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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 “The Financial Advisor’s Report by Guotai Junan Securities Co., Ltd. in Relation to the Proposal of Shandong Chenming Paper Holdings Limited on Its Domestic Listed Foreign Shares 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*

The Financial Advisor's Report
by
Guotai Junan Securities Co., Ltd.
in Relation to
the Proposal of
Shandong Chenming Paper Holdings Limited
on Its Domestic Listed Foreign Shares 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)



February 2021

** For identification purposes only*

Important Notice

As reminded by the Financial Advisor, investors should pay special attention to the following major issues or risk factors, and should also carefully read the relevant chapters in this Financial Advisor's Report.

I. Explanation of Key Points of the Proposal of Change of Listing Venue

As of 31 December 2020, Shandong Chenming Paper Holdings Limited has issued a total of 706,385,266 domestic listed foreign shares (B shares). In this Proposal, it is proposed to apply for the change of listing venue of the abovementioned B shares and their listing and trading on the Main Board of the Hong Kong Stock Exchange by means of conversion to overseas listed foreign shares (H shares) listed on the Hong Kong Stock Exchange.

In order to fully protect the legitimate rights and interests of the holders of B shares, and implement the change of listing venue of the domestic listed foreign shares and their listing and trading on the Main Board of the Hong Kong Stock Exchange by means of conversion, the Company will arrange for a third party to provide the cash option to all holders of B shares. Investors who originally held the Company's B shares may choose to declare their exercise of the cash option within a specified time to transfer part or all of their Chenming B shares to a third party that provides the cash option; they may also choose to continue to hold and keep their shares which will be listed on the Hong Kong Stock Exchange, and these B shares will be changed to H shares.

The holders of the Company's B shares must declare their exercise of the cash option within the time limit for declaration. The B shares validly declared are entitled to the cash consideration to be paid by the cash option provider at the price agreed in this Proposal. The cash option with no declaration made within the specified period will be void. The detailed arrangements of the Company's cash option proposal (including but not limited to the cash option, the time limit for declaration, the method of declaration and settlement of the cash option, etc.) will be disclosed in a timely manner in accordance with applicable laws and regulations. If an investor does not declare for the cash option or make an invalid declaration, the B shares held by such

investor will have their listing venue changed and will be listed and traded on the Main Board of the Hong Kong Stock Exchange by means of conversion upon completion of all approval procedures and implementation of this Proposal.

All shares listed and traded on the Hong Kong Stock Exchange must maintain sufficient liquidity. According to the Hong Kong Listing Rules, open market must be available for shares sought for listing. If the proportion of exercise of the cash option is too high, resulting in low liquidity and insufficient public float, the Company may not be able to fulfil the requirements for listing on the Hong Kong Stock Exchange.

In case of any of the following circumstances, this Proposal will be terminated and the cash option under the proposal will not be implemented, and B shares will continue to be traded on the B share market of the Shenzhen Stock Exchange: (1) the declared exercise of cash option will result in the public float of H shares not meeting the minimum requirement of the Hong Kong Stock Exchange for public float of H shares for listed companies; (2) the declared exercise of cash option will result in the total number of shares held by the three largest public holders of H shares exceeding 50% of the public float of H shares, or the number of public shareholders in Hong Kong being less than 300; (3) this Proposal has not obtained the necessary approvals at the general meeting and the class meeting of shareholders or permits or approvals from the CSRC and other domestic or overseas government departments and/or authorities (if necessary); (4) the Company is unable to arrange for a third party to provide the cash option.

If none of the aforementioned circumstances occurs beyond the time limit for declaration, the cash option will be cleared and settled. The B shares validly declared within the time limit for declaration will be entitled to the cash consideration to be paid by the cash option provider at the price agreed in this Proposal. The specific price shall represent a premium of 5% to the closing price of HK\$3.17 per share on the date of passing of the Board resolution in respect of the B-to-H Share Conversion (29 January 2021), i.e. HK\$3.33 per share.

Upon implementation of the cash option, for the B shares held by all holders of B shares, the nominee holder authorised by the Board of the Company will open H-share account at the designated Hong Kong qualified broker on behalf of all

holders of B shares in a timely manner (this account will be only used for agent transactions and registration and settlement for investors) to deposit the Company's H shares into such account and handle related matters (specific operating rules and arrangements for the rights and obligations of related parties will be announced separately).

Overseas investors with complete information provided may deposit their H shares into their existing H-share accounts upon registration of the H shares. They may also apply to a Hong Kong qualified broker or other overseas securities companies to open a separate H-share account and deposit their H shares into the newly opened H-share account.

B shares held by inactive accounts, and B shares not declared or invalidly declared to exercise the cash option, will have their listing venue changed and will be listed and traded on the Main Board of the Hong Kong Stock Exchange by means of conversion upon completion of all approval procedures and implementation of this Proposal.

Pursuant to the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas, the Letter of Opinions on Supplementary Amendments to Articles of Association of Companies Listed in Hong Kong ("Zheng Jian Hai Han [1995] No. 1") and the Opinions on Further Promoting the Regular Operation of Companies Listed Abroad and Deepening the Reform, and with reference to the relevant requirements under the Guidance for the Articles of Association of Listed Companies (Revised in 2019) and the Rules Governing the Listing of Shares on the Shenzhen Stock Exchange, the Company will draft the Articles of Association of Shandong Chenming Paper Holdings Limited (Draft, applicable after change of listing venue of B shares), and submit the same to the general meeting for approval. The Articles of Association (Draft, applicable after change of listing venue of B shares) will come into effect on the day when the Company's B shares are converted to H shares and listed after being considered and approved at the general meeting and approved by the relevant competent authorities. Upon the listing of the Company's H shares converted from B shares, class meetings of shareholders will be held in accordance with the circumstances specified in the Articles of Association (Draft, applicable after change of listing venue of B shares). Before the listing of H shares

converted from B shares, the current Articles of Association of the Company shall remain in force.

The key progress of this Proposal is stated as follows, in which the time of convening the general meeting and the detailed timing arrangements and operating procedures of the cash option will be announced separately.

(1) Announce Board resolutions and relevant documents of this Pan;

(2) Issue notices of convening extraordinary general meeting and class meeting of shareholders;

(3) Announce the record date for holders of A shares and H shares to attend the general meeting and the last trading day for holders of B shares to attend the general meeting;

(4) Convene the extraordinary general meeting and class meeting of shareholders to review this Proposal and related proposals, and announce the resolutions of the extraordinary general meeting and class meeting of shareholders;

(5) Obtain an approval from the CSRC;

(6) Implement the cash option for B shares and publish an announcement on the results of the implementation of the cash option for B shares;

(7) Obtain an approval from the Hong Kong Stock Exchange;

(8) The shares under the B-to-H Share Conversion are listed and traded on the Hong Kong Stock Exchange.

II. Important Risk Warning

(I) Risk of the Proposal is not approved

This Proposal is subject to the following authorisations and approvals:

1. The B-to-H Share Conversion is considered at the extraordinary general meeting and the class meetings of shareholders, and is approved by voting at the same time: (1) by more than two-thirds of the voting rights held by all shareholders

attending the general meeting; (2) by more than two-thirds of the voting rights held by all shareholders and the holders of B shares attending the class meeting of holders of domestic listed shares; (3) by more than two-thirds of the voting rights held by the shareholders attending the class meeting of holders of overseas listed shares;

2. The Company submits relevant documents to the CSRC and obtains approval for the application of B shares to be listed and traded on the Main Board of the Hong Kong Stock Exchange by means of conversion;

3. The Company submits relevant documents to the Hong Kong Stock Exchange and obtains approval for the application of B shares to be listed and traded on the Main Board of the Hong Kong Stock Exchange by means of conversion;

4. Review or approval (if necessary) by other government departments and authorities.

This Proposal will be terminated if it fails to obtain any of the above approvals.

(II) Risk related to the cash option and its related proposal termination risk

In this Proposal, a third party will provide a cash option to all holders of B shares. In case of any of the following circumstances, this Proposal will be terminated and the cash option under this Proposal will not be implemented, and B shares will continue to be traded on the B share market of the Shenzhen Stock Exchange: (1) the declared exercise of cash option will result in the public float of H shares not meeting the minimum requirement of the Hong Kong Stock Exchange for public float of H shares for listed companies; (2) the declared exercise of cash option will result in the total number of shares held by the three largest public holders of H shares exceeding 50% of the public float of H shares, or the number of public shareholders in Hong Kong being less than 300; (3) this Proposal has not obtained the necessary approvals at the general meeting and the class meeting of shareholders or permits or approvals from the CSRC and other domestic or overseas government departments and/or authorities (if necessary); (4) the Company is unable to arrange for a third party to provide the cash option.

The holders of the Company's B shares must declare their exercise of the cash option within the time limit for declaration. The B shares validly declared are entitled to the cash consideration to be paid by the cash option provider at the price agreed in this Proposal. The cash option with no declaration made within the specified period will be void. In particular, Chenming Holdings (Hong Kong) Limited, an overseas wholly-owned subsidiary of the Company's controlling shareholder Chenming Holdings Company Limited, issued an undertaking to waive the cash option. The specific cash option record date, the time limit for declaration of the cash option, the method of declaration and settlement of the cash option will be announced separately. If an investor does not declare for the cash option or make an invalid declaration, the B shares held by such investor will have their listing venue changed and will be listed and traded on the Main Board of the Hong Kong Stock Exchange by means of conversion upon completion of all approval procedures and implementation of this Proposal.

(III) Risk of difference in investment environment

Compared with the H-share market, the B-share market has different trading characteristics (trading volume and liquidity, etc.), and the participation levels of individual investors and institutional investors are also at different levels. 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 before the change of listing venue of B shares. At the same time, there is also the possibility of mutual influence between the Company's A-share price and H-share price.

(IV) Risk of uncontrollable time of proposal implementation

The implementation of this Proposal is subject to the authorisations and approvals as described in the aforementioned "Risk of the Proposal is not approved", and there is uncertainty about the time of execution of the relevant legal procedures.

(V) Risk of transaction inconvenience

Upon completion of this Proposal, domestic investors and domestically trading

overseas investors will be subject to risks of transaction inconvenience including but not limited to those caused by the change in stock code.

