the differences in the two markets, the share trading fee for which the investors have to bear are also different. The comparison is as follows:

#### (I) General trading fee

Name of fees	Current B share rate of SZSE	Current H share rate of Hong Kong Stock Exchange
Commission	Not exceeding 0.3% of the trading volume, starting at HK\$5	Free to negotiate commission charges with broker
Brokerage fee/HK "trading fee"	0.00487%	0.005%
Supervisory fee/HK "transaction levy"	0.002%	0.0027%
Stamp duty	0.1% of the trading volume shall be levied on the transferor	0.1% of the trading volume shall be levied on the parties to the transaction (or part thereof)
CCASS Clearing Fee	0.05%	0.002% of the total value of each transaction, with a minimum charge of HK\$2 and a maximum charge of HK\$100 per party

#### (II) Special trading fee of H shares

Name of fees	B shares of SZSE	H shares of Hong Kong
Registration and transfer fees	Nil	HK\$1.5 per lot (collected from clients on behalf of HKSCC, certain brokers may charge additional fees)
Dividend collection fees	Nil	0.12% of the total value of cash dividends (collected from clients on behalf of HKSCC, certain brokers may charge additional fees)
Bonus collection fees	Nil	No clear provision, certain brokers may charge additional fees

HKSCC shall charge the broker a registration and transfer fee of HK\$1.5 per lot on the book close date of the dividend declared by the listed company. The fee base shall be the net increase in the number of shares held by the broker between then and the last book close date. Certain brokers shall only charge this fee to clients who increase their holdings of the shares during this period, while other brokers shall charge all customers who hold the shares, and may charge additional fees. This fee shall only applicable to the first registration of interest rights purchased in the secondary market.

### **(III) The cost of odd lots due to differences in trading units**

The purchase amount of B shares shall be based on a lot of 100 shares, and there are no such minimum requirements in selling. Odd lots shall be “fractional shares”, which can be sold directly through the trading system, and to be sold on a one-off basis.

The smallest trading unit for trading shares in Hong Kong shall also be one lot, but the board lot of each share is not the same. Generally, the amount of each securities transaction on the Hong Kong Stock Exchange shall be not less than HK\$2,000. Each listed company may determine the board lot of its shares based on its own situation, and one for the balance of the shares shall be odd lots. If investors need to sell odd lots, they generally shall be required to transfer to an institution specializing in the purchase of odd lots at 85%-90% of the market price, and such differences become part of the trading fee.

### **(IV) Cross-border remittance fees**

In the future, for Domestic Investors and Domestically Trading Overseas Investors, the proceeds from the sale of stocks in Hong Kong will be aggregated by the designated Hong Kong qualified brokerage firm and remitted back to mainland China, and will be transferred to the settlement reserve account maintained with domestic securities companies. Related remittances will incur cross-border transfer costs, especially when the transaction volume of the day is very small, in such case, the cross-border transfer costs of units corresponding to each share of the day may reach a relatively high level. These costs will ultimately have to be borne by investors who trade through the Domestic Securities Companies' Trading System, which will result in a corresponding increase in transaction costs..

### **IV. Differences in Tax of the Investors**

At present, the investors of the Company's B shares mainly include the domestic individual investors, foreign individuals and foreign institutional investors. The taxes that relevant investors shall be required to pay in trading of B shares and H shares are mainly the income tax arising from the distribution of dividends on holdings of shares, the income tax arising from the transfer of the shares held, and the stamp tax on share trading, details are as follows:



## **(I) Income tax on dividends and bonuses**

### **1. Domestic individuals**

According to the Notice of the Ministry of Finance, the State Taxation Administration and the China Securities Regulatory Commission on Issues concerning Differentiated Individual Income Tax Policies on Dividends and Bonuses of Listed Companies (《财政部、国家税务总局、证监会关于上市公司股息红利差别化个人所得税政策有关问题的通知》) (No. 101 [2015] of the Ministry of Finance), from 8 September 2015, individual income tax shall be levied on the income from dividends and bonuses of the stocks of listed companies obtained by individual investors from the public offering or transfer of market. However, the calculation of their taxable income shall be reduced to a certain extent according to the length of the holding period of such individual investors.

The applicable scope of the above documents is generally understood as domestic-listed A shares and B shares companies. For shareholders who hold H shares after this Proposal, whether the aforesaid differentiated individual income tax policy can be applied to their future dividend income, there is no any clear provision yet. If it is not applicable, all future dividend and bonus income will be included in its taxable income.

