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## **THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

**If you have sold or transferred** all your shares in the Company, you should at once hand this circular and the accompanying form of proxy to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer, registered institution in securities, or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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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)**

- (1) PROPOSED AMENDMENT TO THE PROPOSAL OF THE NON-PUBLIC ISSUE  
OF A SHARES  
AND  
(2) CONNECTED TRANSACTION — SUPPLEMENTAL SHARES SUBSCRIPTION  
AGREEMENT WITH SUBSTANTIAL SHAREHOLDER  
AND  
(3) NOTICE OF 2018 THIRD EXTRAORDINARY GENERAL MEETING  
AND  
(4) NOTICE OF 2018 THIRD CLASS MEETING FOR HOLDERS OF H SHARES**

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



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

This supplemental circular should be read together with the circular dated 29 June 2018 despatched to the Shareholders for the extraordinary general meeting to be held on 20 July 2018.

A notice for convening the EGM (as defined below) and the H Shares Class Meeting (as defined below) of the Company to be held on 20 July 2018 at the conference room of the research and development centre of the Company, No. 2199 Nongsheng Road East, Shouguang City, Shandong Province, the People's Republic of China (the "PRC"), are set out on pages 51 to 54 to this supplemental circular.

Whether or not you are able to attend the meetings in person, you are requested to complete and return the revised form of proxy which was published on the website of the Hong Kong Stock Exchange on 5 June 2018 in accordance with the instructions printed thereon. In case of H Shares, the revised form of proxy shall be lodged with Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong; and in case of A Shares and B Shares, the revised proxy form shall be lodged at the capital operation department of the Company at No. 2199 Nongsheng Road East, Shouguang City, Shandong Province, the PRC, as soon as possible and in any event not later than 24 hours before the time scheduled for holding the meeting (or any adjourned meetings thereof). Completion and delivery of the revised form of proxy will not preclude you from attending and voting in person at the meetings or any adjournment if you so desire and completion and return of the reply slip will not affect the right of a shareholder to attend the respective meeting.

\* for identification purpose only

6 July 2018

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## CONTENTS

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	<i>Page</i>
<b>Letter From The Board</b> .....	1
I. Introduction .....	1
II. Proposed Amendment to the Proposal the Non-Public Issue of A Shares .....	2
III. Proposed Amendment to the Dilution of Current Returns by the Non-public Issue of A Shares and Remedial Measures .....	4
IV. Proposed Adjustment to the Price Determination Date for the Non-public Issue of A Shares .....	4
V. Connected Transaction — Supplemental Shares Subscription Agreement with Substantial Shareholder .....	5
VI. The Feasibility Analysis Report on the Use of Proceeds of the Non-Public Issue of A Shares of the Company (Fourth Revision).....	6
VII. The Report on Use of Proceeds from Previous Fund Raising (As at 31 December 2017) .....	6
VIII. Effect on the Shareholding Structure of the Company .....	7
IX. Financial Impact on the Discontinuance of the Non-public Issue of A Shares and the A Shares Subscription.....	8
X. Independent Board Committee and the Independent Financial Adviser .....	8
XI. Recommendation .....	8
XII. Close of Registrar of Members for H Shares .....	8
XIII. EGM and H Shares Class Meeting .....	8
<b>Letter From Independent Board Committee</b> .....	10
<b>Letter From Gram Capital</b> .....	12
<b>APPENDIX I</b> <b>Details of the Non-public Issue of A Shares (Fifth Amendment)</b> .....	21
<b>APPENDIX II</b> <b>The Dilution of Current Returns and Remedial Measures upon                           the Non-public Issue of A Shares (Fourth Amendment)</b> .....	25
<b>APPENDIX III</b> <b>Feasibility Report on the Use of Proceeds from the Proposed                           Non-public Issue of A Shares (Fourth Amendment)</b> .....	35
<b>APPENDIX IV</b> <b>Report on Use of Proceeds from Previous Fund Raising                           (as at 31 December 2017)</b> .....	41
<b>APPENDIX V</b> <b>General Information</b> .....	45
<b>Notice of 2018 Third Extraordinary General Meeting</b> .....	51
<b>Notice of 2018 Third Class Meeting For Holders of H Shares</b> .....	53

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LETTER FROM THE BOARD

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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)

*Executive Directors*

Mr. Chen Hongguo  
Mr. Geng Guanglin  
Mr. Li Feng  
Mr. Hu Chang Qing  
Mr. Chen Gang

*Headquarters*

No. 595 Shengcheng Road  
Shouguang City  
Shandong Province

*Non-executive Directors*

Ms. Zhang Hong  
Ms. Yang Guihua

*Independent Non-executive Directors*

Ms. Wang Fengrong  
Mr. Huang Lei  
Ms. Liang Fu  
Ms. Pan Ailing

6 July 2018

*To the Independent Shareholders*

Dear Sir or Madam,

- (1) PROPOSED AMENDMENT TO THE PROPOSAL OF THE NON-PUBLIC ISSUE  
OF A SHARES  
AND  
(2) CONNECTED TRANSACTION — SUPPLEMENTAL SHARES SUBSCRIPTION  
AGREEMENT WITH SUBSTANTIAL SHAREHOLDER  
AND  
(3) NOTICE OF 2018 THIRD EXTRAORDINARY GENERAL MEETING  
AND  
(4) NOTICE OF 2018 THIRD CLASS MEETING FOR HOLDERS OF H SHARES**

**I. INTRODUCTION**

References are made to (i) the circulars dated 19 May 2016, 18 May 2017, 8 July 2017 and 17 May 2018 (the “**Circulars**”); and (ii) the poll results announcements of the 2018 EGM and the 2018

*\* for identification purpose only*

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## LETTER FROM THE BOARD

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Class Meetings (together, the “**Previous Shareholders’ Meetings**”) dated 1 June 2018 of the Company, the revised notices of the extraordinary general meeting and H Shares Class Meeting dated 5 June 2018 in relation to the Non-public Issue of A Shares, the extension of the Validity Period of Resolution Relating to the Non-public Issue of A Shares and the extension of the Validity Period of Authorisation to the Board. Unless otherwise indicated, capitalised terms used in this supplemental circular shall have the same meanings as those defined in the Circulars.

As disclosed in (i) the announcement; (ii) the overseas regulatory announcements both dated 4 June 2018; (iii) the revised notice of 2018 third extraordinary general meeting (the “**EGM**”); and (iv) the revised notice of 2018 third H Shares class meeting (the “**H Shares Class Meeting**”) of the Company both dated 5 June 2018, the Company proposes to seek the approval from the Shareholders for the following resolutions:

- (i) the proposed amendment to the proposal of the Non-public Issue of A Shares;
- (ii) the proposed amendment to the dilution of current returns by the Non-public Issue of A Shares and remedial measures;
- (iii) the proposed adjustment to the price determination date for the Non-public Issue of A Shares; and
- (iv) connected transaction — the supplemental shares subscription agreement with the Substantial Shareholder.
- (v) resolution in relation to the feasibility analysis report on the use of proceeds of the non-public issue of shares of the Company (fourth revision)
- (vi) resolution in relation to the report on use of proceeds from previous fund raising (as at 31 December 2017)

The purpose of this supplemental circular is to provide you with details of the abovementioned items.

### **II. PROPOSED AMENDMENT TO THE PROPOSAL OF THE NON-PUBLIC ISSUE OF A SHARES (RESOLUTION 1 OF THE EGM AND THE H SHARES CLASS MEETING)**

According to Implementation Rules for the Non-public Issue of A Shares by Listed Companies (Revised in 2011) (《上市公司非公開發行A股股票實施細則》(2011年修訂)), the Company is required to adjust the price determination date for this issue. To ensure a smooth proceeding of the non-public issue of shares, the Company, pursuant to relevant requirements, made updates to, among others, the plan of the non-public issue of shares, the report on the use of proceeds from previous fund raising, the dilution of current returns and the remedial measures for the non-public issue of shares and the

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## LETTER FROM THE BOARD

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feasibility report on the use of proceeds. Certain amendments were made to the plan of the non-public issue of shares by the Company, primarily including:

<b>Section</b>	<b>Amended contents</b>
I Summary of the plan of the non-public issue of shares	Updated the shareholding of the Company's controlling shareholders as at 31 December 2017; and revised the lower limit of the issue price, upper limit of the issue size and the upper limit of subscription by Chenming Holdings
II Basic information of the target subscribers	Updated the shareholding of the Company's controlling shareholders as at 31 December 2017, and updated the condensed financial data of the controlling shareholders for the recent year
III Summary of the conditional share subscription agreement	Updated the lower limit of issue price based on the conditional share subscription agreement (third amendment) entered into between Chenming Holdings and the Company
IV Feasibility analysis of the use of proceeds by the board of directors	Updated the 2017 financial data of the Company
V Discussion and analysis on the impact of the issue on the Company by the board of directors	Updated the shareholding of the Company's controlling shareholders as at 31 December 2017, and updated the 2017 financial data of the Company
VI Profit distribution policy of the Company and its implementation	Updated the use of cash dividend and retained earnings of the Company for 2017
VII Other disclosable issues	Updated the analysis of the dilution of current returns of this issue

For details, please see Appendix I Proposed 2016 Non-public Issue of Shares of Shandong Chenming Paper Holdings Limited (Fifth Amendment) of this supplemental circular.

The proposed amendment to the proposal of the Non-public Issue of A Shares, will be submitted, by way of extraordinary resolution, for the Shareholders' consideration and approval at the EGM and the H Shares Class Meeting.

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## LETTER FROM THE BOARD

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### **III. PROPOSED AMENDMENT TO THE DILUTION OF CURRENT RETURNS BY THE NON-PUBLIC ISSUE OF A SHARES AND REMEDIAL MEASURES (RESOLUTION 2 OF THE EGM AND THE H SHARES CLASS MEETING)**

In accordance with the requirements of the Implementation Rules for the Non-public Issue of A Shares by Listed Companies (Revised in 2011) (《上市公司非公開發行A股股票實施細則》(2011年修訂)), it has been approved by the Board to make adjustments to the price determination date for the issue, and revised the issue price and the size of the issue. The Company also prepared the Dilution of Current Returns and Remedial Measures upon the Non-public Offering of Shares of Shandong Chenming Paper Holdings Limited (Fifth Revision).