(VI) Risk of trading systems

After the Company's shares are successfully listed on the Main Board of the Hong Kong Stock Exchange, the original B-share investors may choose to conduct H-share transactions through the domestic or overseas securities company trading system based on their own conditions and voluntary principles, and in compliance with laws, regulations and trading rules. Since the H-share trading system to be used later may be different from the B-share trading system used before, and the new trading system may involve multiple links at home and abroad. There may be risks of market and transaction interruption, delay, error, or failure to sell shares in time caused by network interruption, server suspension, software failure and related technical reasons in each link, and investors may suffer losses.

(VII) Risk of increase in transaction costs

Upon completion 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 the special transaction fees in the H-share 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, their proceeds from selling shares in Hong Kong will be aggregated and remitted back to China by the designated Hong Kong qualified broker, and CSDCC will be responsible for transferring such proceeds into the settlement reserves accounts with the domestic securities companies. Related remittances incur cross-border transfer costs, especially when the transaction volume of the day is very small, which may cause the unit cross-border transfer costs corresponding to each share of the day to 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 difference in trading time

Upon completion of this Proposal, the trading time of domestic investors and domestically trading overseas investors is different from that of non-domestically trading overseas investors:

1. Difference in average daily trading time in mainland China and Hong Kong

The trading time for H shares is 5.5 hours a day, that is, 9:30-12:00 and 13:00-16:00, while the trading time for domestic shares is 4 hours a day, that is, 9:30-11:30 and 13:00-15:00.

2. Difference in public holidays in mainland China and Hong Kong

Such differences may lead to a certain degree of inequality between domestic investors and domestically trading overseas investors, and non-domestically trading overseas investors in the future. When domestic trading investors are in non-trading hours, non-domestically trading overseas investors can still trade; during the public holidays in mainland China, the transaction settlement and payment of domestic trading investors may lag behind compared with non-domestically trading overseas investors.

(IX) Risk of restricted trading rights

Since the implementation rules for investor operations on the B-to-H Share Conversion involve the institutional rules and different trading systems in mainland China and Hong Kong, the Company is currently further studying the specific implementation details. The Company will promptly disclose relevant implementation details in the announcements on progress.

(X) Risk of inactive accounts

The B shares held by inactive accounts which are not declared or invalidly declared to exercise the cash option will have their listing venue changed and will be listed and traded on the Main Board of the Hong Kong Stock Exchange by means of conversion upon completion of all approval procedures and implementation of this

Proposal.

The Financial Advisor reminds the investors to pay attention to the abovementioned major issues and make appropriate judgments and investment decisions with reference to other information disclosure materials. In this Report, certain total amounts may slightly differ from the direct arithmetical sum of the respective addends or certain percentage indicators may slightly differ from the outcome directly calculated from the relevant values due to rounding.

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DEFINITIONS

I. General Terms

the Company/Chenming Paper	Shandong Chenming Paper Holdings Limited
this Proposal/the Proposal /the B-to-H Share Conversion	The proposal of change of listing venue of 706,385,266 domestic listed foreign shares issued by Chenming Paper and their listing and trading on the Main Board of the Hong Kong Stock Exchange by means of conversion
Chenming Paper A shares	RMB ordinary shares issued by Chenming Paper
Chenming B shares	Domestic listed foreign shares issued by Chenming Paper
H shares	Overseas listed foreign shares listed in Hong Kong
CSRC	China Securities Regulatory Commission
Shenzhen Stock Exchange	Shenzhen Stock Exchange
CSDCC	China Securities Depository and Clearing Corporation Limited
the Stock Exchange of Hong Kong/Hong Kong Stock Exchange/Stock Exchange	The Stock Exchange of Hong Kong Limited
the Financial Advisor/Guotai Junan Securities	Guotai Junan Securities Co., Ltd.
this Financial Advisor's Report/this Report	The Financial Advisor's Report by Guotai Junan Securities Co., Ltd. in Relation to the Proposal of Shandong Chenming Paper Holdings Limited on Its Domestic Listed Foreign Shares Changing Listing Venue to Be Listed and Traded on the Main Board of The Stock Exchange of Hong Kong Limited by Way of Conversion
domestic investors	Domestic investors who trade through the domestic securities companies' trading system
the Company's legal advisor/domestic lawyer	Beijing Lifang & Partners Law Firm
domestically trading overseas investors	Overseas investors who have not directly opened a H-share account with a foreign securities company and

	continue to trade through the domestic securities companies' trading system
non-domestically trading overseas investors	Overseas investors who have opened an independent H-share account with a qualified foreign securities company, and the H shares held by Chenming have been deposited into such account after the listing of H shares and traded through the foreign securities companies' trading system
designated Hong Kong qualified broker	The broker being appointed as the nominee holder by the Board of Chenming Paper as authorised at the general meeting on behalf of all holders of B shares to open a H-share account
domestic securities companies' trading system	The stock trading system provided by domestic stock brokers
foreign securities companies' trading system	The stock trading system provided by foreign stock brokers
Shenzhen Connect	Shenzhen - Hong Kong Stock Connect
Shanghai Connect	Shanghai - Hong Kong Stock Connect
the Company Law	The Company Law of the People's Republic of China
the Securities Law	The Securities Law of the People's Republic of China
Shenzhen Stock Exchange Listing Rules	Rules Governing the Listing of Shares on The Shenzhen Stock Exchange (Revised in 2020)
Hong Kong Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Articles of Association	Articles of Association of Shandong Chenming Paper Holdings Limited
Articles of Association (Draft, applicable after change of listing venue of B shares)	Articles of Association of Shandong Chenming Paper Holdings Limited (Draft, applicable after change of listing venue of B shares)
for the latest three years and period/reporting period	for the years of 2017, 2018 and 2019, and January to September 2020
statutory holidays/rest days	The statutory and government-designated holidays or rest

	days of the People's Republic of China (excluding the statutory holidays and/or rest days of the Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan region)
RMB, RMB0'000, RMB100 million	RMB, RMB0'000, RMB100 million

Note: Unless otherwise specified, all numerical values in this Financial Advisor's Report shall remain at 2 decimal places. Any inequality of the mantissa of the total to the mantissa of the sum of the values of the sub-items is caused by rounding.

CHAPTER I INTRODUCTION

Chenming Paper intends to apply for the change of listing venue of its issued 706,385,266 domestic listed foreign shares (B shares) and their listing and trading on the Main Board of the Hong Kong Stock Exchange by means of conversion to overseas listed foreign shares (H shares) listed on the Hong Kong Stock Exchange.

In order to fully protect the legitimate rights and interests of the investors holding B shares, and for the implementation of B-to-H Share Conversion, the Company will arrange for a third party to provide the cash option to all holders of B shares. In particular, Chenming Holdings (Hong Kong) Limited, an overseas wholly-owned subsidiary of the Company's controlling shareholder Chenming Holdings Company Limited, issued an undertaking to waive the cash option. Investors who originally held the Company's B shares may choose to declare their exercise of the cash option within a specified time to sell part or all of their B shares to a third party that provides the cash option; they may also choose to continue to hold and keep their shares which will be listed on the Hong Kong Stock Exchange, but these shares will be converted from B shares to H shares.

The holders of the Company's B shares must declare their exercise of the cash option within the time limit for declaration. The B shares validly declared are entitled to the cash consideration to be paid by the cash option provider at the price agreed in this Proposal. The cash option with no declaration made within the specified period will be void. The detailed arrangements of the cash option proposal (including but not limited to the record date, the time limit for declaration, the method of declaration and settlement of the cash option, etc.) will be disclosed in a timely manner in accordance with applicable laws and regulations. If an investor does not declare for the cash option or make an invalid declaration, the B shares held by such investor will have their listing venue changed and will be listed and traded on the Main Board of the Hong Kong Stock Exchange by means of conversion upon completion of all approval procedures and implementation of this Proposal.

All shares listed and traded on the Hong Kong Stock Exchange must maintain sufficient liquidity. According to the Hong Kong Listing Rules, open market must be available for shares sought for listing. If the proportion of exercise of the cash option

is too high, resulting in low liquidity and insufficient public float, the Company may not be able to fulfil the requirements for listing on the Hong Kong Stock Exchange.

In case of any of the following circumstances, this Proposal will be terminated and the cash option under the Proposal will not be implemented, and B shares will continue to be traded on the B share market of the Shenzhen Stock Exchange: (1) the declared exercise of cash option will result in the public float of H shares not meeting the minimum requirement of the Hong Kong Stock Exchange for public float of H shares for listed companies; (2) the declared exercise of cash option will result in the total number of shares held by the three largest public holders of H shares exceeding 50% of the public float of H shares, or the number of public shareholders in Hong Kong being less than 300; (3) this Proposal has not obtained the necessary approvals at the general meeting and the class meeting of shareholders or permits or approvals from the CSRC and other domestic or overseas government departments and/or authorities (if necessary); (4) the Company is unable to arrange for a third party to provide the cash option.

If none of the aforementioned circumstances occurs beyond the time limit for declaration, the cash option will be cleared and settled. The B shares validly declared within the time limit for declaration will be entitled to the cash consideration to be paid by the cash option provider at the price agreed in this Proposal. The specific price shall represent a premium of 5% to the closing price of HK\$3.17 per share on the date of passing of the Board resolution in respect of the B-to-H Share Conversion (29 January 2021), i.e. HK\$3.33 per share.

Guotai Junan Securities has accepted the engagement made by Shandong Chenming Paper Holdings Limited, and will serve as the Financial Advisor for this Proposal to express its opinions and prepare this Financial Advisor's Report.

Documents, information and other relevant materials, which this Report is based on, are provided by Chenming Paper. The Company warrants the truthfulness, accuracy and completeness of all written materials, documents or oral statements provided by the Company, which do not contain any false information, misleading statements or material omissions. Apart from relevant information provided by the Company, other information, which this Report is based on, is extracted from public

source, including, but not limited to, basic information about the Company, open data in the capital market, etc.

If the information provided by the Company in this Proposal is untrue or insufficient, the Financial Advisor reserves the rights on disclaimer for the truthfulness, accuracy and completeness of information quoted in this Financial Advisor's Report. This Financial Advisor's Report is prepared in accordance with relevant laws and regulations, such as the Company Law, the Securities Law, the Shenzhen Stock Exchange Listing Rules, and based on information provided by relevant parties, aiming to give an independent, objective and fair evaluation on this Proposal for reference of investors and relevant parties.