### **2. Foreign individuals**

For foreign individuals holding the Company's B shares prior to this Proposal, the Notice of the STA on Issues concerning the Taxation of Gains on Transfer and Dividends from Shares (Equities) Received by Foreign Investment Enterprises, Foreign Enterprises and Foreign Individuals (《国家税务总局关于外商投资企业、外国企业和外籍个人取得股票(股权)转让收益和股息所得税收问题的通知》) (Guo Shui Fa [1993] No. 045) has been explicitly repealed. According to the Individual Income Tax Law of the People's Republic of China, the income from interest, dividends and bonuses obtained by foreign individuals from companies, enterprises and other economic organizations or individuals in the PRC is income derived from the PRC and shall be subject to individual income tax. The payment rules are the same as those for domestic individuals, that is, they are levied based on the length of the holding period.

For foreign individuals holding the Company's H shares after the date of this Proposal, the Notice on Issues concerning Individual Income Tax Collection and Management after the Repeal of Guo Shui Fa [1993] No. 045 (《关于国税发[1993]045号文件废止后有关个人所得

税征管问题的通知》)(Guo Shui Han [2011] No. 348) has clearly stipulated that, incomes on dividends and bonus distribution received from the Company by foreign individuals holding the Company's H shares shall be subject to a withholding tax rate of 10% by the Company. However, depending on the country or region in which such overseas investors are located, for some foreign individual shareholders, the Company may be subject to withhold and pay at the actual tax rate higher than 10% in the country or region where they are located or at a tax rate of 20% in performing withholding obligations.

### **3. Enterprise income tax**

According to current regulations, domestic institutions cannot hold the Company's B shares.

For foreign institutional investors holding the Company's B shares, the tax policy on their incomes from dividends and bonuses distributed remained unchanged when they hold H shares after this Proposal, details are as follows: according to the Notice of the STA on the Issues concerning Withholding and Payments of Enterprise Income Tax when PRC Resident Enterprises Distribute Dividends to Foreign Non-Resident Corporate Shareholders of H Shares (《国家税务总局关于中国居民企业向境外 H 股非居民企业股东派发股息代扣代缴企业所得税有关问题的通知》) (Guo Shui Han [2008] No. 897), and the Reply of the STA on Imposition of Enterprise Income Tax on B-share and Other Dividends of Non-resident Enterprises (《国家税务总局关于非居民企业取得 B 股等股票股息征收企业所得税问题的批复》) (Guo Shui Han [2009] No. 394), a PRC resident enterprise that publicly issues and lists shares (A shares, B shares and overseas shares) inside and outside the PRC shall withhold and pay enterprise income tax at a uniform rate of 10% when distributing dividends to non-resident enterprise shareholders for the year of 2008 and onwards. Non-resident enterprise shareholders entitled to preferential tax treatment shall make registration in accordance with the relevant provisions of the tax treaties.

The withholding and payments of related taxes shall be performed by the withholding agent prescribed by law.

## **(II) Income tax on transfer of shares**

### **1. Domestic individuals**

According to the Notice of the MOF and STA on Temporarily Exempt Individuals from Individual Income Tax on Income From Transfer of Shares (《财政部、国家税务总局关于个

人转让股票所得继续暂免征收个人所得税的通知》) (Cai Shui Zi [1998] No. 61), income from the transfer of B shares in the Company by the Domestic Investors holding B shares prior to this Proposal has been temporarily exempt from individual income tax. As the aforesaid Cai Shui Zi [1998] No. 61 shall be not applicable to H shares, the H shares held by the aforesaid Domestic Investors as a result of this Proposal shall be subject to the individual income tax calculated on the basis of the income from the transfer of property in accordance with the provisions of the Individual Income Tax Law of the People's Republic of China.

## **2. Foreign individuals**

According to the aforesaid Cai Shui Zi [1998] No. 61, income from the transfer of B shares in the Company by the overseas investors holding B shares prior to this Proposal has been temporarily exempt from individual income tax.

For foreign individuals holding the Company's H shares as a result of this Proposal, as the Notice of the STA on Issues concerning the Taxation of Gains on Transfer and Dividends from Shares (Equities) Received by Foreign Investment Enterprises, Foreign Enterprises and Foreign Individuals (《国家税务总局关于外商投资企业、外国企业和外籍个人取得股票(股权)转让收益和股息所得税收问题的通知》) (Guo Shui Fa [1993] No. 045), which previously stipulated that the income from transfer of H shares by foreign individuals were exempted from income tax has been repealed by Guo Ban Fa [2010] No. 28 of the State Council. In event that foreign individuals constitute PRC fiscal residents defined by relevant regulations, or that the shares held by such foreign individuals in the Company will exceed 25% of its total share capital, since the aforesaid Cai Shui Zi [1998] No. 61 shall be not applicable to H shares, so such overseas investors may be required to pay individual income tax in accordance with the relevant provisions of the Individual Income Tax Law.