Upon receipt of the proceeds, the total share capital and net assets of the Company will be increased. In view of the time for the proceed to yield benefits, under the circumstance that the Company's total share capital and net assets may increase, the earnings per share, weighted average return on equity and other financial indicators will decrease to certain extent in the short run and there exists the risk relating to the dilution of immediate returns of the Company (earnings per share, return on equity and other financial indicators) after receiving the proceeds. Therefore, investors are advised to be aware of the risks relating to the dilution of immediate returns as a result of the Non-Public Issue of A Shares. The "Proposal of Dilution of Current Returns and Remedial Measures upon Non-public Issue of A Shares", which was prepared in the Chinese language, is set out in Appendix II to this supplemental circular. In the event of any discrepancy between the English translation and the Chinese version of the document, the Chinese version shall prevail.

The proposal in relation to the proposed amendment to the dilution of current returns by the Non-public Issue of A Shares and remedial measures, will be submitted, by way of extraordinary resolution, for the Shareholders' consideration and approval at the EGM and the H Shares Class Meeting.

### **IV. PROPOSED ADJUSTMENT TO THE PRICE DETERMINATION DATE FOR THE NON-PUBLIC ISSUE OF A SHARES (RESOLUTION 3 OF THE EGM AND THE H SHARES CLASS MEETING)**

In accordance with the requirements of the Implementation Rules for the Non-public Issue of A Shares by Listed Companies (Revised in 2011) (《上市公司非公開發行A股股票實施細則》(2011年修訂)), the price determination date for the Issue shall be re-determined by the Board in the event that the Company has to convene a Board meeting again due to the expiry of the validity of the resolutions in respect of the non-public issue of shares of the Company. Therefore, a board meeting was convened on 4 June 2018 and it was approved by the Board that the price determination date of the Non-public Issue of A Shares was adjusted to 5 June 2018, being the date of the overseas regulatory announcement on resolutions of the twenty fifth extraordinary meeting of the eighth session of the Board. The issue price of the Non-public Issue of A Shares will be not less than the higher of 90% of the average trading price of the Company's A shares for the 20 trading days prior to the price determination date (the average trading price of the A shares for the 20 trading days prior to the price determination date = total trading amount of A shares for the 20 trading days prior to the price determination date/total trading volume of A shares for the 20 trading days prior to the price determination date) (i.e. RMB13.46 per share) or the net asset value per share attributable to ordinary shareholders under the latest audited accounts of the Company prior to the issue.

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## LETTER FROM THE BOARD

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The validity period of the authorisation granted to the board with absolute discretion to deal with the Non-public Issue of A Shares and the validity period of the resolutions in respect of the Non-public Issue of A Share shall remain the same (i.e. until 2 June 2019 as approved by the Shareholders at the extraordinary general meeting of the Company on 1 June 2018) after the price of the subscription of New A Shares to be adjusted.

The proposal in relation to the proposed amendment to the price determination date for the Non-public Issue of A Shares, will be submitted, by way of extraordinary resolution, for the Shareholders' consideration and approval at the EGM and the H Shares Class Meeting.

### **V. CONNECTED TRANSACTION — ENTERING INTO THE SUPPLEMENTAL SHARES SUBSCRIPTION AGREEMENT WITH THE SUBSTANTIAL SHAREHOLDER (RESOLUTION 4 OF THE EGM AND THE H SHARES CLASS MEETING)**

The target investors under the Non-public Issue of A Shares will be not more than 10 (inclusive) specific investors such as qualified securities investment fund management companies, securities firms, trust investment companies, financial companies, insurance institutional investors, qualified foreign institutional investors, other domestic legal person investors and natural persons, including the Substantial Shareholder. The Substantial Shareholder has undertaken that it will subscribe for the A Shares to be issued under the Non-public Issue of A Shares, based on its 20.35% (inclusive) equity interest in the Company as at 31 March 2016. The specific number of shares for subscription shall be determined by the final number of shares to be issued under the issue multiplying by 20.35%. As the issue price will be increased to RMB13.46 from RMB10.27, the maximum number of shares to be subscribed by the Substantial Shareholder will be decreased to 55,939,821 New A shares from 73,315,481 New A Shares. Other terms under the Non-public Issue of A Shares and the A Shares Subscription remain unchanged.

As a result of the change in price determination date, the issue price and the number of New A Shares to be issued, the Company and the Substantial Shareholder entered into a supplemental shares subscription agreement (the "Supplemental Shares Subscription Agreement") in relation to A Shares Subscription between the Company and the Substantial Shareholder on 4 June 2018. Other terms and conditions in the Shares Subscription Agreement remain the same. At the same time, the Shares Subscription Agreement in relation to the A Shares Subscription entered into by the Company and the Substantial Shareholder on 7 June 2017 has become null and void.

The executive Directors, Mr. Chen Hongguo and Mr. Geng Guanglin who are also directors of the Substantial Shareholder are interest in the Non-public Issue of A Shares, have abstained from voting for the resolution of the entering into the Supplemental Shares Subscription Agreement with the Substantial Shareholder at the Board meeting.

The proposal in relation to the entering into the Supplemental Shares Subscription Agreement with the Substantial Shareholder, will be submitted, by way of special resolution, for the Shareholders' consideration and approval at the EGM and the H Shares Class Meeting.

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## **LETTER FROM THE BOARD**

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### **VI. THE FEASIBILITY ANALYSIS REPORT ON THE USE OF PROCEEDS OF THE NON-PUBLIC ISSUE OF A SHARES OF THE COMPANY (FOURTH REVISION) (RESOLUTION 5 OF THE EGM AND THE H SHARES CLASS MEETING)**

The “Feasibility Analysis Report on the Use of Proceeds of the Non-Public Issue of A Shares of the Company (Fourth Revision)”, which was prepared in the Chinese language, is set out in Appendix III to this supplemental circular. In the event of any discrepancy between the English translation and the Chinese version of the document, the Chinese version shall prevail.

The proposal in relation to the “Feasibility Analysis Report on the Use of Proceeds of the Non-Public Issue of A Shares of the Company (Fourth Revision)” will be submitted, by way of special resolution, for the Shareholders’ consideration and approval at the EGM and the H Shares Class Meeting.

### **VII. THE REPORT ON USE OF PROCEEDS FROM PREVIOUS FUND RAISING (AS AT 31 DECEMBER 2017) (RESOLUTION 6 OF THE EGM AND THE H SHARES CLASS MEETING)**

The “The Report on Use of Proceeds from Previous Fund Raising (As at 31 December 2017)”, which was prepared in the Chinese language, is set out in Appendix IV to this supplemental circular. In the event of any discrepancy between the English translation and the Chinese version of the document, the Chinese version shall prevail.

The proposal in relation to the “The Report on Use of Proceeds from Previous Fund Raising (As at 31 December 2017)” will be submitted, by way of special resolution, for the Shareholders’ consideration and approval at the EGM and the H Shares Class Meeting.



## LETTER FROM THE BOARD

### VIII. EFFECT ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is the shareholding structure of the Company (i) as at 31 March 2016; (ii) as at 6 July 2018 (the “**Latest Practicable Date**”); and (iii) immediately after completion of the Proposed Non-public Issue of A Shares (assuming there is no change in the total issued share capital of the Company from the Latest Practicable Date to completion of the Proposed Non-public Issue of A Shares based on the total number of 274,888,558 A Shares (360,272,638 New A Shares before the Adjustment) to be issued under the Proposed Amendment to the Proposed Non-public Issue of A Shares, and assuming that the Substantial Shareholder will subscribe for a maximum amount of 55,939,821 New A Shares (73,315,481 New A Shares before the Adjustments) to be issued under the Non-public Issue of A Shares at the Subscription Price is RMB13.46 per A Share:

Name of Shareholder	Shareholding on 31 March 2016			Shareholding as at the Latest Practicable Date			Shareholding immediately after completion of the Non-Public Issue of A Shares		
	Number of Shares	Approx. % of	Approx. % of	Number of Shares	Approx. % of	Approx. % of	Number of Shares	Approx. % of	Approx. % of
		the issued A share capital	the total issued share capital		the issued A share capital	the total issued share capital		the issued A share capital	the total issued share capital
The Substantial Shareholder									
- A Shares	293,003,657	26.32%		293,003,657	26.32%		348,943,478	25.14%	
							Note 3		
- B Shares	21,910,923			140,478,375			140,478,375		
- H Shares	79,200,000			102,276,000			102,276,000		
- Total Shares of the Company held by the Substantial Shareholder	394,114,580		20.35%	535,758,032		27.67%	591,697,853		26.76%
			*Note 2			*Note 2			
Other target subscribers	—	—	—	—	—	—	218,948,737	15.77%	9.90%
							Note 3		
Other holders of A Shares	820,374,799	73.69%	42.36%	820,274,799	73.68%	42.36%	820,274,799	59.10%	37.10%
				*Note 1			*Note 1		
Other holders of B Shares	448,912,588	—	23.19%	330,445,136	—	17.06%	330,445,136	—	14.94%
Other public holders of H Shares	273,003,500	—	14.11%	249,927,500	—	12.91%	249,927,500	—	11.30%
<b>Total</b>	1,936,405,467	100%	100%	1,936,405,467	100%	100%	2,211,294,025	100%	100%
							Note 3		

*Note 1:* Among the 7,605,547 A Shares held by other Shareholders of A Shares, 6,696,296 shares and 437,433 shares are held by Chen Hongguo and Geng Guanglin, the directors of both the Substantial Shareholder and the Company respectively. Chen Hongguo is also deemed to be interested in the 471,818 shares held by his spouse, Li Xueqin.

*Note 2:* Under the proposal on the the Non-public Issue of A Shares, the Substantial Shareholder will subscribe for the Non-Public Issue of A Shares in proportion to its shareholding in the Company (e.g. 20.35%) as at 31 March 2016.

*Note 3:* The figures are under the assumption of the issue of 274,888,558, in which 55,939,821 New A Shares will be subscribed by the Substantial Shareholder, and 218,948,737 New A Shares will be subscribed by the other subscribers.

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## **LETTER FROM THE BOARD**

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### **IX. FINANCIAL IMPACT ON THE DISCONTINUANCE OF THE NON-PUBLIC ISSUE OF A SHARES AND THE A SHARES SUBSCRIPTION**

Since the Company has used its self-owned capital and current banking facilities to finance the bleached sulfate chemical pulp project with annual production capacity of 400,000 tonne, the proceeds from the Non-public Issue of A Shares and the A Shares Subscription will be used to repay the bank loans due in not less than 12 months and replacement of capital. In the event that the Non-public Issue of A Shares and the A Shares Subscription cannot be completed, the Company will apply its self-owned capital and explore other kind of refinancing to repay the bank loans.