CHAPTER II STATEMENT AND UNDERTAKINGS

I. Statement of the Financial Advisor

Documents, information and other relevant materials, which this Report is based on, are provided by Chenming Paper. The Company warrants the truthfulness, accuracy and completeness of all written materials, documents or oral statements provided by the Company, which do not contain any false information, misleading statements or material omissions. Apart from relevant information provided by the Company, other information, which this Report is based on, is extracted from public source, including, but not limited to, basic information about the Company, open data in the capital market, etc.

The Financial Advisor has conducted due diligence investigation on the facts which this Report is based on, and is liable for the truthfulness, accuracy and completeness of the contents of this Report in due diligence and good faith.

The duties of the Financial Advisor shall not include the assessment on the commercial feasibility of this Proposal, which shall be responsible by the Board of Chenming Paper. This Financial Advisor's Report aims to express its independent opinion on the legitimate and compliance of this Proposal and whether it is fair and reasonable for all shareholders of Chenming Paper by conducting in-depth investigation and analysis on the contents of the Proposal of Shandong Chenming Paper Holdings Limited on Its Domestic Listed Foreign Shares Changing Listing Venue to Be Listed and Traded on the Main Board of The Stock Exchange of Hong Kong Limited by Way of Conversion.

For facts that are material for this Financial Advisor's Report but not supported by independent evidences or require expertise in law and audit to identify, the Financial Advisor shall make judgment based on the opinions, explanation and other documents issued by relevant government departments, law firms and other relevant entities.

Relevant government departments and the CSRC take no responsibility for the contents of this Report, make no guarantee as to its truthfulness, accuracy or completeness. Any statements in contrast are false and untrue. Meanwhile, the Financial Advisor reminds investor to note that this Report does not constitute any

investment recommendation or advice on the Company. The Financial Advisor takes no responsibility for any risks potentially arising from any investment decision made base on this Report.

The Financial Advisor has not engaged or authorised any other institution and person to provide information that is not set out in this Report, or make any description or explanation on this Report.

In particular, the Financial Advisor would like to remind investors to read the full text of the Proposal of Shandong Chenming Paper Holdings Limited on Its Domestic Listed Foreign Shares Changing Listing Venue to Be Listed and Traded on the Main Board of The Stock Exchange of Hong Kong Limited by Way of Conversion issued by the Board of Chenming Paper, opinions of the independent directors and relevant legal opinions on this Proposal.

II. Undertakings by the Financial Advisor

On the basis of comprehensive due diligence investigation and internal audit, Guotai Junan Securities has issued its expert opinions on this Proposal, and made the following undertakings:

Due diligence investigation has been conducted in accordance with the agreement, and there is sufficient evidence to prove that there is no substantial difference between the expert opinions expressed and documents disclosed by the client;

Documents disclosed by Chenming Paper have been verified, and it is believed that the contents and format of documents disclosed are in compliance with relevant rules;

There is sufficient evidence to believe that the Proposal which Chenming Paper has engaged the Financial Advisor to issue opinion for is in compliance with laws, regulations and relevant rules of the CSRC and the stock exchanges, and the information disclosed is true, accurate and complete, which do not contain any false information, misleading statements or material omissions;

The expert opinion from the Financial Advisor in respect of this Proposal has been submitted to internal audit department for review, and it is agreed to issue this expert opinion;

From the date on which Chenming Paper got in touch until the term serving as the Financial Advisor, Guotai Junan has adopted strict confidentiality measures, and strictly implemented risk control and internal separation system. There is no insider trading, market manipulation, security fraud and other issues.

CHAPTER III GENERAL INFORMATION OF THE COMPANY

I. General Information of the Company

Company name	山东晨鸣纸业集团股份有限公司
English name	Shandong Chenming Paper Holdings Limited
A share stock abbreviation and code	晨鸣纸业 000488
B share stock abbreviation and code	晨鸣 B 股 200488
H share stock abbreviation and code	Chenming Paper 01812
Registered capital	RMB2,984,208,200
Date of establishment	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
Postal code	262705
Telephone	0536-2158008
Facsimile	0536-2158977
Business registration number	913700006135889860
Company website	www.chenmingpaper.com
Email address	chenmmingpaper@163.com
Industry	Manufacturing Industry - Paper Making and Paper Products Industry (0322)
Scope of business	Manufacturing, processing and sale of paper products such as machine-made paper and paper board, paper making raw materials and machinery. Except for industries where foreign investment is prohibited by the State, where the State restricts foreign investment

	or has special regulations, relevant procedures must be performed in accordance with the law. (Items that are subject to approval in accordance with the law can only be carried out after approval by relevant departments, and the validity period is subject to the permit)
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II. Establishment of the Company and Significant Changes in Shareholding

(I) Information about the establishment of the Company

The predecessor of Shandong Chenming Paper Holdings Limited was Shandong Shouguang Paper Mill Corporation, which was reformed as Shandong Shouguang Paper Co., Ltd. through offering to specific investors in March 1993, and was renamed as Shandong Shouguang Paper Making, Printing and Packaging Group Company Limited in the same month and renamed as Shandong Shouguang Papermaking (Group) Incorporated Company in August of the same year. In December 1996, with approval by Lu Gai Zi [1996] No. 270 issued by the People's Government of Shandong Province and Zheng Wei [1996] No. 59 issued by 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 approval by Document [1997] No. 26 issued by the Securities Committee of the State Council, the Company issued no more than 115,000,000 domestic listed foreign shares at an issue price of HK\$4.43 per share (i.e. RMB4.75 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 the initial public offering at an issue price of RMB20.80 per share.

(II) Significant changes in the shareholding of the Company

1. The initial public offering of B shares of the Company in 1997

As approved by the People's Government of Shandong Province (Lu Zheng Zi [1997] No. 63) and the Securities Committee of the State Council (Zheng Wei Fa [1997] No. 26) respectively on 28 February 1997 and 24 December 1996, the

Company issued 115,000,000 domestic listed foreign shares (B shares) to the public on 30 April 1997. Upon completion of the B share issuance, the Company's total share capital increased to 273,855,665 shares. On 20 May 1997, Shenzhen Shekou Xinde Certified Public Accountants issued a Capital Verification Report (Xin De Yan Zi Bao Zi [1997] No. 15). The Company obtained the Certificate of Approval for Foreign-invested Enterprises 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 share capital structure of the Company was as follows:

Unit: share

Class of shares	1997-12-31	Issuance of B shares	1998-12-31	Percentage of shareholding
I. Unlisted tradable shares				
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%
Internal employee shares	35,137,935	-	35,137,935	12.83%
Subtotal	158,855,665	-	158,855,665	58.01%
II. Listed tradable shares				
Domestic listed foreign shares	-	115,000,000	115,000,000	41.99%
Subtotal	-	115,000,000	115,000,000	41.99%
Total	158,855,665	115,000,000	273,855,665	100.00%

2. The first conversion of capital reserve into share capital by the Company in 1997

On 22 November 1997, the Company held the 1997 extraordinary general meeting, at which the interim distribution plan for the conversion of capital reserve into share capital (as approved by Lu Ti Gai Qi Zi [1998] No. 1 of the Committee for Economic Restructuring of Shandong Province and the [1998] Wai Jing Mao Zi Er Han Zi No. 402 Document of the Ministry of Foreign Trade and Economic Cooperation of the People's Republic of China) was considered and approved: Calculated based on the share capital of 273,855,665 shares as at 30 June 1997, the capital reserve was converted to 109,542,266 shares in share capital at a ratio of 10:4;

the total share capital of the Company increased to 383,397,931 shares upon completion of the conversion. After the change, the share capital structure of the Company was as follows:

Unit: share

Class of shares	1997-12-31	Issuance of B shares	1998-12-31	Percentage of shareholding
I. Unlisted tradable shares				
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%
Foreign legal person shares	19,078,279	7,631,312	26,709,591	6.97%
Internal employee shares	35,137,935	14,055,174	49,193,109	12.83%
Subtotal	158,855,665	63,542,266	222,397,931	58.01%
II. Listed tradable shares				
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%
Total	273,855,665	109,542,266	383,397,931	100.00%

3. The initial public offering of Ashares of the Company in 2000

On 7 August 2000, the Company held the 2000 first extraordinary general meeting, at which resolutions including the Resolution on the Issuance of No More Than 70 Million RMB Ordinary Shares (A Shares) were considered and approved; as approved by the CSRC (Zheng Jian Gong Si Zi [2000] No. 151), on 20 November 2000, the Company issued 70 million RMB ordinary shares (A shares) for the initial public offering. On 10 November 2000, Shandong 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 total share capital of the Company increased to 453,397,931 shares. After the issuance, the share capital structure of the Company was as follows:

Unit: share

Class of shares	1999-12-31	Issuance of B shares	2000-12-31	Percentage of shareholding
I. Unlisted tradable shares				
State-owned	142,371,440	-	142,371,440	31.40%

shares				
Domestic legal person shares	4,123,791	-	4,123,791	0.91%
Foreign legal person shares	26,709,591	-	26,709,591	5.89%
Internal employee shares	49,193,109	-	49,193,109	10.85%
Subtotal	222,397,931	-	222,397,931	49.05%
II. Listed tradable shares				
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%
Total	383,397,931	70,000,000	453,397,931	100.00%

4. Implementation of the second conversion of capital reserve into share capital by the Company in 2003

On 29 April 2003, the Company held the 2002 annual general meeting, at which the 2002 profit distribution plan was considered and approved: Based on the total share capital of 498,737,724 shares as at 31 December 2002, 2 bonus shares and a cash dividend of RMB0.50 (tax inclusive) per 10 shares were distributed to all shareholders, and converted every 10 shares into 6 shares to all shareholders from capital reserves. Upon completion of the profit distribution, the total share capital of the Company increased from 498,737,724 shares to 897,727,903 shares. On 20 June 2003, Shandong Zhengyuan Hexin (Limited) Certified Public Accountants issued a Capital Verification Report (Lu Zheng Xin Yan Zi [2003] No. 1019). After the change, the share capital structure of the Company was as follows:

Unit: share

Class of shares	2002-12-31	Issuance of bonus shares	Increase of share capital from reserves	Others (Note)	2003-12-31	Percentage of shareholding
I. Unlisted tradable shares						
State-owned shares	156,608,584	31,321,717	93,965,150	-	281,895,451	31.40%

Domestic legal person shares	4,536,170	907,234	2,721,702	-	8,165,106	0.91%
Internal employee shares	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%
II. Listed tradable shares						
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%
Total	498,737,724	99,747,545	299,242,634	-	897,727,903	100.00%

Note: In March 1993, the Company issued 18,591,500 internal employee shares at a price of RMB1.2 per share by subscription method. After distribution throughout the years, as at 20 November 2003, the number of internal employee shares increased to 97,402,356 shares. On 21 November 2003, 97,402,356 internal employee shares of the Company were listed and traded in the market, and the number of listed tradable RMB ordinary shares (A shares) of the Company increased to 236,002,356 shares, of which 402,789 shares held by the directors, supervisors and senior management of the Company were frozen on the Shenzhen Stock Exchange.