## **3. Foreign institutions**

For the income tax from transfer of shares, there is no substantial difference between the relevant income tax issues of holding B shares prior to this Proposal and holding H shares after this Proposal by foreign institutions. In event that the investors cannot enjoy the treatment under tax agreements from transfer of H shares in the Company after this Proposal, the relevant property income shall be subject to a withholding income tax of 10% in accordance with the Enterprise Income Tax Law and related regulations.

### **(III) Stamp duty on shares trading**

According to the current regulations in the PRC, the stamp duty on shares trading by shareholders holding the Company's B shares shall be levied unilaterally at 0.1% by shareholders selling B shares.

After this Proposal, the nature of the aforesaid B shares shall be changed to H shares, and applicable to the trading stamp duty policy in Hong Kong, and the trading parties shall be levied at 0.1% of the trading volume.

### **V. Differences in Up and Down Limit**

The price up and down limit shall be implemented on trading in B shares, with a up and down ratio of 10%. The formula for calculating the price up and down shall be: price of up and down = previous closing price  $\times$  (1 $\pm$  up and down ratio).

There is no up and down limit on trading of H shares.

### **VI. Differences in T+0 Trading System**

The T+1 trading system shall be implemented to B shares, and shares purchased on the day cannot be sold on the same day.

The T+0 trading system shall be implemented to H shares, and shares purchased on the day can be sold on the same day, and there is no limit to the number of buy and sell. For shares included in the short-selling list (such as big-cap stocks), a sell-before-buy operation can be performed.

### **VII. Differences in Settlement System**

The T+3 settlement system shall be implemented to B shares, and the settlement shall be carried out on the fourth trading day after the entrusted dealing (including the entrusted date), and the formal settlement of funds and shares shall be completed on the fourth trading day after the dealing was entered into, realizing delivery versus payment. Prior to that, investors shall be not allowed to withdraw the funds for selling shares and carry out the transfer-out custody of the buying shares.

The T+2 settlement system shall be implemented to H shares, and the settlement time for funds and shares shall be completed between 9:30 a.m. and 3:45 p.m. on the second working day after the trading day. Prior to that, investors shall be not allowed to withdraw cash, physical stocks, and carry out the transfer stock of custody of the buying shares.

### **VIII. Differences in Tick Size**

The tick size for B shares shall be HK\$0.01.

The tick size for H shares varies with the price range of the shares upon listing, as shown in the following table:

Price Range (HK\$)	Tick Size (HK\$)
0.01-0.25	0.001
0.25-0.50	0.005
0.5-10	0.01
10-20	0.02
20-100	0.05
100-200	0.1
200-500	0.2
500-1000	0.5
1000-2000	1.0
2000-5000	2.0
5000-9995	5.0

### **IX. Differences in Opening Trading Mechanism**

#### **(I) Opening trading mechanism of B shares in Shenzhen stock market**

The ordering time for accepting auction trades from trading participants shall be 9:15 to 9:25, 9:30 to 11:30, and 13:00 to 15:00 on each trading day.

The trading competent organization shall not accept cancellation of orders at the centralised auction at the opening session from 9:20 to 9:25 and the centralised auction at the closing session from 14:57 to 15:00 on each trading day. Other uncompleted orders can be canceled within the time accepting orders. The cancellation order shall be valid only if confirmed by the trading competent organization.

#### **(II) Opening trading mechanism in Hong Kong stock market**

The pre-opening session specifically includes the following four different sessions (9:00 to 9:30):

Order input session (9:00 to 9:15): General competing orders can be input into the system and can be changed or canceled. If you just reduce the number of shares to be traded, it shall not affect the sequencing of the matching time for the order; but if you change the specified price or increase the number of shares to be traded, you will lose the original sequencing of the matching time for the order;

Pre-matching session (9:15 to 9:20): Only competing orders can be input into the system, and all orders cannot be changed or canceled.

Order matching session (9:20 to 9:28): The automatic order matching of general competing orders must be matched in accordance with Rule 517(1)(a), during which no order can be input, changed or canceled in the system. According to the method stipulated in Rule 517(1)(a), all trades entered into during the order matching session shall be regarded as trades entered into at the beginning of the order matching time.

Suspension period (9:28-9:30): The system is in a static state, so as to transition from the pre-opening session to the continuous trading session, during which no order can be input, changed or canceled.

According to the trading rules of the Stock Exchange, general competing orders shall include competing orders and limit orders. The competing order refers to buy or sell orders without a specified price input by an investor within a specified time. The limit order refers to buy or sell orders with a specified price input by an investor within a specified time. After the conversion of the Company's B shares to H shares, the Non-domestically Trading Overseas Investors can apply for trading orders for competing orders or limit orders, while the Domestic Investors and the Domestically Trading Overseas Investors can only apply for trading orders for limit orders.