### **X. INDEPENDENT BOARD COMMITTEE AND THE INDEPENDENT FINANCIAL ADVISER**

The Independent Board Committee (comprising all the independent non-executive Directors) has been established to advise the Independent Shareholders regarding the entering into the Supplemental Shares Subscription Agreement with the Substantial Shareholder in accordance with the Hong Kong Listing Rules at the EGM and H Shares Class Meeting.

The Company has appointed, and the Independent Board Committee has approved the appointment of, Gram Capital as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on entering into the Supplemental Shares Subscription Agreement with the Substantial Shareholder at the EGM and H Shares Class Meeting.

### **XI. RECOMMENDATION**

The Board (including the independent non-executive Directors) considers that the above proposed resolutions are in the interests of the Company and the Shareholders as a whole, the terms of the Supplemental Agreement are normal commercial terms, fair and reasonable. Therefore, the Board recommends the Shareholders to vote in favour of the above resolutions at the EGM and the H Shares Class Meeting respectively.

### **XII. CLOSURE OF REGISTER OF MEMBERS FOR H SHARES**

The register of members of the Company is closed from 20 June 2018 to 20 July 2018 (both days inclusive) during which no transfer of H shares of the Company will be registered in order to determine the list of holders of H shares of the Company for attending the EGM and the H Shares Class Meeting. As the last lodgement for the transfer of the H shares of the Company was on 19 June 2018, the holders of H shares of the Company or their proxies being registered at the close of business on 19 June 2018 are entitled to attend the EGM and the H Shares Class Meeting by presenting their identity documents.

### **XIII. EGM AND H SHARES CLASS MEETING**

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

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## LETTER FROM THE BOARD

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The Substantial Shareholder and its associates who are interested in the A Shares Subscription and who directly held 293,003,657 A Shares, indirectly held 140,478,375 B Shares and 102,276,000 H Shares as at the Latest Practicable Date, will abstain from voting in respect of entering into the Supplemental Shares Subscription Agreement with the Substantial Shareholder.

The reply slips and revised forms of proxy to be used at the EGM and H Shares Class Meeting have been despatched to the Shareholders together with the revised notices of the EGM and H Shares Class Meeting. The relevant revised notices dated 5 June 2018, reply slips and revised forms of proxy are also published on the website of the Hong Kong Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) on 5 June 2018. Shareholders who intend to appoint a proxy to attend the EGM/the H Shares Class Meeting shall complete and return the revised form(s) of proxy in accordance with the instructions printed thereon not less than 24 hours before the time fixed for holding the meetings or any adjournment thereof (as the case may be). Completion and return of the revised form of proxy will not preclude you from attending the EGM and the H Shares Class Meeting or any adjourned meeting and voting in person if you so wish.

Yours faithfully,  
By Order of the Board  
**Shandong Chenming Paper Holdings Limited**  
**Chen Hongguo**  
*Chairman*

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## LETTER FROM INDEPENDENT BOARD COMMITTEE

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*The following is the text of the letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in connection with the A Shares Subscription in accordance with the Hong Kong Listing Rules for inclusion in this circular.*



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)

6 July 2018

*To the Independent Shareholders*

Dear Sir or Madam,

**ENTERING INTO THE SUPPLEMENTAL SHARES SUBSCRIPTION AGREEMENT WITH THE SUBSTANTIAL SHAREHOLDER**

We refer to the supplemental circular of the Company dated 6 July 2018 (the “**2018 Circular**”) issued to its shareholders of which this letter forms a part. Terms defined in the 2018 Circular shall have the same meanings when used in this letter, unless the context otherwise requires.

We have been appointed by the Board as members of the Independent Board Committee to advise the Independent Shareholders in respect of the fairness and reasonableness of the resolutions in relation to the entering into of the Supplemental Shares Subscription Agreement with the Substantial Shareholder, and to recommend whether or not the Independent Shareholders should vote in favour of the resolution in relation to the entering into of the Supplemental Shares Subscription Agreement with the Substantial Shareholder, to be proposed at the EGM and the H Shares Class Meeting. Gram Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

We wish to draw your attention to the Letter from the Board set out on pages 1 to 9 of the 2018 Circular and the Letter from Gram Capital set out on pages 12 to 20 of this supplemental circular.

*\* for identification purpose only*

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## LETTER FROM INDEPENDENT BOARD COMMITTEE

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Having taken into account the principal factors and reasons considered by, and the opinion of, Gram Capital, we are of the view the resolution in relation to the Entering into the Supplemental Shares Subscription Agreement with the Substantial Shareholder (i) is in the interests of the Company and the Shareholders as a whole; and (ii) is fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favor of the relevant resolution set out in the notices of the EGM and the H Shares Class Meeting respectively.

Yours faithfully,

*Independent Board Committee*

**Pan Ailing, Wang Fengrong, Huang Lei, Liang Fu**

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## LETTER FROM GRAM CAPITAL

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*Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Supplemental Agreement for the purpose of inclusion in this circular.*



Room 1209, 12/F.  
Nan Fung Tower  
88 Connaught Road Central/  
173 Des Voeux Road Central  
Hong Kong

6 July 2018

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

Dear Sir/ Madam,

### CONNECTED TRANSACTION ENTERING INTO THE SUPPLEMENTAL SHARE SUBSCRIPTION AGREEMENT WITH SUBSTANTIAL SHAREHOLDER

#### INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the supplemental share subscription agreement (the “**Supplemental Agreement**”) relating to the further adjustment to the price determination date for the Non-Public Issue of A Shares, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 6 July 2018 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular and the Circulars (as defined in the Board letter) unless the context requires otherwise.

At the 11th extraordinary meeting of the seventh session of the Board held on 15 April 2016, it was resolved to approve the proposed non-public issue of A Shares by the Company. As part of the Non-Public Issue of A Shares, the Company has entered into a conditional subscription agreement (the “**Previous Share Subscription Agreement**”) with the Substantial Shareholder, pursuant to which, the Company has conditionally agreed to issue A Shares amounting to approximately RMB2,000,000,000 to Chenming Holdings.

At the 13th extraordinary meeting of the seventh session of the Board held on 17 May 2016, it was resolved to revise the proposed non-public issue of A Shares by the Company, including but not limited to (i) revise the maximum amount of A Shares to be issued under the Non-Public Issue of A Shares; (ii) the minimum Subscription Price; and (iii) the use of proceeds from the Non-Public Issue of A Shares. Furthermore, the Company terminated the Previous Share Subscription Agreement and

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## LETTER FROM GRAM CAPITAL

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entered into the Share Subscription Agreement with the Substantial Shareholder, pursuant to which, the Company has conditionally agreed to issue A Shares amounting to not more than RMB1,058,200,000 to Chenming Holdings. The then independent shareholders of the Company approved the above resolutions on the Previous Shareholders' Meeting on 2 June 2016.

At the 2017 EGM and the 2017 Class Meetings held on 2 June 2017, it was resolved to approve (i) the extension of the Validity Period of Resolution Relating to the Non-Public Issue of A Shares; and (ii) the extension of the Validity Period of Authorisation to the Board, for a 12-month period from the date of approval of the relevant resolutions.

At the 10th extraordinary meeting of the eighth session of the Board held on 7 June 2017 (the “**2017 Board Meeting**”), it was resolved to consider and approve the resolution on the adjustment to the Price Determination Date for the Non-public Issue, pursuant to which the price determination date for the Issue will be adjusted to the announcement date of board resolutions at the 2017 Board Meeting (i.e. 8 June 2017) (the “**Previous Adjustment**”). Apart from the change of the price determination date, the issue price, the number of new A Shares to be issued, there are no other change to the Non-Public Issue of A Shares.

At the 2018 EGM and the 2018 Class Meetings held on 1 June 2018, it was resolved to approve (i) the further extension of the Validity Period of Resolution Relating to the Non-Public Issue of A Shares; and (ii) the further extension of the Validity Period of Authorisation to the Board, for a 12-month period from the date of approval of the relevant resolutions.

At the 25th extraordinary meeting of the eighth session of the Board held on 4 June 2018 (“**2018 Board Meeting**”), it was resolved to consider and approve the resolution on the adjustment to the Price Determination Date for the Non-public Issue, pursuant to which the price determination date for the Issue will be adjusted to the announcement date of board resolutions at the Board Meeting (i.e. 5 June 2018) (the “**Adjustment**”). Apart from the change of the price determination date, the issue price and the number of new A Shares to be issued, there are no other change to the non-public issue of A Shares.

In light of the abovementioned Adjustment, the subscription price and the number of the subscription shares under the Share Subscription Agreement (as supplemented by the supplemental share subscription agreement dated 7 June 2017) between the Company and Chenming Holdings (being the Substantial Shareholder) will be amended accordingly and hence the parties entered the Supplemental Agreement on 4 June 2018. Save as the aforesaid, all terms and conditions to the Share Subscription Agreement remains the same.

Chenming Holdings, being one of the subscribers, was a substantial Shareholder as at the Latest Practicable Date. Therefore, Chenming Holdings is a connected person of the Company and the Supplemental Agreement are subject to the reporting, announcement, and the independent shareholders' approval requirements pursuant to the Hong Kong Listing Rules.

The Independent Board Committee comprising Ms. Wang Fengrong, Mr. Huang Lei, Ms. Liang Fu and Ms. Pan Ailing (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of Supplemental Agreement are on normal

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## LETTER FROM GRAM CAPITAL

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commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the entering into of the Supplemental Agreement is in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) to approve the Supplemental Agreement at the EGM and H Shares Class Meeting on 20 July 2018. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

### **BASIS OF OUR OPINION**

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there are no undisclosed private agreements/ arrangements or implied understanding with anyone concerning the Non-Public Issue of A Shares. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Hong Kong Listing Rules.

The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Hong Kong Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement as contained in the Circular or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, Chenming Holdings or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of entering into of the Supplemental Agreement. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may



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## LETTER FROM GRAM CAPITAL

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affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our opinion in respect of the Supplemental Agreement, we have taken into consideration the following principal factors and reasons:

#### **(1) Background and reasons for the Supplemental Agreement**

##### ***Business overview of the Group***

The Company is a joint stock company established under the laws of the PRC with limited liability, the H Shares of which are listed on the Main Board of the Hong Kong Stock Exchange and the A Shares of which are listed on the Shenzhen Stock Exchange. The Group is principally engaged in the making and sales of paper products.

##### ***Information on Chenming Holdings***

Chenming Holdings is engaged in the investment in manufacture of paper, electricity, steam and arboriculture projects with its own funds.