5. The public offering of convertible bonds by the Company in 2004

On 29 July 2003, the Company held the 2003 first extraordinary general meeting, at which the Resolution on the Issuance of Convertible Corporate Bonds was considered and approved. As approved by the CSRC (Zheng Jian Fa Xing Zi [2004] No. 147), the Company issued 20 million convertible corporate bonds to the public on 15 September 2004: the total issuance size was RMB2 billion with a nominal value of RMB100 each and a term of five years (from 15 September 2004 to 15 September 2009); the annual interest rates during the effective term of the convertible corporate bonds were 1.50%, 1.80%, 2.10%, 2.50% and 2.79%, respectively; interests shall be paid on each anniversary of the date of the issuance of the convertible corporate bonds and the principal and interest shall be paid upon maturity; the conversion period was 6 months from the first day of issuance of the convertible corporate bonds (15 March 2005) to the maturity date of the convertible bonds. Such convertible corporate bonds issued by the Company were listed on the Shenzhen Stock Exchange on 30 September 2004. The abbreviation of the bonds was Chenming Convertible

Bonds, and the convertible bond code was 125488.

6. Implementation of the third conversion of capital reserve into share capital by the Company in 2005

On 29 April 2005, the Company held the 2004 annual general meeting, at which the 2004 profit distribution proposal was considered and approved: Based on the total share capital of 897,727,903 shares as at 31 December 2004, 2 bonus shares per 10 shares and a cash dividend of RMB1.00 (tax inclusive) per 10 shares were distributed to all shareholders, and at the same time converted every 10 shares into 3 shares from capital reserves based on the total share capital of 897,727,903 shares as at 31 December 2004.

Upon completion of the profit distribution and the conversion of shares, the total share capital of the Company increased to 1,353,539,920 shares. On 12 June 2005, China Rightson Certified Public Accountants issued a Capital Verification Report (Zhong Rui Hua Heng Xin Yan Zi II [2005] No. 005). After the change, the share capital structure of the Company was as follows:

Unit: share

Class of shares	2004-12-31	Increase of conversion of convertible bonds (Note 1)	Issuance of bonus shares	Increase of share capital from capital reserve	Others (Note 2)	2005-12-31	Percentage of shareholding
I. Unlisted tradable shares							
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%
II. Listed tradable shares							
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%

Total	897,727,903	6,947,561	179,545,782	269,318,674	-	1,353,539,920	100.00%
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Note 1: The effects of bonus shares as a result of converted shares and the increase of share capital from capital reserve before 11 May 2005 were not separately taken into consideration.

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

7. Implementation of share reform of A shares by the Company in 2006

As approved by the Reply to Matters Relating to the Share Reform and State-owned Equity Management of Shandong Chenming Paper Holdings Limited (Lu Guo Zi Chan Quan Han [2006] No. 34) of the State-owned Assets Supervision and Administration Commission of the People's Government of Shandong Province, on 28 February 2006, the Company held a general meeting on the A share market for the share reform, at which the Share Reform Scheme of Shandong Chenming Paper Holdings Limited was considered and approved, and the Announcement on the Implementation of the Share Reform Scheme was published on 27 March 2006.

The date of registration for changes in shares for the implementation of the Company's share reform scheme was 28 March 2006. All holders of tradable A shares whose names appear on the register of members on the date of registration for changes in shares would receive 2.6 consideration shares paid by the holders of non-tradable shares of the Company for every 10 tradable A shares held.

In 2006, the Company's cumulative increase in share capital as a result of the conversion of convertible corporate bonds was 12,130,235 shares. As at 31 March 2006, the Company's total share capital increased to 1,365,665,530 shares. As at 31 December 2006, the Company's total share capital increased to 1,365,670,155 shares. On 6 June 2006, China Rightson Certified Public Accountants issued a Capital Verification Report (Zhong Rui Hua Heng Xin Yan Zi II [2006] No. 009). After the change, the share capital structure of the Company was as follows:

Unit: share

Class of shares	2005-12-31	Increase of conversion of convertible bonds	Consideration of the share segregation	Share segregation	Others (Note)	2006-12-31	Percentage
I. Unlisted tradable shares							

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	-	-	-
II. Tradable shares with selling restrictions							
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%
III. Unrestricted tradable shares							
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%
Total	1,353,539,920	12,130,235	-	-	-	1,365,670,155	100.00%

Note: It represents the tradable shares with selling restrictions which were transferred from the Company's listed tradable shares (A shares) purchased by the Company's senior management.

8. Completion of the conversion of convertible bonds into shares by the Company in 2007

On 13 April 2007, the convertible corporate bonds issued by the Company met the redemption conditions. According to the resolution of the 21st meeting of the fourth session of the board of directors of the Company, on 14 May 2007, the Company redeemed 5,520 convertible corporate bonds that had not been converted into shares after closure of market on 11 May 2007 at a price of 105% of the nominal value (inclusive of the interest for the period), and the convertible corporate bonds were delisted on 21 May 2007.

As at 14 May 2007, Chenming Paper's cumulative increase in share capital as a result of the conversion was 359,754,087 shares; in 2007, the Company's cumulative increase in share capital as a result of the conversion of convertible corporate bonds

was 340,675,786 shares. On 16 May 2007, China Rightson Certified Public Accountants issued a Capital Verification Report (Zhong Rui Hua Heng Xin Yan Zi II [2007] No. 018). After the change, the share capital structure of the Company was as follows:

Unit: share

Class of shares	2006-12-31	Increase of conversion of convertible bonds	Increase in lock-up shares	Release of restricted shares	2007-12-31	Percentage of shareholding
I. Tradable shares with selling restrictions						
State-owned and 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%
II. Unrestricted tradable shares						
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%
Total	1,365,670,155	340,675,786	-	-	1,706,345,941	100.00%

Note 1: The Company implemented the share reform scheme on 29 March 2006. On 17 April 2007, the lock-up period for 9,517,139 A shares of the original domestic non-state-owned legal person shares expired and were listed and traded on the market.

Note 2: According to the requirements of 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 for the period would be unlocked based on the percentage of 25% of the shares held (3,731,670 shares), and the directors, supervisors and senior management of the Company for the period did not dispose of any shares of the Company. 2,076,279 shares were unlocked upon expiry of the half year lock-up period for the resigned senior management of the Company for the period. The number of lock-up shares held by senior management increased by 16,400 shares due to the trading of the Company's A shares by Ren Wei, the deputy general manager of the Company for the period.

9. The initial public offering of H shares by the Company in 2008

According to the Reply on Approving the Issuance of Overseas Listed Foreign Shares by Shandong Chenming Paper Holdings Limited (Zheng Jian Xu Ke [2008] No. 290) from the CSRC and the reply from the Hong Kong Stock Exchange, the Company was approved to publicly issue overseas listed foreign shares (H shares).

The Company completed the initial public offering of H shares from 4 June to 10 June 2008. The issue price was HK\$9.00 per share and the number of shares issued was 355,700,000 shares (including 35,570,000 H shares under the Hong Kong public offering and the remaining 320,130,000 H shares under the international offering). Together with 35,570,000 H shares allocated to the National Council for Social Security Fund by the Company's relevant state-owned legal person shareholder and converted into overseas listed foreign shares (H shares) for the purpose of reducing the number of state-owned shares, there were a total of 391,270,000 H shares, which 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 obtained the Certificate of Approval for Foreign-invested Enterprises and completed the change of industrial and commercial registration respectively in September 2008. The changes in shareholding before and after the Company's initial public offering of H shares were shown in the following table:

Unit: share

Class of shares	2007-12-31	Increase in lock-up shares	Release of restricted shares	Issuance of H shares	Transfer of state-owned shares	2008-12-31	Percentage of shareholding
I. Tradable shares with selling restrictions							
State-owned legal person shares	328,573,657	-	-	-	-35,570,000	293,003,657	14.21%
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%
II. Unrestricted tradable shares							
RMB ordinary	809,348,003	-176,774	120,101	-	-	809,291,330	39.25%

shares							
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%
Of which:							
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%
Total	1,706,345,941	-	-	355,700,000	-	2,062,045,941	100.00%

Note: According to the requirements of 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 for the period would be unlocked based on the percentage of 25% of the shares held (27,301 shares) at the beginning of each year, and the senior management of the Company did not dispose of any shares of the Company. 92,800 shares were unlocked upon expiry of the half year lock-up period for the resigned directors and senior management of the Company for the period. The unlocked non-restricted shares held by Dong Jianwen, the resigning deputy general manager of the Company for the period, were locked up again as his resignation had been effective for less than 6 months. The shares held by Meng Feng, the newly appointed deputy general manager, were locked up. As a result, the number of lock-up shares held by senior management increased by 176,774 shares.

10. The B share buy-back by the Company in 2013

As approved at the 2012 third extraordinary general meeting, the 2012 first class meetings for holders of domestic listed shares (A shares and B shares) and the 2012 first class meeting for holders of overseas listed shares (H shares) convened on 12 December 2012, the Company may repurchase not more than 150 million domestic listed foreign shares (B shares) within 12 months from the date of passing of the resolution at the general meeting and the class meetings of shareholders at a repurchase price not higher than HK\$4 per share. The total repurchase price should not exceed HK\$400 million. Upon expiration of the aforementioned repurchase period or completion of the implementation of the repurchase scheme, the Company should cancel the repurchased B shares pursuant to the law and reduce the registered capital accordingly.

On 28 December 2012, pursuant to the Preliminary Reply to Capital Reduction by Shandong Chenming Paper Holdings Limited (Lu Shang Wu Wai Zi Zi [2012] No. 907) from the Department of Commerce of Shandong Province, it agreed the

Company to repurchase not more than 150 million issued domestic listed foreign shares (B shares). The number of repurchased shares should be determined by the actual amount of shares repurchased and the registered capital should be reduced accordingly.