## **X. Deposit Financing**

Generally, investors shall be not allowed to open deposit accounts in the B shares market, while in the Hong Kong stock market, margin financing and securities lending transactions has been a fairly mature and complete trading method. Investors may have the options to open only a cash account or only a deposit account. If the investor opens a deposit account, he/she can use the deposit financing to purchase shares, or use the financing to subscribe for new shares. In the Hong Kong stock market, investors can borrow money from banks or securities companies to buy or sell shares by paying only a portion of the cost of buying stocks through deposit financing trading method. In the future, whether investors who directly trade through the overseas trading system can conduct deposit financing depends on whether their overseas deposit and custody securities companies provide

corresponding services. Investors who continue to trade through the Domestic Securities Companies' Trading System in the future cannot implement deposit financing transactions.

The above only lists the obvious differences between the trading of H shares and B shares. Investors shall have a comprehensive understanding of all trading differences between B shares and H shares. Please refer to the relevant websites.

Website of SZSE: <http://www.sse.org.cn>

Website of Hong Kong Stock Exchange: <http://www.hkex.com.hk>

#### **XI. Reminder of Restriction in Share Rights**

Upon inquiry, as of 31 December 2020, the Company was not aware of any pledge or freeze or other rights restrictions on the part of holders of B shares.

The holders of shares or related rights holders of shares with limited rights due to various reasons before the declaration period of cash options are reminded to take legal measures in a timely manner based on their actual needs, so as to protect their entitlement to these shares under the Proposal (including the right to promptly declare the cash options).

## **SECTION VI OPINIONS AND EXPLANATIONS OF RELATED PARTIES**

### **I. Opinions of Independent Directors**

Regarding this Proposal, the independent directors of the Company are of view that:

1. This Proposal is made on the basis of full consideration of the current condition of the Company's B shares and the necessity of listing and trading of the Company's shares on the Main Board of the Hong Kong Stock Exchange. The Proposal is in line with the Company's development strategy, in the interests of the Company and the shareholders as a whole, and is conducive to the Company's long term development.

2. The Proposal has made relevant arrangements to fully protect the interests of the Company's shareholders.

3. The voting procedures of the board meeting of the Company shall comply with the relevant provisions of laws, regulations, regulatory documents, the Articles of Association and the Rules of Procedure of the Board of Directors.

4. The independent directors agreed to the overall arrangement on changing listing place of the Company's B shares and the listing and trading of such shares on the Main Board of the Hong Kong Stock Exchange by way of conversion.

### **II. Opinions of Financial Advisor**

Guotai Junan, the Financial Advisor of this Proposal, is of view that,

1. The changing of listing place of the Company's domestic-listed foreign shares and the listing and trading of such shares on the Main Board of the Hong Kong Stock Exchange by way of conversion does not violate relevant laws and regulations;

2. The implementation of this Proposal shall be conducive to accelerating the Company's internationalization process, in line with the Company's development strategy, and in the interests of the Company and the Shareholders as a whole.

### **III. Opinions of Legal Advisor**

Beijing Lifang & Partners Law Firm, the PRC Legal Advisor of this Proposal, is of view that,

The Proposal does not violate the provisions of the Company Law, the Securities Law and other laws and regulations in the PRC. As to domestic laws, there are no legal restrictions in relation to the content of the Proposal and its implementation. The implementation of the Proposal shall be still subject to the approval by more than two-thirds



of the voting rights held by all shareholders present at the general meeting, more than two-thirds of the voting rights held by all shareholders and holders of B shares present at the class meeting for domestic-listed shares and, more than two-thirds of the voting rights held by H shareholders present at the class meeting for holders of overseas-listed shares, and authorization or approval by the CSRC and other competent authorities.

#### **IV. Description of Dealing of the Company's Shares by the Company's Directors, Supervisors and Senior Management**

There were no purchases or disposal of the Company's shares by the Company's directors, supervisors or senior management within the six months immediately prior to the resolution was made by the board of directors, nor acts of insider trading or market manipulation individually or jointly with other parties on part of the Company's directors, supervisors or senior management.

(This page is intentionally left blank, and is an execution page for the Shandong Chenming Paper Holdings Limited Proposal on the Domestic Listed Foreign Shares of the Company Changing Listing Venue to be Listed and Traded on the Main Board of The Stock Exchange of Hong Kong Limited by way of Conversion (Revised))

Shandong Chenming Paper Holdings Limited

10 February 2021