#### **Reasons for and benefits of the Adjustment and the Supplemental Agreement**

Having considered our analyses as stated in the circulars of the Company dated 19 May 2016 (the “**2016 Circular**”), 18 May 2017 (the “**2017 Circular**”) and 17 May 2018 (the “**2018 Circular**”) respectively regarding Non-Public Issue of A Shares, including (i) the A Shares Subscription is the most appropriate fund raising method of the Group; (ii) the proposed use of proceeds from the Non-Public Issue of A Shares is acceptable; (iii) the A Shares Subscription also demonstrates the confidence of Chenming Holdings places in the Company and its support to the development of the Company’s business, which is conducive to enhancing the market image of the Company, we consider that the Non-Public Issue of A Shares is in the interests of the Company and the Shareholders as a whole.

As confirmed by the PRC legal adviser to the Company, due to the fact that the New PRC Regulations<sup>(Note)</sup> were passed by the CSRC on 15 February 2017, the New PRC Regulations only apply

*Note:* The summary of the New PRC Regulations was set out under the section headed “Implications on the New PRC Regulation below.”

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## LETTER FROM GRAM CAPITAL

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to listed companies which propose to conduct non-public issuance of A Shares in the PRC whose applications to the CSRC are accepted (受理) on or after 15 February 2017, being the date of passing the Non-Public Stock Offerings Amendment Decision. As the Company received notification on the acceptance (受理) regarding the application for the proposed Placing of A Shares on 20 June 2016, the PRC legal adviser to the Company considered that the New PRC Regulations did not apply to the proposed Placing of A Shares. As such, the Non-Public Issue of A Shares should be in compliance with, among other things, Implementation Rules for the Non-public Issue of A Shares by Listed Companies (Revised in 2011) (《上市公司非公開發行股票實施細則》(2011年修訂))(the “**2011 Implementation Rules**”).

For our due diligence purpose, we obtained copy of the 2011 Implementation Rules and noted that a board meeting will be required to hold for the purpose of reconfirm the price determination date after the board meeting regarding the non-public issue if, among other things, the validity period of such resolution(s) proposed at the general meeting expires (the “**Requirement on Additional Board Meeting**”).

With reference to the 2016 Circular and the 2017 Circular, the validity period of the resolution (the “**Resolution**”) to be proposed at the Previous Shareholders Meetings to approve the Non-Public Issue of A Shares shall be 12 months of the date of the relevant extraordinary general meetings and the class meetings. As advised by the Directors, the aforesaid resolution would expire on 2 June 2018.

Despite (i) the extension of the Validity Period of Resolution Relating to the Non-Public Issue of A Shares; and (ii) that the extension of the Validity Period of Authorisation to the Board were approved on 2018 EGM and the 2018 Class Meetings held on 1 June 2018, the Company (after seeking advice from its sponsor and PRC legal adviser) understood that as the previous minimum subscription price was still valid during the validity period of the Resolution, the Company could not reconfirm the price determination date by the end of the aforesaid validity period (i.e. 2 June 2018). As such, it was resolved to consider and approve the resolution on the Previous Adjustment at the 2018 Board Meeting.

Having considered that (i) the Non-Public Issue of A Shares is in the interests of the Company and the Shareholders as a whole; and (ii) the Adjustment is in compliance with the requirement of relevant PRC regulation, we consider that the Adjustment is in the interests of the Company and the Shareholders as a whole.

In light of the abovementioned Adjustment, the subscription price and the number of the subscription shares under the Share Subscription Agreement between the Company and Chenming Holdings will be amended accordingly and hence the parties entered into of the Supplemental Agreement on 4 June 2018.

Having considered that (i) the entering into of the Supplemental Agreement is due to the Adjustment; and (ii) as analysed above, the Adjustment is in the interests of the Company and the Shareholders as a whole, we consider that the entering into of the Supplemental Agreement is also in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM GRAM CAPITAL

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### (2) Principal terms of the Adjustment and the Supplemental Agreement

As advised by the Directors, in accordance with the requirements of the Implementation Rules for the 2011 Implementation Rules, and the authorization given to the Board from the Previous Shareholders' Meetings, the Board has approved to make adjustments to the price determination date for the issue, and revised the issue price and the size of the issue at the board meeting on 4 June 2018. As a result, the number of New A Shares to be issued will be adjusted to 274,888,558 new A Shares from 360,272,638 new A Shares along with the adjustment to the price determination date of the Non-public Issue of A Shares. The issue price will be increased to RMB13.46 from RMB10.27.

The Substantial Shareholder has undertaken that it will subscribe for the A Shares to be issued under the Non-public Issue of A Shares, based on its 20.35% (inclusive) equity interest in the Company as at 31 March 2016. The specific number of shares for subscription shall be determined by the final number of shares to be issued under the issue multiplying by 20.35%. As the issue price will be increased to RMB13.46 from RMB10.27, the maximum number of shares to be subscribed by the Substantial Shareholder will be decreased to 55,939,821 New A shares from 73,315,481 New A Shares. Other terms under the Non-public Issue of A Shares and the A Shares Subscription remain unchanged.

As a result of the change in price determination date, the issue price and the number of New A Shares to be issued, the Company and the Substantial Shareholder entered into the Supplemental Agreement. Other terms and conditions in the Shares Subscription Agreement remain the same.

#### Analysis on the Adjusted Issue Price

The minimum Adjusted Issue Price of RMB13.46 represents:

- (a) a premium of approximately 17.04% over the closing price of RMB11.50 per A Share as at the Latest Practicable Date;
- (b) a discount of approximately 4.67% to the closing price of RMB14.12 per A Share as quoted on Bloomberg on 4 June 2018, being the date of the Supplemental Agreement (the "**Last Trading Day**");
- (c) a discount of approximately 7.30% to the average closing price of RMB14.52 per A Share as quoted on Bloomberg for the last ten trading days up to and including the Last Trading Day; and
- (d) a premium of approximately 31.06% over the previous minimum Issue Price of RMB10.27.

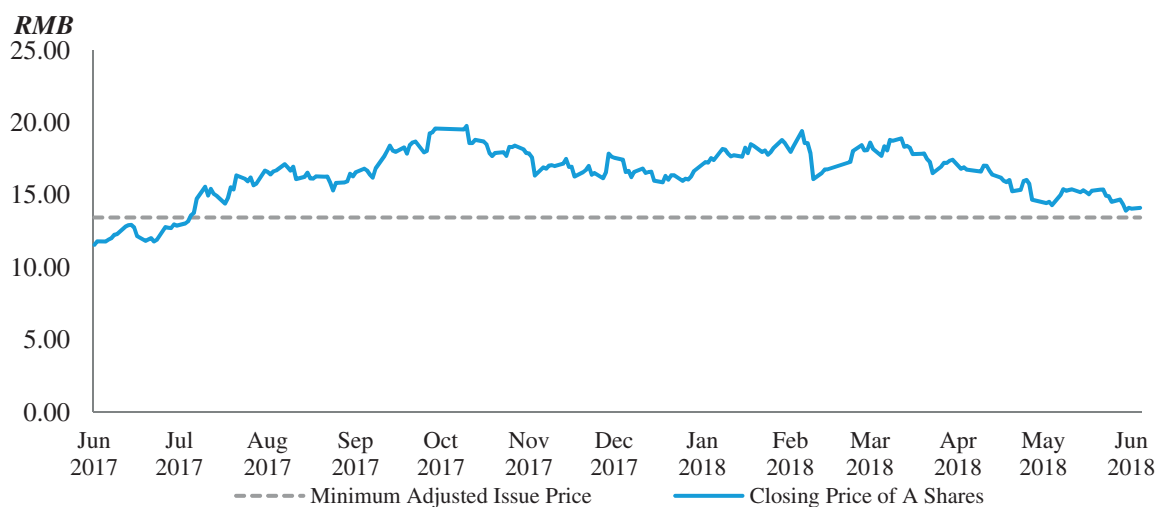
In order to assess the fairness and reasonableness of the Adjusted Issue Price, we have reviewed the daily closing price of the A Shares as quoted on Bloomberg during the period commencing from 1 June 2017 up to and including the Last Trading Day (the "**Review Period**") being approximately one year period prior to and including the Last Trading Day, which is commonly used for analysis purpose.

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## LETTER FROM GRAM CAPITAL

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### Historical daily closing price per A Share



Source: Bloomberg

During the Review Period, the lowest and highest closing prices of the A Shares as quoted on Bloomberg were RMB11.57 recorded on 1 June 2017 and RMB19.79 recorded on 10 October 2017 respectively. The minimum Adjusted Issue Price of RMB13.46 is within the range of the lowest and highest closing prices of the A Shares as quoted on Bloomberg during the Review Period.

#### *Implications on the New PRC Regulations*

Pursuant to the Adjustment, the price determination date for the Issue will be adjusted to the announcement date of board resolutions at the Board Meeting (i.e. 5 June 2018). According to 《上市公司證券發行管理辦法》(Measures for Administration of the Issue of Securities by Listed Companies\*) and the 2011 Implementation Rules issued by CSRC, price referencing date is defined as (i) the date of announcement of the board resolutions relating to the non-public issuance; (ii) the date of announcement of the shareholders' resolutions relating to the non-public share issuance; or (iii) the first day of the non-public issuance period (發行期). Companies may choose any of the three ways to define their price determination date.

We understood that (i) on 15 February 2017, the CSRC passed Decision to Amend the Detailed Rules for Non-Public Stock Offerings by Listed Companies (《關於修改〈上市公司非公開發行股票實施細則〉的決定》) (the “**Non-Public Stock Offerings Amendment Decision**”). The Non-Public Stock Offerings Amendment Decision was published by the CSRC on 17 February 2017; and (ii) the CSRC also published the Issuance Regulatory Questions and Answers — Regulatory Requirements regarding Guiding and Regulating Listed Companies' Financing Activities (《發行監管問答 — 關於引導規範上市公司融資行為的監管要求》) (the “**QA**”, together with Non-Public Stock Offerings Amendment Decision, the “**New PRC Regulations**”) on 17 February 2017.

According to the Non-Public Stock Offerings Amendment Decision, the price referencing date to determine the issue price of shares proposed to be issued by way of non-public issuance shall be the

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## LETTER FROM GRAM CAPITAL

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first day of the non-public issuance period. According to the QA, the number of shares proposed to be issued by a listed company by way of non-public issuance shall not exceed 20% of the total number of issued shares immediately before the non-public issuance. The Requirement on Additional Board Meeting for the purpose of reconfirm price determination date was also deleted.