On 4 February 2013, pursuant to the Reply to the Foreign Exchange Purchase Quota for the Repurchase of B Shares by Shandong Chenming Paper Holdings Limited (Shou Hui Fa [2013] No. 4) from the Shouguang branch office of the State Administration of Foreign Exchange, it agreed the Company to purchase foreign exchange of not more than HK\$400 million for the purpose of repurchasing not more than 150 million domestic listed foreign shares (B shares). As at the end of the repurchase period on 11 December 2013, the Company repurchased 86,573,974 B shares in total, and completed the cancellation of the repurchase shares at the Shenzhen Branch of China Securities Depository and Clearing Corporation Limited on 24 December 2013.

On 25 December 2013, 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 obtained the Approval of the Department of Commerce of Shandong Province on the Capital Reduction of Shandong Chenming Paper Group Co., Ltd. issued by the Department of Commerce of Shandong Province (Lu Shang Wu Wai Zi Zi [2013] No. 933), it agreed the reduction in registered capital of the Company from RMB2,062,045,941 to RMB1,975,471,967. On 31 December 2013, the Company obtained the Certificate of Approval for Foreign-invested Enterprises after the capital reduction. On 2 January 2014, the Company conducted the capital reduction filing procedures with the Shandong Provincial Administration for Industry and Commerce and obtained the business license after the capital reduction. The registered capital was changed to RMB1,975,471,967.

11. The H share buy-back by the Company in 2014

On 21 August 2013, the Company convened the 2013 first extraordinary general meeting, the 2013 first class meetings for holders of domestic listed shares (A shares and B shares), and the 2013 first class meeting for holders of overseas listed shares (H

shares), at which the Company was approved to repurchase not more than 39.127 million overseas listed foreign shares (H shares) within the repurchase period from the date of passing of the resolution at the general meeting and the class meetings of shareholders at a repurchase price not higher than HK\$4 per share. The total funds to be used for the repurchase should not exceed HK\$160 million.

On 10 October 2013, pursuant to the Preliminary Reply to Capital Reduction by Shandong Chenming Paper Holdings Limited (Lu Shang Wu Wai Zi Zi [2013] No. 705) from the Department of Commerce of Shandong Province, it agreed the Company to repurchase not more than 39.127 million issued overseas listed foreign shares (H shares). The number of repurchased shares should be determined by the actual amount of shares repurchased and the registered capital should be reduced accordingly.

On 1 November 2013, the Shouguang branch office of the State Administration of Foreign Exchange agreed the foreign exchange purchase quota for the Company to repurchase H shares.

As at the end of the repurchase period on 9 May 2014, the Company repurchased 39,066,500 H shares. On 14 May 2014, the Company completed the cancellation of 39,066,500 repurchased H shares with Computershare Hong Kong Investor Services Limited.

On 27 May 2014, the Company obtained the Reply to Capital Reduction by Shandong Chenming Paper Holdings Limited (Lu Shang Wu Wai Zi Zi [2014] No. 158) from the Department of Commerce of Shandong Province and the Certificate of Approval for Foreign-invested Enterprises after the capital reduction, which agreed the reduction in registered capital of the Company from RMB1,975,471,967 to RMB1,936,405,467.

On 28 May 2014, the Company conducted the capital reduction filing procedures with the Shandong Provincial Administration for Industry and Commerce and obtained the business license after the capital reduction. The registered capital was changed to RMB1,936,405,467.

12. The offering of preference shares by the Company in 2016

At the 2015 first extraordinary general meeting, the 2015 first class meetings for holders of domestic listed shares (A shares and B shares), and the 2015 first class meeting for holders of overseas listed shares (H shares), the Company considered and approved the Resolution on Non-public Offering of Preference Shares. On 22 September 2015, the CSRC (Zheng Jian Xu Ke [2015] No. 2130) approved the Company's non-public offering of no more than 45 million preference shares with a par value of RMB100 per share by issuing in tranches. The initial offering of no less than 22.50 million shares should be completed within 6 months from the date of the approval for the offering, and the offering of remaining tranches should be completed within 24 months.

On 17 March 2016, the Company issued 22,500,000 preference shares. The actual proceeds raised from the non-public offering of preference shares, net of issuance expenses, amounted to RMB2,238.75 million. On 17 August 2016, the Company issued 10,000,000 preference shares. The actual proceeds raised from the non-public offering of preference shares, net of issuance expenses, amounted to RMB995.00 million. On 22 September 2016, the Company issued 12,500,000 preference shares. The actual proceeds raised from the non-public offering of preference shares, net of issuance expenses, amounted to RMB1,243.75 million. Upon completion of the offering, the changes in the shareholding of the Company were as follows:

Unit: share

	Before change		Change (+/-)					After change	
	Number	Percentage	Issuance of new shares	Issuance of bonus shares	Increase of share capital from reserves	Others	Subtotal	Number	Percentage

I. Shares with selling restrictions	8,241,219	0.42%	-	-	-	-454,039	-454,039	7,787,180	0.40%
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%
II. Unrestricted shares	1,928,164,248	99.58%	-	-	-	454,039	454,039	1,928,618,287	99.60%
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%

III. Total number of shares	1,936,405,467	100.00%	-	-	-	-	-	1,936,405,467	100.00%
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Note: Before and after the change, the number of shares with selling restrictions held by domestic natural persons decreased by 454,039 shares from 8,241,219 shares to 7,787,180 shares, due to the fact that: According to the requirements of the Practice Guidance for the Company's Shares Held by the Directors, Supervisors and Senior Management of the Listed Companies of Shenzhen Stock Exchange, during the reporting period, 25% (9,902 shares) of the unrestricted RMB ordinary shares (A shares) held by senior management who have been resigned for less than half a year were converted into shares with selling restrictions; 100% (100,000 shares) of the unrestricted domestic listed shares (B shares) held by senior management who have been resigned for less than half a year were converted into shares with selling restrictions; 563,941 shares of the RMB ordinary shares (A shares) with selling restrictions held by senior management who have been resigned for more than half a year were converted into unrestricted shares.

13. The fourth conversion of capital reserve into share capital by the Company in 2018

On 13 June 2018, the Company convened 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, at which the 2017 profit distribution plan was considered and approved: Based on the total share capital of 1,584,201,967 ordinary shares (A shares and B shares) as at the end of 2017, a cash dividend of RMB6.00 (tax inclusive) per 10 shares was distributed to the holders of ordinary shares; based on the total share capital of 1,936,405,467 shares (A shares, B shares and H shares), converted and distributed every 10 shares for 5 shares to the holders of ordinary shares from capital reserves. A total of 968,202,734 shares were converted and distributed. After the change, the share capital structure of the Company was as follows:

Unit: share

Types of shares	Before change	Change (+/-)	After change
	Number	Transfer of capital reserve to share capital	Number
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

Total share capital	1,936,405,467	968,202,734	2,904,608,200
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14. The restricted A share incentive scheme in 2020

On 29 May 2020, 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 were considered and approved at the tenth extraordinary meeting of ninth session of the Board and the fifth extraordinary meeting of the ninth session of the Supervisory Committee of the Company. The independent directors of the Company issued independent opinions thereon, agreed that the Board shall make adjustments to the list of proposed participants and the number of shares to be granted, and considered that the participants were legally and validly qualified and that the grant date 29 May 2020 determined was in compliance with relevant requirements. The incentive plan grants a total of 111 participants with a total of 79,600,000 restricted shares.

After the change, the share capital structure of the Company was follows:

Unit: share

Types of shares	Before change		Change (+/-)	After change	
	Number	Percentage (%)		Number	Percentage (%)
Shares with selling restrictions	10,545,599	0.36	79,600,000	90,145,599	3.02
Unrestricted shares	2,894,062,601	99.64	0	2,894,062,601	96.98
Total	2,904,608,200	100	79,600,000	2,984,208,200	100

III. Changes in Control in the Latest Three Years

As at 31 December 2020, Chenming Holdings Company Limited held 457,322,919 A shares in Chenming Paper, accounting for 15.32% of the total share capital of Chenming Paper, and was the controlling shareholder of the Company.

Chenming Holdings (Hong Kong) Limited, an overseas wholly-owned subsidiary of Chenming Holdings Company Limited, held a total of 364,131,563 B shares and H shares in the Company, accounting for 12.20% of the total share capital. Chenming Holdings Company Limited and Chenming Holdings (Hong Kong) Limited together held 27.52% of the total share capital of Chenming Paper. State-owned Assets Supervision and Administration Bureau of Shouguang City indirectly held 45.21% of the shares in Chenming Holdings Company Limited, the largest shareholder, through Shandong Shouguang Jinxin Investment Development Holdings Group Co., Ltd. held by it as to 100%, and is the ultimate controller of the Company. There has been no change in control of the Company in the latest three years.

IV. Shareholding of the Top Ten Shareholders of the Company

As at 31 December 2020, the total share capital of the Company was 2,984,208,200 shares, including 1,749,517,684 A shares, 706,385,266 B shares and 528,305,250 H shares.

As at 31 December 2020, the shareholding of the top ten shareholders of the Company was as follows:

No.	Name of shareholders	Nature of shareholders	Number of shares held	Nature of shares	Percentage of shareholding
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 person	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 TUBES AND CARTONS COMPANY LIMITED	Domestic non-state-ow ned 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. Its shareholder, Chen Hongguo, is the legal representative, chairman and general manager of Chenming Holdings Company Limited.

Note 2: As at 31 December 2020, Chenming Holdings Company Limited had a total of 238,470,000 pledged shares, accounting for 29.03% of its shares and 7.99% of the Company's total share capital.

Note 3: HKSCC NOMINEES LIMITED is a company owned by Hong Kong Securities Clearing Company Limited as to 100%.