As mentioned above, the PRC legal adviser to the Company considered that the New PRC Regulations did not apply to the proposed Placing of A Shares.

In light of the above factors, the Directors considered that the Reference Date of 5 June 2018, being the announcement date of board resolutions at the Board Meeting is in compliance with relevant regulations.

Having taken into account that (i) the minimum Adjusted Subscription Price falls within the range of the daily closing price of the A Shares during the Review Period; (ii) the Pricing Basis complies with relevant PRC regulations (e.g. the 2011 Implementation Rules); and (iii) the change of minimum Adjusted Subscription Price is the result of the Adjustment, which is in compliance with relevant PRC regulation, we consider that the minimum Adjusted Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned.

### *Internal control*

To ensure the fairness and reasonableness of the final issue price, relevant departments of the Company will research the final issue price as determined by other listed issuer in the open market. The president and/or senior management will negotiate with its underwriter(s) and investors such term based on the aforesaid market information (including latest information and historical information). When determining the final issue price, the president and/or senior management will also take into account of the market conditions, the actual conditions of the Company and relevant rule or regulations in relation to the proposed Placing of A Shares.

In light of the above procedures as well as that the basis for the determining the Subscription Price should be in compliance with relevant PRC regulations, we are of the view that there are sufficient measures to ensure the determination of the final issue price will be in accordance with their respective bases.

Having considered that (i) Chenming Holdings will not participate in the process for the determination of the final issue price; and (ii) the final issue price to Chenming Holdings will be the same price as offered by other subscribers, we are of the view that the final issue price to Chenming Holdings to be fair and reasonable.

### **(3) Dilution effect on the shareholding interests of the existing public shareholders**

As illustrated by the table under the section headed “Effects on shareholding structure of the Company” of the Board Letter, the shareholding interests of the existing public H Shareholders in the Company would be diluted by approximately 1.6 percent point immediately after completion of the Non-public Issue of A Shares and assuming (i) Chenming Holdings have subscribed a maximum amount of 55,939,821 New A Shares; and (ii) the Subscription Price for all subscribers is RMB13.46,

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## LETTER FROM GRAM CAPITAL

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being the minimum Subscription Price. Taking into account (i) the dilution impact to the existing public Shareholders (i.e. 1.6 percent point) has been reduced as compared to the dilution impact before the Adjustment (i.e. 2.0 percent point); and (ii) that the terms of the Supplemental Agreement being fair and reasonable so far as the Independent Shareholders are concerned, we are of the view that the aforementioned level of dilution to the shareholding interests of the existing public Shareholders is acceptable.

### RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Supplemental Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the entering into of the Supplemental Agreement is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM and H Shares Class Meeting on 20 July 2018 to approve the Supplemental Agreement and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,  
For and on behalf of  
**Gram Capital Limited**  
**Graham Lam**  
*Managing Director*

<b>Class and par value of Shares to be issued:</b>	A Shares with a par value of RMB1.00 each.
<b>Method and time of the proposed non-public issue of A Shares:</b>	All the shares under the issue will be issued to specific targets by way of non-public issue in due course within the valid period as approved by the CSRC.
<b>Subscription price and pricing principles:</b>	<p>The price determination date for the non-public issue will be the announcement date of the resolutions of the twenty fifth extraordinary meeting of the eighth session of the Board (i.e. 4 June 2018). The issue price of the non-public issue will be not less than the higher of 90% of the average trading price of the Company's A Shares for the 20 trading days prior to the price determination date (the average trading price of A Shares for the 20 trading days prior to the price determination date = total trading amount of A Shares for the 20 trading days prior to the price determination date/total volume of A Shares for the 20 trading days prior to the price determination date) (i.e. RMB13.46 per share) or the net asset value per share attributable to ordinary shareholders under the latest audited accounts of the Company prior to the issue.</p> <p>Based on the floor issue price mentioned above, the issue price of the non-public issue will be determined by way of book building. Upon receipt of approval from the CSRC in respect of the non-public issue, the final issue price will be determined by the Board under the authorisation granted at the general meeting and the sponsor(s) (the lead underwriter(s)) through negotiation based on the subscription price quoted by target investors and the principle of price priority. Chenming Holdings will not participate in the auction process of the price determination of the non-public issue. However, Chenming Holdings shall accept the auction result of the subscription of other target investors, and subscribe for A Shares at the same price as offered by other target investors.</p>

In the event of any ex-right or ex-dividend events of the shares of the Company such as dividend distribution, scrip dividend distribution or capitalisation of capital reserve during the period from the price determination date to the issue date, the floor issue price mentioned above will be adjusted accordingly. The formula for the adjustment is set out below:

Assuming  $P_0$  as the floor issue price before adjustment,  $N$  as the number of shares distributed as scrip dividend or converted from the capital reserve per share,  $D$  as the dividend per share, and  $P_1$  as the adjusted floor issue price (rounded off to the nearest hundredth), then:

Dividend distribution:  $P_1 = P_0 - D$

Scrip dividend distribution or capitalisation of capital reserve:  $P_1 = P_0 / (1 + N)$

Both:  $P_1 = (P_0 - D) / (1 + N)$ .

**Number of Shares to be issued:**

Based on the adjustments to the Price Determination Date for the Non-public Issue of A Shares of the Company, the number of shares to be issued under the issue will be adjusted to not more than 274,888,558 shares (inclusive). In particular, Chenming Holdings has undertaken that it will subscribe for the shares to be issued under the non-public issue according to its 20.35% (inclusive) shareholding in the Company as at 31 March 2016 (i.e. to subscribe not more than 55,939,821 shares). Within the scope mentioned above, the actual number of shares to be issued will be determined by the Board under the authorisation granted at the general meeting and the sponsor(s) (the lead underwriter(s)) through negotiation based on the subscription upon receipt of approval from the CSRC in respect of the non-public issue.



**Target subscribers and  
subscription method:**

The target investors under the non-public issue of shares will be not more than 10 (inclusive) specific investors such as qualified securities investment fund management companies, securities firms, trust investment companies, financial companies, insurance institutional investors, qualified foreign institutional investors, other domestic legal person investors and natural persons, including Chenming Holdings, the controlling shareholder of the Company. A securities investment fund management company which subscribes for shares through 2 or more funds under its management shall be deemed as a single target investor. If the target investor is a trust investment company, its subscription can only be made using its self-owned funds. In particular, Chenming Holdings has undertaken that it will subscribe for the shares to be issued under the non-public issue according to its 20.35% (inclusive) shareholding in the Company as at 31 March 2016 (i.e. to subscribe not more than 55,939,821 shares). Upon receipt of approval in respect of the non-public issue by the Company, based on the subscription price quoted by target investors and the principle of price priority, the final target investors other than the controlling shareholder, Chenming Holdings, will be determined by the Board under the authorisation granted at the general meeting. All target investors shall subscribe for shares to be issued under the non-public issue at the same price in cash.

**Lock-up period:**

The A Shares to be subscribed by the Substantial Shareholder under the Non-Public Issue of A Shares must not be transferred within 36 months from the listing date of the new shares. The A Shares to be subscribed by other investors under the Placing of A Shares must not be transferred within 12 months from the listing date of the A Shares.

**Listing Location of the  
New A Shares:**

The shares to be issued under the non-public issue will be listed and traded on the Shenzhen Stock Exchange upon the expiration of the lock-up period.

**Use of proceeds:**

The gross proceeds to be raised from the Non-Public Issue of A Shares will be not more than RMB3,700 million, which are intended to be used as follows:

<b>Project Name</b>	<b>Total investment cost</b> (RMB0,000)	<b>Proceeds from</b>
		<b>Non-Public Issue of A Shares to be invested</b> (RMB0,000)
1. The bleached sulfate chemical pulp project with annual production capacity of 400,000 tonne (年產40萬噸漂白硫酸鹽化學木漿項目)	411,026	370,000
<b>Total</b>	411,026	370,000

In the event that the proceeds obtained under the non-public issue are less than the proposed total investment from the proceeds as mentioned above, the shortfall will be funded by the self-owned funds or other financing means of the Company. Prior to receipt of the proceeds from the non-public issue, the Company will make investment using its self-owned funds based on the actual progress of the projects, and substitute the proceeds in accordance with the relevant laws and regulations upon receipt of the proceeds.

**Undistributed profit:**

Upon completion of the Placing of A Shares, the existing and new shareholders of the Company will be entitled to share in the Company's cumulative undistributed profits prior to the Non-Public Issue of A Shares.

**Validity of resolutions**

The resolutions approving the Non-Public Issue of A Shares will be valid for a period of 12 months until 2 June 2019, commencing from the date of passing of such resolutions at the general meeting.

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## APPENDIX II THE DILUTION OF CURRENT RETURNS AND REMEDIAL MEASURES UPON THE NON-PUBLIC ISSUE OF A SHARES (FOURTH AMENDMENT)

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**Important: Investors are advised to note that the remedial returns measures for returns formulated by the Company are not a guarantee of the future profit of the Company.**

Pursuant to the relevant requirements such as the Opinions of the General Office of the State Council on Further Strengthening the Protection of Small and Medium Investors' Legitimate Interests in Capital Market (《國務院辦公廳關於進一步加強資本市場中小投資者合法權益保護工作的意見》) (Guo Ban Fa [2013] No. 110), the Several Opinions of the State Council on Further Promoting the Healthy Development of Capital Market (《國務院關於進一步促進資本市場健康發展的若干意見》) (Guo Fa [2014] No. 17) and the Guiding Opinions on Matters Relating to the Dilution of Current Returns As a Result of Initial Public Offering, Refinancing and Major Asset Restructuring (《關於首發及再融資、重大資產重組攤薄即期回報有關事項的指導意見》) (CSRC Announcement [2015] No. 31), a listed company shall undertake to take specific measures to remedy the dilution of current returns due to refinancing.

On 15 April 2016, Shandong Chenming Paper Holdings Limited (the "Company") carefully analysed the effect of the non-public offering on the dilution of current returns and introduced specific remedial measures, and the relevant entities also made commitments to take the remedial measures of the Company (please see announcement no. 2016-043 for details). At the 13th extraordinary meeting of the seventh session of the Board held on 17 May 2016, the Company revised the proposal of non-public offering for 2016 and made the relevant amendments on the matters regarding the dilution of current returns accordingly. Please see the announcement numbered 2016-076 for details. At the 4th extraordinary meeting of the eighth session of the Board held on 26 September 2016, the Company adjusted the use of proceeds, the proceeds amount, the issue price and the issue size for the non-public offering for 2016, and made the relevant amendments on the matters regarding dilution of current returns accordingly. Please see the announcement numbered 2016-126 for details. At the 9th extraordinary meeting of the eighth session of the Board held on 18 April 2017, the Company made the relevant amendments on the matters regarding the dilution of current returns according to the latest information such as the financial data of the 2016 annual report accordingly. Please see the announcement numbered 2017-042 for details.