V. Controlling Shareholder and De Facto Controller of the Company

(I) Basic information of the controlling shareholder

As at 31 December 2020, Chenming Holdings Company Limited held 457,322,919 A shares in Chenming Paper, accounting for 15.32% of the total share capital of Chenming Paper. Chenming Holdings (Hong Kong) Limited, an overseas wholly-owned subsidiary of the Company's controlling shareholder Chenming Holdings Company Limited, held a total of 364,131,563 B shares and H shares in the

Company, accounting for 12.20% of the total share capital of the Company. Chenming Holdings Company Limited was the controlling shareholder of the Company. Its basic information is as follows:

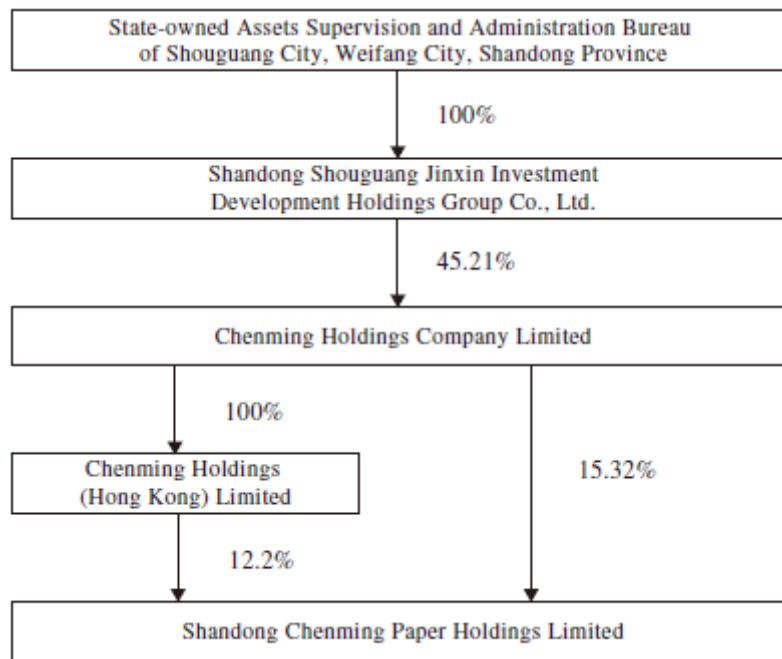
Company name	Chenming Holdings Company Limited
Registered capital	RMB1,238,787,742.5
Unified social credit code	91370783783485189Q
Date of establishment	30 December 2005
Legal representative	Chen Hongguo
Registered address	No. 595 Shengcheng Road, Shouguang City
Telephone	0536-2153396
Email address	cmkg123456@163.com
Scope of operation	Investment in paper making, electricity, heat and arboriculture with its own capital (No financial, securities, futures, wealth management, fund-raising and other related businesses are allowed. Without the approval of financial regulatory authorities, no financial business such as deposit taking, financing guarantees, and wealth management on behalf of clients is allowed); sales: 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 use; 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) The de facto controller

State-owned Assets Supervision and Administration Bureau of Shouguang City held 100% equity interest in Shandong Shouguang Jinxin Investment Development Holdings Group Co., Ltd. (“Jinxin Holdings”), and indirectly held 45.21% equity interest in Chenming Holdings Company Limited, the largest shareholder, through Jinxin Holdings, and is the de facto controller of the Company.

(III) The shareholding structure of the controlling shareholder and the de facto controller

As at 31 December 2020, the shareholding relationship between Chenming Holdings Company Limited and the Company was shown in the following diagram:



VI. Principal Business of the Company

The Company is a large conglomerate principally engaged in pulp production and paper making with synergistic development in finance, forestry, logistics and construction materials. The Company is a listed company 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 Accounting Data and Financial Indicators

The major financial data and financial indicators (on consolidated basis) of the Company in the latest three years and period were as follows:

(I) Major financial data

Unit: RMB0'000

Item	Jan-Sept 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 for the third quarter of 2020 has not been audited, while the financial data for 2017-2019 has been audited by Grant Thornton (Special General Partnership).

(II) Major financial indicators

Item	Jan-Sept 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 items (RMB per share)	-	0.01	0.32	0.90
Rate of return on net assets on weighted average basis	3.07%	5.57%	8.51%	15.80%
Diluted average return on net assets after extraordinary items	2.27%	2.79%	7.80%	12.33%

CHAPTER IV OVERVIEW OF THIS PROPOSAL

I. Basic Information about this Proposal

Shandong Chenming Paper Holdings Limited (“Chenming Paper” or the “Company”) intends to apply for the change of listing venue of its issued 706,385,266 domestic listed foreign shares (B shares) and their listing and trading on the Main Board of the Hong Kong Stock Exchange by means of conversion to overseas listed foreign shares (H shares) listed on the Hong Kong Stock Exchange.

In order to fully protect the legitimate rights and interests of the investors holding B shares, and for the implementation of B-to-H Share Conversion, the Company will arrange for a third party to provide the cash option to all holders of B shares. In particular, Chenming Holdings (Hong Kong) Limited, an overseas wholly-owned subsidiary of the Company’s controlling shareholder Chenming Holdings Company Limited, issued an undertaking to waive the cash option. Investors who originally held the Company’s B shares may choose to declare their exercise of the cash option within a specified time to sell part or all of their B shares to a third party that provides the cash option; they may also choose to continue to hold and keep their shares which will be listed on the Hong Kong Stock Exchange, but these shares will be converted from B shares to H shares.

The holders of the Company’s B shares must declare their exercise of the cash option within the time limit for declaration. The B shares validly declared are entitled to the cash consideration to be paid by the cash option provider at the price agreed in this Proposal. The cash option with no declaration made within the specified period will be void. The detailed arrangements of the Company’s cash option proposal (including but not limited to the record date, the time limit for declaration, the method of declaration and settlement of the cash option, etc.) will be disclosed in a timely manner in accordance with applicable laws and regulations. If an investor does not declare for the cash option or make an invalid declaration, the B shares held by such investor will have their listing venue changed and will be listed and traded on the Main Board of the Hong Kong Stock Exchange by means of conversion upon completion of all approval procedures and implementation of this Proposal.

All shares listed and traded on the Hong Kong Stock Exchange must maintain sufficient liquidity. According to the Hong Kong Listing Rules, open market must be available for shares sought for listing. If the proportion of exercise of the cash option is too high, resulting in low liquidity and insufficient public float, the Company may not be able to fulfil the requirements for listing on the Hong Kong Stock Exchange.

In case of any of the following circumstances, this Proposal will be terminated and the cash option under the Proposal will not be implemented, and B shares will continue to be traded on the B share market of the Shenzhen Stock Exchange: (1) the declared exercise of cash option will result in the public float of H shares not meeting the minimum requirement of the Hong Kong Stock Exchange for the public float of H Shares for listed companies; (2) the declared exercise of cash option will result in the total number of shares held by the three largest public holders of H shares exceeding 50% of the public float of H shares, or the number of public shareholders in Hong Kong being less than 300; (3) this Proposal has not obtained the necessary approvals at the general meeting and the class meeting of shareholders or permits or approvals from the CSRC and other domestic and overseas government departments and/or authorities (if necessary); (4) the Company is unable to arrange for a third party to provide the cash option.

If none of the aforementioned circumstances occurs beyond the time limit for declaration, the cash option will be cleared and settled. The B shares validly declared within the time limit for declaration will be entitled to the cash consideration to be paid by the cash option provider at the price agreed in this Proposal. The specific price shall represent a premium of 5% to the closing price of HK\$3.17 per share on the date of passing of the Board resolution in respect of the B-to-H Share Conversion (29 January 2021), i.e. HK\$3.33 per share.

Upon implementation of the cash option, for the B shares held by all holders of B shares, the nominee holder authorised by the Board of the Company will open H-share account at the designated Hong Kong qualified broker on behalf of all holders of B shares in a timely manner (this account will be only used for agent transactions and registration and settlement for investors) to deposit the Company's H shares into such account and handle related matters (specific operating rules and

arrangements for the rights and obligations of related parties will be announced separately).

Overseas investors with complete information provided may deposit their H shares into their existing H-share accounts upon registration of the H shares. They may also apply to a Hong Kong qualified broker or other overseas securities companies to open a separate H-share account and deposit their H shares into the newly opened H-share account.

B shares held by inactive accounts, and B shares not declared or invalidly declared to exercise the cash option, will have their listing venue changed and will be listed and traded on the Main Board of the Hong Kong Stock Exchange by means of conversion upon completion of all approval procedures and implementation of this Proposal.

Pursuant to the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas, the Letter of Opinions on Supplementary Amendments to Articles of Association of Companies Listed in Hong Kong (“Zheng Jian Hai Han [1995] No. 1”) and the Opinions on Further Promoting the Regular Operation of Companies Listed Abroad and Deepening the Reform, and with reference to the relevant requirements under the Guidance for the Articles of Association of Listed Companies (Revised in 2019) and the Rules Governing the Listing of Shares on the Shenzhen Stock Exchange, the Company will draft the Articles of Association of Shandong Chenming Paper Holdings Limited (Draft, applicable after change of listing venue of B shares), and submit the same to the general meeting for approval. The Articles of Association (Draft, applicable after change of listing venue of B shares) will come into effect on the day when the Company’s B shares are converted to H shares and listed after being considered and approved at the general meeting and approved by the relevant competent authorities. Upon the listing of the Company’s H shares converted from B shares, class meetings of shareholders will be held in accordance with the circumstances specified in the Articles of Association (Draft, applicable after change of listing venue of B shares). Before the conversion of H shares from B shares, the current Articles of Association of the Company shall remain in force.

II. Implementation Background of this Proposal

(I) Inactive transaction of B shares of the Company

The current total share capital of the Company is 2,984,208,200 shares, of which, 1,749,517,684 shares are RMB ordinary shares (A shares), accounting for approximately 58.63% of the total share capital; domestic listed foreign shares (B shares) are 706,385,266 shares, accounting for approximately 23.67% of the total share capital; 528,305,250 shares are overseas listed foreign shares (H shares), accounting for approximately 17.70% of the total share capital. Compared with trading of A and H shares, that of B shares has been inactive, and its trading volume, turnover rate and other indicators are at lower levels. Taking the transaction data from 1 January 2020 to 31 December 2020 as an example, as shown in the following table:

Type of securities	Trading volume during the period (10,000 shares)	Turnover rate during the period (%)	Average daily turnover rate (%)
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 tradable B shares in the market is relatively inactive compared to A shares and H shares. This will directly lead to the difficulty of the valuation and resource guidance functions in the market.