On 4 June 2018, the Company held the twenty fifth extraordinary meeting of the eighth session of the Board, at which the price determination date for the offering was adjusted to the announcement date of the board resolutions at the twenty fifth extraordinary meeting of the eighth session of the Board of the Company, i.e. 5 June 2018. The Company updated the potential effects to the current returns of the Company caused by the non-public offering. The details are as follows:

### I. Analysis on dilution of current returns of the non-public offering

Upon the non-public offering, it will take a certain period of time for the implementation of the investment projects using the proceeds and generating benefits. Therefore, the net profit and net assets of the Company may not grow together in the short term, and there will be risks for various indicators including the return on net assets and the earnings per share to decrease in the short term.

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**APPENDIX II THE DILUTION OF CURRENT RETURNS AND REMEDIAL MEASURES  
UPON THE NON-PUBLIC ISSUE OF A SHARES (FOURTH AMENDMENT)**

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Excluding the use efficiency of the proceeds, the simulation results regarding the effects on the key financial data and financial indicators of the non-public offering are as follows:

1. It is assumed the issue will be completed by the end of November 2018, and such completion time would only be used to calculate the effects on the key financial indicators caused by the dilution of current returns upon the non-public offering. The actual timing of completion of the issue is subject to the approval of the issue by CSRC;
2. It is assumed that the issue size is 274,888,558 shares, the issue price is RMB13.46/share, and the proceeds raised will be RMB3,700 million (excluding the effect of issuance expense);
3. According to the 2017 annual report, the net profit after extraordinary gains and losses attributable to shareholders of the parent company for 2017 was RMB3,425.7790 million. It is assumed that there would be three situations where the net profit for 2018 would increase by 10%, 20% and 30% as compared to 2017. Such assumptions and analysis do not constitute the profit forecasts of the Company. Investors should not make investment decisions in reliance thereon. The Company will not be held liable for any loss arising from investment decisions made by any investor based on such assumptions and analysis;
4. It is assumed that the dividend rate of the preference shares of RMB4,500 million issued by the Company is 5.00% excluding the effect of the variable cash dividend (for illustrative purposes only and does not represent the actual dividend rate of the preference shares delivered by the Company).

All forecast financial indicators are as follows:

Items	For 2017 / 31 December 2017 Before the offering	For 2018 / 31 December 2018	
		Before the offering	After the offering
<b>Assumption I</b>	The net profit after extraordinary gains and losses attributable to shareholders of the parent company for 2018 increases by 10% as compared to 2017		
Share capital of Ordinary Shares (0'000 shares)	193,640.55	193,640.55	229,667.81
Basic earnings per share after extraordinary gains and losses attributable to ordinary shareholders of the parent company (RMB)	1.52	1.65	1.63
Diluted earnings per share after extraordinary gains and losses attributable to ordinary shareholders of the parent company (RMB)	1.52	1.65	1.63
<b>Assumption II</b>	The net profit after extraordinary gains and losses attributable to shareholders of the parent company for 2018 increases by 20% as compared to 2017		
Share capital of Ordinary Shares (0'000 shares)	193,640.55	193,640.55	229,667.81
Basic earnings per share after extraordinary gains and losses attributable to ordinary shareholders of the parent company (RMB)	1.52	1.83	1.81

**APPENDIX II THE DILUTION OF CURRENT RETURNS AND REMEDIAL MEASURES  
UPON THE NON-PUBLIC ISSUE OF A SHARES (FOURTH AMENDMENT)**

Items	For 2017 / 31 December 2017 Before the offering	For 2018 / 31 December 2018	
		Before the offering	After the offering
Diluted earnings per share after extraordinary gains and losses attributable to ordinary shareholders of the parent company (RMB)	1.52	1.83	1.81
<b>Assumption III</b>	The net profit after extraordinary gains and losses attributable to shareholders of the parent company for 2018 increases by 30% as compared to 2017		
Share capital of Ordinary Shares (0'000 shares)	193,640.55	193,640.55	229,667.81
Basic earnings per share after extraordinary gains and losses attributable to ordinary shareholders of the parent company(RMB)	1.52	2.00	1.98
Diluted earnings per share after extraordinary gains and losses attributable to ordinary shareholders of the parent company(RMB)	1.52	2.00	1.98

Details of the above forecasts:

1. The assumptions and analysis of the net profit for 2018 made by the Company will not constitute the profit forecasts of the Company. Investors should not make investment decisions in reliance thereon. The Company will not be held liable for any loss arising from investment decisions made by any investor based on such assumptions and analysis;
2. The information of the non-public offering such as the share amount, the issue price and the issue completion time is an estimate only. The share amount and the actual timing of completion of the issue are subject to the approval of the issue by CSRC;
3. The above simulation does not take into account the use efficiency of the proceed from the offering after receipt;
4. Net profit after extraordinary gains and losses attributable to ordinary shareholders of the parent company = Net profit after extraordinary gains and losses attributable to shareholders of the parent company - preference shares dividends declared for the current period - interest of perpetual bonds for the current period;
5. The basic earnings per share and diluted earnings per share are calculated in accordance with the Compilation Rules for Information Disclosures by Companies Offering Securities to the Public No. 9 - Calculation and Disclosure of Return on Equity and Earnings per Share 《公開發行證券的公司信息披露編報規則第9號-淨資產收益率和每股收益的計算及披露》;
6. The net profit of the above simulation does not take into account the effect of extraordinary gains and losses due to the uncertainties of the amount of extraordinary gains and losses.

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## APPENDIX II THE DILUTION OF CURRENT RETURNS AND REMEDIAL MEASURES UPON THE NON-PUBLIC ISSUE OF A SHARES (FOURTH AMENDMENT)

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### II. Risk warning on the dilution of current returns as a result of the non-public offering

Upon receipt of the proceeds, the total share capital and net assets of the Company will be increased. In view of the time for the proceed to yield benefits, under the circumstance that the Company's total share capital and net assets may increase, the earnings per share, weighted average return on equity and other financial indicators will decrease to certain extent in the short run and there still exists the risk relating to the dilution of immediate returns of the Company (earnings per share, return on equity and other financial indicators) after receiving the proceeds. Therefore, investors are advised to be aware of the risks relating to the dilution of immediate returns due to the Non-Public Offering.

### III. The necessity and reasonableness of the financing chosen by the Board

The proceeds from the non-public offering is proposed to be invested in the 400,000-tonne bleached sulphate pine chemical pulp project.

#### (I) *The necessity of the financing*

##### (1) *Needs for the Implementation of Industrial Structural Adjustments*

A lot of fibre raw materials such as wood fibre and waste paper are required in the paper making industry. The enterprises which control paper making forest bases and fibre materials including waste paper will be competitive in the long run. Bleached sulfate pine pulp is urgently required by the paper making industry market in China. The domestic production capacity always falls short of the requirement of the industry, resulting in reliance on the large amount of imports from overseas countries every year. With the rapid development of the paper making industry in China, the supply of raw materials has become the bottleneck constraining the development of the paper making industry. The insufficient supply of raw materials in China directly affects the pace of structural adjustments on raw materials and products of the paper making industry. There is an urgent need for the paper making industry in respect of conditional development of pulp production so as to improve the backwardness of China's paper making industry as well as the quality and product grade of paper products.

##### (2) *Needs for the Achievement of Green Development Strategies*

The Company has implemented green development strategies which seek for development amidst environmental protection and improve environmental protection standards amidst scientific development. On the basis of phasing out the existing backward production capacity, the bleached sulfate chemical pulp project will use advanced and mature international techniques and equipment such that all the valuable wastes produced during the production process will be fully utilised and the small amount of waste water and all exhaust gas will be discharged after being treated according to standards. These are also the Company's active responses to Shouguang City's requirements such as encouraging enterprises to relocate from the urban area to industrial zones and equivalent alternative for environmental protection so as to achieve the "win-win" situation for both economic efficiency and environmental benefits.

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## APPENDIX II THE DILUTION OF CURRENT RETURNS AND REMEDIAL MEASURES UPON THE NON-PUBLIC ISSUE OF A SHARES (FOURTH AMENDMENT)

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### (3) *Needs for Fulfilling the Company's Procurement of Pulp*

As at the end of 2017, the total assets of Chenming Paper were RMB105.625 billion with an annual paper production capacity of more than 5 million tonnes, in which the annual paper production capacity of Shouguang production base reached 2.70 million tonnes such that the production base would need nearly 4.03 million tonnes of pulp for production every year. Recently, the production capacity of pulp in Shouguang production base is about 1.13 million tonnes and the production base purchases about 1.26 million tonnes of pulp both domestically and overseas. Therefore, the commencement of production of the bleached sulfate chemical pulp project will help relieve the pressure of pulp purchase, reduce the purchasing cost and improve the overall efficiency of the Company.

### (II) *The reasonableness of the financing*

#### 1. *The non-public offering facilitates and improves the further development of the business management of the Company*

The proceeds of the issue will be used for the investment in the bleached sulfate chemical pulp project with annual production capacity of 400,000 tonnes so as to facilitate the continuous healthy development of the existing principal business of the Company. Upon the completion of the non-public offering, the core competitiveness and ability to resist risks of the Company will be further strengthened, thereby enhancing the value of the Company. It will be conducive to the implementation and maintenance of the long-term interests of all shareholders and will have important strategic significance for the long-term sustainable development of the Company.

#### 2. *The non-public offering helps optimise the capital structure of the Company, enhance the profitability of the Company and improve the cash flow of the Company*

##### (1) *Optimising the capital structure of the Company*

The non-public issue will help the Company strengthen the capital strength, enlarge the asset size, further optimise the asset and liability structure and lay a foundation for the future development of the Company. Upon the completion of the non-public issue, the total assets and liabilities of the Company will increase while the gearing ratio of the Company will decrease such that the working capital will be more adequate, which will be beneficial to strengthen the capital strength of the Company, and optimise the financial position of the Company and improve the solvency, which will be beneficial to strengthen the stability of the asset structure and ability to resist risks of the Company.