(II) The circulation of the Company's shares in Hong Kong will help further promote the international development progress of the Company

Firstly, upon implementation of the B-to-H Share Conversion, there will be an opportunity for the ratio of circulation and the market value of H shares in circulation of the Company to further increase. Considering that a third party may be introduced as a cash option provider, the shareholder structure of the Company will also be further diversified.

Secondly, Chinese stocks in Hong Kong are closely related to the policies and economic development in mainland China. In recent years, the economy growth of mainland China has grown significantly, and Chinese stocks in the Hong Kong market

have also been favoured by more investors. After the Shenzhen Connect and Shanghai Connect achieved interconnection in the two places, the Company also became one of the eligible stocks for trading in the Shenzhen Connect, which is conducive to the gradual reduction of the valuation difference between the two places and continuously leads the market to reshape valuation and tap into values. Hence, the Hong Kong stock market shows a positive trend for Chinese stocks including the Company's stocks.

Furthermore, the overseas capital market has been providing the Company with a broad financing platform, which is conducive to the Company for its participation in overseas capital operations, such that the Company may make full use of overseas capital and market incentives to further strengthen its core competitiveness and promote the advanced development of its industrial structure.

(III) Successful implementation of this Proposal will promote the business development of the Company

The industry in which the Company operates has broad development prospects. According to its development strategy, the Company needs to maintain a large-scale intensive production and operation model and carry out scientific research innovation and development in the future. On the one hand, upon completion of the B-to-H Share Conversion, the Company may further reinforce its market image and improve its market competitiveness, and has stronger bargaining power and market influence in terms of raw materials procurement, product pricing, and industry policy formulation. On the other hand, upon implementation of this Proposal, the Company may continue to leverage the refinancing function of the overseas capital market, obtain financial support to enhance technological innovation capabilities and scientific research and development, and actively develop new products with high technological content, high added value and proprietary technologies

III. Protection Mechanism of Shareholders' Rights and Interests

(I) Voting at general meetings and class meetings of shareholders

1. Requirements of approval by voting

Since the B-to-H Share Conversion falls into the circumstances of “any other matters to have a substantial impact on the Company and to require approval by a special resolution” as stipulated in the Company Law and the Articles of Association, the relevant matters of this Proposal have to be approved as special resolution by voting by the shareholders attending the general meeting when the Company holds general meetings to consider the these matters.

In addition, with regard to the class meetings of shareholders, taking into account the Company's current Articles of Association, “the Company's proposition to amend or cancel rights of class shareholders is required to be passed as special resolution in General Meetings and passed by the General Meeting convened by the class shareholders affected according to Article 173 to Article 180 herein before actions can be taken”, the Company needs to convene a meeting for the class shareholders affected at the same time to consider the relevant matters of this Proposal, which shall be passed by more than two-thirds of the voting rights held by all shareholders and holders of B shares present at the class meetings of holders of domestic listed shares and more than two-thirds of the voting rights held by holders of H shares present at the class meetings of holders of overseas listed shares.

The Company will separately count the votes of all shareholders and different class shareholders present at the general meeting, and implement this Proposal after the votes from all types of shareholders meet the above requirements.

2. On-site and online voting combination

The general meeting will be convened by means of on-site voting and online voting. For online voting at general meeting, the Company will provide all shareholders with an online voting platform through the online voting system of the Shenzhen Stock Exchange. Shareholders may exercise their voting rights through the

above system during online voting hours. The notice of the general meeting will specify the voting procedures for shareholders participating in online voting.

3. Mechanism for independent directors to solicit voting rights

In order to increase the voting participation of small and medium shareholders, a system of independent directors soliciting voting rights will be adopted at the general meeting and the class meetings of shareholders.

(II) The cash option for the holders of B shares

In order to fully protect the legitimate rights and interests of the holders of B shares, the Company decided to arrange for a third party to provide the cash option to all holders of the Company's B shares. The holders of B shares whose names appear on the register of members on the record date for the cash option may exercise the cash option in whole or in part, except in the following circumstances:

(1) shares with selling restrictions held by directors, supervisors and senior management of the Company (if any);

(2) shares which their legal holders have promised to the Company to waive the cash option (if any).

Chenming Holdings (Hong Kong) Limited, an overseas wholly-owned subsidiary of the Company's controlling shareholder Chenming Holdings Company Limited, issued an undertaking to waive the cash option.

At present, the Company has not determined the third party to provide the cash option. If the Company is unable to arrange for a third party to provide the cash option, the cash option in this Proposal will not be implemented. The transaction will then be terminated, and the B shares of the Company will continue to be listed and traded on the B-share market at the Shenzhen Stock Exchange.

1. Implementation proposal

The Company will announce the time limit for declaration, and the method of declaration and settlement of the cash option by way of announcements after the B-to-H Share Conversion (1) is passed by voting by more than two-thirds of the voting rights held by all shareholders attending the general meeting; (2) is passed by voting by more than two-thirds of the voting rights held by all shareholders and holders of B shares present at the class meetings of holders of domestic listed shares; (3) is passed by voting by more than two-thirds of the voting rights held by shareholders present

at the class meetings of holders of overseas listed shares; (4) obtained permits or approvals from the CSRC and other domestic and overseas government departments and/or authorities (if necessary).

The holders of the Company's B shares must declare their exercise of the cash option within the time limit for declaration. The B shares validly declared are entitled to the cash consideration to be paid by the cash option provider at the price agreed in this Proposal. The cash option with no declaration made within the specified period will be void. The specific cash option record date, the time limit for declaration of the cash option, the method of declaration and settlement of the cash option will be announced separately. If an investor does not declare for the cash option or make an invalid declaration, the B shares held by such investor will be listed and traded on the Main Board of the Hong Kong Stock Exchange by means of conversion upon completion of all approval procedures and implementation of this Proposal.

Beyond the time limit for declaration, the B shares validly declared for the exercise of the cash option within the time limit for declaration will be entitled to the cash consideration to be paid by the cash option provider at the price agreed in this Proposal.

2. Exercise price

Holders of B shares who declared their exercise of the cash option are entitled to the cash consideration to be paid by the cash option provider on the implementation date of the cash option for each B share for which they validly declared for the exercise of cash option. The exercise price shall represent a premium of 5% to the closing price of HK\$3.17 per share on the date of passing of the Board resolution in respect of the B-to-H Share Conversion (29 January 2021), i.e. HK\$3.33 per share. If ex-rights, ex-dividends and other matters of the shares of the Company occur between the announcement date of this Board resolution and the implementation date of the cash option for the holders of B shares, the price of the cash option will also be adjusted accordingly.

3. Currency of the consideration for the cash option

In this Proposal, the currency of the consideration for the third party to provide

the cash option is Hong Kong dollars.

4. Disclosure of relevant information

The detailed arrangements of the cash option proposal (including but not limited to the time limit for declaration of the cash option, the implementation date, the method of declaration, registration and settlement of the cash option, etc.) will be disclosed in a timely manner in accordance with laws and regulations and the requirements of the Shenzhen Stock Exchange.

5. Circumstances where the cash option is not implemented

Within the time limit for declaration to be announced in the relevant announcement on the implementation of the cash option, the holders of B shares who intend to exercise the cash option may declare their exercise of the cash option in accordance with the prescribed methods and procedures. However, when one of the following situations occurs, this Proposal will be terminated and the cash option under the proposal will not be implemented, and B shares will continue to be traded on the B share market of the Shenzhen Stock Exchange: (1) the declared exercise of cash option will result in the public float of H shares not meeting the minimum requirement of the Hong Kong Stock Exchange for the public float of H Shares for listed companies; (2) the declared exercise of cash option will result in the total number of shares held by the three largest public holders of H shares exceeding 50% of the public float of H shares, or the number of public shareholders in Hong Kong being less than 300; (3) this Proposal does not obtain the required approvals at the general meeting and the class meeting of shareholders or permits or approvals from the CSRC and other domestic and overseas government departments and/or authorities (if necessary); (4) the Company is unable to arrange for a third party to provide the cash option.

IV. Handling of Inactive Accounts

For holders of B shares with inactive accounts or do not declare for their exercise of the cash option, their B shares will be listed and traded on the Main Board of the

Hong Kong Stock Exchange upon completion of all approval procedures and implementation of the B-to-H Share Conversion.

V. Information Disclosure Plan

The Company will promptly disclose information on the progress of this Proposal in accordance with relevant laws and regulations and the provisions of the Shenzhen Stock Exchange. The important progress proposed to be disclosed will include but not limited to:

(1) approve the resolution on this Proposal at the general meeting and the class meeting of shareholders;

(2) obtain the acceptance letter from the CSRC regarding the Company's application for this Proposal;

(3) issue the guidelines for the domestic operation for H-share listing and trading in the venue of B-share conversion;

(4) obtain an approval from the CSRC;

(5) announce the expected time for the implementation of the cash option;

(6) announce the implementation of the cash option;

(7) publish indicative announcement(s) for the implementation of the cash option;

(8) announce the results of the implementation of the cash option;

(9) delist the Company's B shares from the Shenzhen Stock Exchange;

(10) obtain an approval from the Hong Kong Stock Exchange;

(11) the shares under the B-to-H Share Conversion are listed and traded on the Hong Kong Stock Exchange.

VI. Decision-making Process of the Proposal

(I) Obtained authorisations and approvals

The Company convened the 17th meeting of the ninth session of the Board, at which, this Proposal and related matters were considered and approved by means of communication.

(II) Pending authorisations and approvals

1. The B-to-H Share Conversion is considered at the extraordinary general meeting and the class meetings of shareholders, and is approved by voting at the same time: (1) by more than two-thirds of the voting rights held by all shareholders attending the general meeting; (2) by more than two-thirds of the voting rights held by all shareholders and the holders of B shares attending the class meeting of holders of domestic listed shares; (3) by more than two-thirds of the voting rights held by the shareholders attending the class meeting of holders of overseas listed shares.