##### (2) *Enhancing the profitability of the Company*

Upon the implementation of the investment projects using the proceeds from the non-public issue, the principal business of the Company will be strengthened. Upon the receipt of proceeds, the profitability of the Company will be improved effectively. However, the total share capital of the Company will increase immediately but the investment projects using the proceeds will not be able to generate immediate benefits in the short term. Therefore, it is possible for the return on net assets of the Company to decrease in the short term.



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**APPENDIX II THE DILUTION OF CURRENT RETURNS AND REMEDIAL MEASURES  
UPON THE NON-PUBLIC ISSUE OF A SHARES (FOURTH AMENDMENT)**

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- (3) Improving the cash flow of the Company, and reducing the operation risks and costs

Upon the completion of the non-public issue, the receipt of proceeds will largely increase the cash inflow of the Company, thus further strengthening the capital strength. The issue will help improve the cash flow of the Company and reduce operation risk and cost.

**IV. The relationship between the investment projects using the proceeds and the existing businesses of the Company, and the reserve in different aspects such as personnel, technology and market of the investment projects engaged in by the Company**

- (I) *The relationship between the investment projects using the proceeds and the existing businesses of the Company*

The Company is a large enterprise primarily engaged in pulping, paper-making and thermal power generation operations. The Company currently engages in operations such as machine-made paper, electricity and heat, construction materials, paper making chemicals, hotels and financial leasing. The proceeds from the non-public issuance of A shares of the Company will be used for the investment in the bleached sulfate chemical pulp project with annual production capacity of 400,000 tonnes.

The Company is a leading player in the paper making industry in China, with annual pulp and paper production capacity of over 10,000,000 tonnes. It has the largest pulp paper production base in the world and dozens of pulp and paper production lines of international advanced standards. With the rapid development of the paper making industry in China, the supply of raw materials has become the bottleneck constraining the development of the paper making industry. The insufficient supply of product materials in China directly affected the pace of structural adjustments on raw materials and products of the paper making industry. The bleached sulfate chemical pulp project with annual production capacity of 400,000 tonnes will enhance the economies of scale and the product concentration, promoting the development of the industry of making high-end paper.

- (II) *The storage in different aspects such as personnel, technology and market of the investment projects engaged in by the Company*

1. *Personnel reserve*

Through the advanced management philosophy and ample room for development, the Company has trained and reserved numerous specialised talents and a staff team with years of practical experience during the research and development, production and operations for many years. The staff with rich experience in pulp projects management can facilitate the successful implementation of the bleached sulfate chemical pulp project of the Company.

Currently, the Company has the talents required by the investment projects using the proceeds. The Company has formulated more regulated procedures and system for the personnel recruitment and training sections. The Company is equipped with experience of successful operations. The quality and professional teams can provide the long-term development of the Company with strong and sound talent personnel security.



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## APPENDIX II THE DILUTION OF CURRENT RETURNS AND REMEDIAL MEASURES UPON THE NON-PUBLIC ISSUE OF A SHARES (FOURTH AMENDMENT)

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### 2. *Technology reserve*

The Company highly values the significant role of technology innovation playing in the development of the enterprise, and therefore it has constantly strengthened the establishment of different scientific research institutions including national enterprise technology centre and post-doctoral research station, and the development of independent innovation capability of the enterprise. The Company has also increased investment in scientific research, extensively initiated industry-university-research cooperation, accelerated the industrialisation progress of high-end and new technological results, optimised the products structure, and obtained outstanding outcome and favourable economic and social benefits.

Currently, 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 and has obtained over 150 national patents including 12 patents for invention, with 7 products selected as national new products and 35 products filling the gap in China. The Company has obtained 21 Science and Technology Progress Awards above the provincial level and undertaken five national science and technology projects and 26 provincial technological innovation projects. The Company has obtained the ISO9001 quality certification, ISO14001 environmental protection certification and FSC-COC certification, leading among its industry peers.

The six research and development projects including the technical development of heat sublimation transferred coated paper, and technical development of special cardboard for pharmaceutical packaging were listed into the technological innovative project plans of Shandong Province for 2016. There are in total 11 research and development projects were listed into the technological innovative project plans of Shandong Province for the recent three years.

### 3. *Market reserve*

With the outstanding products quality, the Company has accumulated abundant customer resources from the research and development, production and operation for many years. The Company has obtained favourable reputation in the market, and acquired stronger sustain able capability to explore clients. As the bleached hardwood sulfate pulp to be produced by the annual production capacity of 400,000-tonne bleached sulphate pine chemical pulp project is an intermediate product of the paper making industry, the products will be all used by the Group.

## V. **Measures Taken by the Company to Replenish Return**

In light of the potential diluting effect of the offering on the current return of the ordinary shareholders and to protect the interests of the ordinary shareholders of the Company especially the

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## APPENDIX II THE DILUTION OF CURRENT RETURNS AND REMEDIAL MEASURES UPON THE NON-PUBLIC ISSUE OF A SHARES (FOURTH AMENDMENT)

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minority shareholders, the Company will adopt the following specific measures to enhance its profitability and the level of returns to shareholders to replenish the current return of the ordinary shareholders affected by the diluting effect of the non-public issue:

1. ***Improving the efficiency of the use of proceeds and enhancing the management of proceeds***

The Company has fully discussed and justified the feasibility of the projects to be invested with the proceeds raised in the offering. The projects invested with proceeds are consistent with industry development trends and national policies on industries, and have better market prospects and profitability. After proceeds raised in the offering are received, the Company will accelerate to proceed with the construction of the projects invested with proceeds and strives to commence operation in such projects as soon as possible and realise expected benefits. Meanwhile, the Company will manage the use of proceeds stringently in accordance with the relevant regulations and the requirements of the “Measures for the Management of Proceeds Raised by Shandong Chenming Paper Holdings Limited” of the Company to ensure that the proceeds are fully and effectively used according to the original designated purposes.

2. ***Amending the dividend distribution policy of the Company to ensure the interest and return of shareholders of the Company***

To improve the profit distribution system of the Company and motivate the Company to establish a more scientific and reasonable profit distribution and decision-making mechanism to better protect the interests of shareholders and investors, the Company has amended the relevant terms in the Articles of Association relating to the decision-making mechanism, formula and form of profit distribution in respect of profit distribution policy in accordance with the requirements of the “Notice on Relevant Matters Relating to Further Implementation of Distribution of Cash Dividends by Listed Companies (關於進一步落實上市公司現金分紅有關事項的通知)” and “Regulatory Guidance for Listed Companies No. 3 - Distribution of Cash Dividends by Listed Companies (上市公司監管指引第3號 - 上市公司現金分紅)” issued by the China Securities Regulatory Commission and other relevant laws, regulations and normative documents and taking into account the actual circumstances of the Company. The Board of Directors of the Company has also formulated the “Planning for Distribution of Dividends and Return to Shareholders of Shandong Chenming Paper Holdings Limited for the next three years (2016-2018) (山東晨鳴紙業集團股份有限公司未來三年(2016-2018年)股東分紅回報規劃)”. The Company will strictly execute the relevant provisions and practically protect the legitimate interest of investors to enhance the protection mechanism for the interest of medium and small investors.

3. ***Improving corporate governance continuously to provide protective system for the development of the Company***

The Company will strictly comply with the requirements of laws, regulations and normative documents, such as the Company Law, Securities Law, Governance Standards for Listed Companies, to improve the corporate governance structure continuously to ensure that shareholders are able to fully exercise their rights, the Board of Directors are able to perform their duties and authorities in

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## APPENDIX II THE DILUTION OF CURRENT RETURNS AND REMEDIAL MEASURES UPON THE NON-PUBLIC ISSUE OF A SHARES (FOURTH AMENDMENT)

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accordance with the provisions of the laws, regulations and Articles of Association and make scientific, fast and prudent decisions, and independent directors are able to perform their duties and responsibilities conscientiously, to safeguard the overall interest of the Company, in particular the legitimate interest of medium and small shareholders and provide a protective system for the development of the Company.

#### 4. *Expanding domestic and overseas markets to increase development space*

The market shares of domestic and overseas markets will be further expanded by implementing active and reasonable marketing strategies, adjusting product mix timely according to market changes and through the provision of innovative marketing and innovative services. Marketing management will be strengthened by commissioning management consultancy firms to implement new management model in the sales system, adjust the corporate management structure for products, strengthen the management of market segments and increase training efforts to create a sales team with superior business quality. The international marketing network will be improved to reinforce overseas sales force and increase the market share in exports. E-commerce will be developed to accelerate the building of a virtual terminal market and customer-oriented e-commerce business will be commenced to widen sales channels through online sales.

#### VI. **Measures Taken for Ensuring the Intended Use of the Proceeds from This Non-public Offering**

In order to standardise the administration of the proceeds and increase its utilisation efficiency, the Company formulated and from time to time amended Administration Measures of the Proceeds (《募集資金管理辦法》), which specifies explicitly the separate deposit, use, alteration of use, administration and supervision of the proceeds, in accordance with laws and regulations as well as normative documents such as Company Law of the People's Republic of China (《中華人民共和國公司法》), Securities Law of the People's Republic of China (《中華人民共和國證券法》), Rules Governing the Listing of Securities of Shenzhen Stock Exchange (《深圳證券交易所股票上市規則》) and Guidance on Standardised Operation of Companies Listed on SME Board of Shenzhen Stock Exchange (《深圳證券交易所中小板上市公司規範運作指引》) and pursuant to relevant provisions set out in Articles of Associations.

Upon receipt of the proceeds from Non-public Offering, the Company will, for the purpose of compliant and effective use of such proceeds and in accordance with the Administration Measures of the Proceeds (《募集資金管理辦法》), deposit the proceeds into a separate account ensuring such funds are applied to the designated investment projects. It will also carry out internal auditing on proceeds on a regular basis and collaborate with sponsors to inspect and monitor the use of proceeds so as to reasonably avoid risks in the use of proceeds. Major measures taken to achieve such purposes are set out below:

1. Upon receipt of the proceeds, the Company shall prudently select a commercial bank for the opening of special account(s) for proceeds raised, which shall be deposited into the special account(s) designated by the Board for centralised management;

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**APPENDIX II THE DILUTION OF CURRENT RETURNS AND REMEDIAL MEASURES  
UPON THE NON-PUBLIC ISSUE OF A SHARES (FOURTH AMENDMENT)**

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2. A tripartite regulatory agreement shall be signed between the Company, the sponsor(s) and the commercial bank(s) in which the proceeds are deposited within one month upon receipt of the proceeds;
3. The Company shall use the proceeds in accordance with the proceeds investment plan as committed in the offering application document;
4. The accounting department of the Company shall set up ledger for the use of proceeds, recording in detail the expense of proceeds and the input into projects financed by proceeds. The Company's internal audit department shall at least quarterly perform checking on the deposit and use of proceeds, engage professional institutions such as accounting firms to conduct specific auditing when necessary and promptly make report on the check results to the audit committee;
5. The Company shall enhance the information disclosure in respect of the use and management of proceeds to ensure the minority shareholders' right to know. The Board of the Company shall present its specific explanation on the deposit and use of proceeds during the year including the use of the idle proceeds by replenishing working capital and the results thereof, and engage accounting firms to issue specific report by conducting specific auditing on the deposit and use of proceeds, which shall be included in the annual report.