2. The Company submits relevant documents to the CSRC and obtains approval for the application of B shares to be listed and traded on the Main Board of the Hong Kong Stock Exchange by means of conversion;

3. The Company submits relevant documents to the Hong Kong Stock Exchange and obtains approval for the application of B shares to be listed and traded on the Main Board of the Hong Kong Stock Exchange by means of conversion;

4. Review or approval (if necessary) by other government departments and authorities.

VII. Changes in the Share Capital Structure of the Company Before and After the Implementation of This Proposal

Based on the current shareholding, the changes in the share capital structure of the Company before and after the implementation of the B-to-H Share Conversion, are shown in the following table:

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

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

VIII. Information of the Domestic Parties to This Proposal

(I) Applicant for listing of H shares: Shandong Chenming Paper Holdings Limited

Legal representative: Chen Hongguo

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

Telephone: 0536-2158008

Facsimile: 0536-2158977

Contact person: Yuan Xikun and Chu Shifang

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

Legal representative: He Qing

Address: No. 618, Shangcheng Road, China (Shanghai) Pilot Free-Trade Zone

Telephone: 0755-23970028

Facsimile: 0755-23970028

Persons in charge: Xu Huixuan, Zhao Zhonghong and Zhouzhulawa

(III) The Company's domestic lawyer: Beijing Lifang & Partners Law Firm

Person in charge: Xie Guanbin

Address: 12th Floor, Shun Tak Tower, 1 Xiangheyuan Street, Dongcheng District,
Beijing

Telephone: 010-64096099

Facsimile: 010-64096260 / 64096261

Handling lawyers: Liu Sidian and Yang Yichen

CHAPTER V OPINIONS OF THE FINANCIAL ADVISOR

I. Compliance Analysis of this Proposal

(1) This Proposal complies with the relevant provisions of the Regulations of the State Council on Domestic Listing of Foreign Shares by Joint Stock Limited Companies (Order No. 189 of the State Council)

According to Article 24 of the Regulations of the State Council on Domestic Listing of Foreign Shares by Joint Stock Limited Companies (Order No. 189 of the State Council) (promulgated in 1995), “Subject to approval of the Commission, the domestic listed foreign shares and their derivatives could be transferred out of China. The above-mentioned derivatives are referred to as the subscription warrants and overseas depository receipt.”

In view of the institutional reform plan of the State Council in April 1998, the Securities Commission of the State Council has consolidated into the CSRC. Therefore, after approval by the CSRC, the change of the listing venue of the domestic listed foreign shares of the Company and their listing and trading on the Main Board of the Hong Kong Stock Exchange will comply with the above requirement.

(II) The Company may apply to the CSRC for overseas listing and trading

According to the relevant provisions of the Guidelines for Supervising the Application Documents and Examination Procedures for the Overseas Stock Issuance and Listing of Joint Stock Limited Companies (Zheng Jian Hui Gong Gao [2012] No. 45) of the CSRC, “Joint stock limited companies established in accordance with the Company Law of the People’s Republic of China may, on the basis of satisfying the conditions for listing at the places where they are listed overseas, independently file applications for overseas stock issuance and listing with the CSRC.”

Therefore, with regard to the selection of listing venue (including overseas listing), the Company may submit an application for overseas listing to the CSRC after the approval at the general meeting.

(III) The Company may apply to the Hong Kong Stock Exchange for Listing and Trading by means of conversion

According to the relevant provisions of the Hong Kong Listing Rules, relevant securities can be converted into other class of securities for listing. For the B-to-H Share Conversion of Chenming Paper, the listing venue of the B shares changes and the B shares are listed and traded on the Main Board of the Hong Kong Stock Exchange by means of conversion. The conversion does not involve the issuance of new shares. The total share capital and total shares of the Company remain unchanged without any overseas fund raising activity undertaken by Chenming Paper. The conversion involves the conversion of B Shares, a listed share class, into H Shares only without any share subscription or subscription of H Shares in a foreign currency.

II. Evaluation of the Purpose of the Proposal

The Proposal is made on the basis of full consideration of the trading and circulation of B shares and the necessity of listing and circulation of the Company’s shares in Hong Kong. After the implementation of the Proposal, it will completely solve the problem that the market capitalisation of the Company is undervalued due to the inactive trading of B shares. In addition, the successful implementation of the Proposal is conducive to expanding the Company’s international business,

accelerating the Company's internationalisation process, and enhancing the Company's reputation and international influence. At the same time, the overseas capital market can provide a broader financing platform and value realisation platform for the Company, which is conducive to the Company's participation in overseas capital operation, and making full use of overseas capital resources and market incentives to further strengthen its core competitiveness. The Proposal is in line with the Company's development strategy, is in the interests of the Company and shareholders as a whole, and is conducive to the Company's long-term development.

III. Fulfilment of the Necessary Authorisation and Approval Procedures

(I) Authorisation and approval obtained

The Company has convened the 17th meeting of the ninth session of the Board, at which the Proposal and the related matters have been considered and approved by means of communication.

(II) Authorisation and approval to be obtained

1. The B-to-H Share Conversion will be considered at the extraordinary general meeting and the class meetings of shareholders, at which the following approval shall be obtained at the same time: (1) approval by more than two-thirds of the voting rights held by all shareholders attending the general meeting; (2) approval by more than two-thirds of the voting rights held by all shareholders and holders of B Shares attending the class meeting of shareholders of domestic listed shares; (3) approval by more than two-thirds of the voting rights held by shareholders attending the class meeting of shareholders of overseas listed shares;

2. The Company submits the relevant documents to the CSRC and obtains approval for the application for B shares to be listed and traded on the Main Board of the Hong Kong Stock Exchange by means of conversion;

3. The Company submits the relevant documents to the Hong Kong Stock Exchange and obtains approval for the application for B shares to be listed and traded on the Main Board of the Hong Kong Stock Exchange by means of conversion;

4. Review or approval (if necessary) by other government departments and authorities.

IV. Pricing Analysis of the Cash Option

The cash option is priced at a premium of 5% above the closing price of HK\$3.17 per share, which is HK\$3.33 per share, on the date when the Company's B-to-H Share Conversion was passed by the Board (29 January 2021). If ex-rights, ex-dividends and other matters occur to the shares of the Company during the period from the date of the resolution of the Board with regard to the discussion of the Proposal to the implementation of the cash option, the price of the cash option will also be adjusted accordingly.

The prevailing price-earnings ratio and price-to-book ratio comparison of Chenming B shares and the shares of 7 listed companies in the paper and forestry products industries in Hong Kong (other than Chenming Paper H shares) calculated based on the share prices of the Company as at 29 January 2021, excluding the loss-making companies, is as follows:

Item	Price-earnings ratio (TTM)	Price-to-book ratio (MRQ)
Chenming B shares (based on the closing price on 29 January 2021)	4.74	0.44
Chenming B shares (at a premium of 5% above the closing price on 29 January 2021)	4.98	0.46

Average value of the shares of 7 listed companies in the paper and forestry products industry in Hong Kong	10.42	0.91
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Source: Wind

At present, in addition to the Chenming Paper H shares and excluding loss-making companies, there are 3 paper products companies listed in Hong Kong. The average price-earnings ratio and price-to-book ratio of the first 20, 60 and 120 trading days are shown in the following table:

Name	20 trading days before the base date		60 trading days before the base date		120 trading days before the base date	
	Price-earnings ratio (TTM)	Price-to-book ratio (MRQ)	Price-earnings ratio (TTM)	Price-to-book ratio (MRQ)	Price-earnings ratio (TTM)	Price-to-book ratio (MRQ)
QP Group	5.01	0.78	4.81	0.75	4.94	0.77
Lee & Man Paper	9.80	1.22	9.43	1.17	8.66	1.08
ND Paper	12.12	1.14	11.42	1.09	10.74	1.04
Average	8.98	1.05	8.55	1.00	8.11	0.96

Note: Source: Wind. The base date for data selection is 29 January 2021

It can be seen from the above table that when the Company and the related parties set the price of the cash option, they give an appropriate premium of 5% above the Company's B share price. The corresponding price-earnings ratio and price-to-book ratio are relatively closer to the market level of the Hong Kong shares in the paper and forestry products and paper products industry and thus are more reasonable. Moreover, an appropriate premium can provide more protection for the small and medium shareholders of B shares.

V. Concluding Observations on this Proposal

Guotai Junan Securities, the Financial Advisor of the Proposal, believes that:

1. The change of the listing venue of the Company's domestic listed foreign shares and their listing and trading on the Main Board of the Hong Kong Stock Exchange by means of conversion did not violate the relevant laws and regulations;
2. The implementation of the Proposal is conducive to the acceleration of the Company's internationalisation process, is in line with the Company's development strategy, and is in the interests of the Company and shareholders as a whole.

CHAPTER VI DEALING IN THE SHARES OF THE COMPANY BY THE FINANCIAL ADVISOR IN THE LAST SIX MONTHS

I. Related Relationship between the Financial Advisor and the Company

1. Guotai Junan Securities or its largest shareholder does not hold more than 5% of the Company's shares in aggregate;

2. The Company does not hold any shares of Guotai Junan Securities or its largest shareholder;

3. The directors, supervisors and senior management of Guotai Junan Securities do not have any interests in the Company or hold any positions in the Company;

4. As the Financial Advisor to Chenming Paper on the implementation of the Proposal, Guotai Junan Securities strictly abides by the rules and regulations of the regulatory authorities, effectively implements the internal information segregation system, fully guarantees the professional ethics and independence of a financial advisor, and performs their duties independently and impartially.

II. Dealing in the Shares of the Company by the Financial Advisor in the Last Six Months

1. Guotai Junan Securities purchased 3,084,459 Chenming Paper A shares and sold 3,175,100 Chenming Paper A shares in total through the secondary market during the period from 23 July 2020 to 22 January 2021). In particular, a total of 1,700,159 shares and 1,737,800 shares were purchased and sold respectively in its proprietary trading, and a total of 1,384,300 shares and 1,437,300 shares were purchased and sold respectively in its asset management business.

Guotai Junan Securities has established a good firewall system between its investment banking department, its securities derivative investment department and Guotai Junan Asset Management Co., Ltd.. The trading of shares of the Company by the securities derivative investment department and Guotai Junan Asset Management Co., Ltd. are entirely market-oriented behaviours based on the secondary market conditions and their judgment on Chenming Paper's investment value.

2. Guotai Junan Securities (Hong Kong) Limited, a subsidiary of Guotai Junan Securities, did not trade or hold any Chenming Paper A shares, Chenming B shares and Chenming Paper H shares during the period from 23 July 2020 to 22 January 2021.

(This page is only for the purpose of signing relating to the Financial Advisor's Report by Guotai Junan Securities Co., Ltd. in Relation to the Proposal of Shandong Chenming Paper Holdings Limited on Its Domestic Listed Foreign Shares 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))

Guotai Junan Securities Co., Ltd.

10 February 2021