**VII. Undertakings with regard to Directors, Senior Management and Controlling Shareholders**

All Directors and Senior Management of the Company undertake that:

- “1. they will not direct benefits to other entities or individuals without consideration or on unfair terms, nor will they compromise the interests of the Company in any other manner.
2. they will act to restrain duty-related spending.
3. they will not appropriate assets of the Company for investments and spending not related to the performance of their duties.
4. the remuneration system formulated by the Board or the Remuneration Committee will be correlated to the implementation of the measures taken by the Company to replenish return.
5. in the event of the implementation of any share option incentive scheme by the Company in future, the conditions for exercising options under such scheme will be correlated to the implementation of the measures taken by the Company to replenish return.”

The controlling shareholder of the Company, Shouguang Chenming Holdings Company Limited, undertakes that: “it will not to intervene in the Company's business management activities and not to infringe upon the Company's interest.”

**Shandong Chenming Paper Holdings Limited\***  
**The Feasibility Analysis Report on the Use of Proceeds of the**  
**Non-Public Issue of Shares in 2016 (Fourth Amendment)**

**I. Investment Plan for the Proceeds**

The total proceeds under the non-public issue shall not be more than RMB3.7 billion (inclusive), and the proceeds raised from the non-public issue of the Company will be utilised for the following purposes:

*Unit: RMB'0,000*

No.	Project name	Total investment for the project	Proposed investment from the proceeds
1	The bleached sulfate chemical pulp project of 400,000 tonnes	411,026	370,000
	<b>Total</b>	411,026	370,000

In the event that the proceeds obtained under the non-public issue (after deducting issuance expenses) are less than the proposed total investment from the proceeds as mentioned above, the shortfall will be funded by the self-owned funds of the Company. Prior to receipt of the proceeds from the non-public issue, the Company will make investment using its self-owned funds based on the actual progress of the projects, and replace the proceeds in accordance with the relevant regulations upon receipt of the proceeds.

**II. The Bleached Sulfate Chemical Pulp Project with Annual Production Capacity of 400,000 Tonnes**

**(I) Basic Information of the Project**

Project name: The bleached sulfate chemical pulp project with annual production capacity of 400,000 tonnes

Total investment for the project: RMB4.11026 billion

Duration of project construction: two years

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**APPENDIX III                      FEASIBILITY REPORT ON THE USE OF PROCEEDS FROM THE  
PROPOSED NON-PUBLIC ISSUE OF A SHARES (FOURTH AMENDMENT)**

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Business entity of the project: Shouguang Meilun Paper Co., Ltd., a wholly-owned subsidiary of the Company (“Shouguang Meilun”)

Contents of project construction: The bleached sulfate chemical pulp project with annual production capacity of 400,000 tonnes of Shouguang Meilun

Address of project implementation: the project is situated in Chenming Project Area, Shouguang City, Shandong Province, with relevant land use rights obtained (Land Use Rights Certificate - Shou Guo Yong (2010) No. 380)

Upon receipt of the proceeds, RMB3.7 billion of the proceeds will be contributed to Shouguang Meilun to carry out the bleached sulfate chemical pulp project with annual production capacity of 400,000 tonnes. The precondition of such proposed use of proceeds from non-public issue is that the non-public issue of the Company is permitted by the CSRC and the raised proceeds from non-public issue arrive at the Company’s designated accounts.

**(II) *Necessity, Feasibility and Prospects of the Project Construction***

**1. *Necessity of the Project Construction***

**(1) Needs for the Implementation of Industrial Structural Adjustments**

The Company exerted more efforts in the promotion of making comprehensive structural adjustments on the paper making industry, not only involving adjustments on the size and layout, but also involving adjustments on raw materials, products and market structure. With the rapid development of the paper making industry in China, the supply of raw materials has become the bottle neck constraining the development of paper making industry. The insufficient supply of raw materials in China directly affected the pace of structural adjustments on raw materials and products of paper making industry. In 2014, pulp accounted only for 27% in papermaking materials while such proportion reached more than 90% in developed countries for paper making. Hence, there is an urgent need for the paper making industry in respect of conditional development of pulp production so as to improve the backwardness of China’s paper making industry as well as the quality and grade of paper made.

**(2) Needs for the Achievement of Green Development Strategies**

The Company implemented green development strategies which seek for development amidst environmental protection and improve environmental protection standards amidst scientific development. On the basis of phasing out the existing backward production capacity, the bleached sulfate chemical pulp project will use advanced and mature international techniques and equipment such that all the valuable wastes produced during the production process will be fully utilized and the small amount of waste water and all exhaust gas will be discharged after being treated according to

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**APPENDIX III                      FEASIBILITY REPORT ON THE USE OF PROCEEDS FROM THE  
PROPOSED NON-PUBLIC ISSUE OF A SHARES (FOURTH AMENDMENT)**

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standards. These are also the Company's active responses to Shouguang City's requirements such as encouraging enterprises to relocate from the urban area to industrial zones and equivalent alternative for environmental protection so as to achieve the "win-win" situation for both economic efficiency and environmental benefits.

(3) Fulfilling the Company's Needs for Pulp Procurement

As at the end of 2017, the total assets of Chenming Paper was RMB105.625 billion with an annual paper production capacity of more than 5 million tonnes, in which, the annual paper production capacity of Shouguang production base reached 2.7 million tonnes such that the production base would need nearly 4.03 million tonnes of pulp for production every year. Recently, the production capacity of pulp in Shouguang production base is about 1.13 million tonnes and the production base purchases about 1.26 million tonne of pulp from both domestic and foreign regions. Hence, the commencement of production of the bleached sulfate chemical pulp project will help relieve the pressure of pulp purchase, reduce the purchasing cost and improve the overall efficiency of the Company.

*2. Feasibility of Project Construction*

(1) Complying with National Industry Policy

As stated in the "Paper Making Industry Development Policy" published by the National Development and Reform Commission, the paper making industry is characterized by capital and technology intensive and significant economies of scale. The industry has a strong industrial correlativeness with huge market capacity and is an important source of power to facilitate the development of industries such as forestry, agriculture, printing, packaging and machinery manufacturing, becoming a new growth point of the national economic development in China. The raw materials of the paper making industry comprise native plant fiber such as wood, bamboo and reeds and recycled fiber such as waste paper, which can partly replace the non-renewable resources such as plastic, steel and non-ferrous metal, and thus the paper making industry is an important industry for national economy that characterized by sustainable development. The project will introduce and use the recent advanced international technologies such as pulp materials preparation, alkali recovery and environmental protection. It is a technological pulp and paper making project and complies with the national industry policy.

(2) Advanced and Mature Project Plan

The equipment and technology used for the project are all first-class advanced international products with mature and advanced plans. The project is proposed to use advanced international techniques and equipment in the production process ranging from materials preparation, steaming, washing and bleaching to evaporation, combustion, causticizing lime kilns and bleaching chemical preparation system, for example, materials storage yard equipment with first-in-first-out concept, advanced international continuous steaming system, closed screening, chlorine dioxide bleaching,



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**APPENDIX III                      FEASIBILITY REPORT ON THE USE OF PROCEEDS FROM THE  
PROPOSED NON-PUBLIC ISSUE OF A SHARES (FOURTH AMENDMENT)**

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crystallization and evaporation, high-level thick black liquor combustion technology and low concentration and high concentration of odor treatment technology. The project will use the recent advanced, mature and reliable international technology and equipment, possessing advantages in techniques and equipment as compared to any established pulp mill.

**(3) Strong Scientific Research Capability and Abundant Management Experience**

Currently, 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 and has obtained over 150 national patents including 12 patents for invention, with 7 products selected as national new products and 35 products filling the gap in China. The Company has obtained 21 Science and Technology Progress Awards above the provincial level and undertaken five national science and technology projects and 26 provincial technological innovation projects. The Company has obtained the ISO9001 quality certification, ISO14001 environmental protection certification and FSC-COC certification, leading among its industry peers. Due to the large scale expansion and reconstruction projects for years, the Company gained abundant project management experience and a staff team with years of practical experience, which also provide guarantee for the successful implementation of the bleached sulfate chemical pulp project.

**3. *Project Prospects***

With the development of national economy, the mid-to-high-end paper market will present quite a large growth trend while the market share of low-end paper will gradually reduce. Moreover, due to the prospering market economy and the development of high-tech industry, the demand for high grade, high quality and high value-added paper and paper board has been increasing, which provides opportunity for the raw materials for producing such products (i.e. the production and development of pulp). Hence, the project has sound market prospects.

At the same time, as the bleached hardwood sulfate pulp that will be produced by the project, which will be funded by the proceeds, is an intermediate product of the paper making industry, the products will be all used by the Group.

**(III) *Business Entity of the Project***

The business entity of the project is Shouguang Meilun, a wholly-owned subsidiary of the Company. The proceeds will be used by the Company for making capital contribution to Shouguang Meilun and it will be in charge of the specific implementation. The specific information of Shouguang Meilun is as follows:

1. Name: Shouguang Meilun Paper Co., Ltd.
2. Address: No. 595 Shengcheng Road, Shouguang City
3. Legal representative: Geng Guanglin
4. Registered capital: RMB3 billion



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**APPENDIX III                      FEASIBILITY REPORT ON THE USE OF PROCEEDS FROM THE  
PROPOSED NON-PUBLIC ISSUE OF A SHARES (FOURTH AMENDMENT)**

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5. Company category: limited liability company (non-natural person investment or holding legal person sole proprietorship)
  
6. Business scope: production and sale of: coated paper, paper board, paper products, paper making raw materials, paper making machinery; sale of: fiber feed, seedlings, protein powder, paper making additives, chemical products (excluding hazardous chemicals and precursor chemical products of poisons), electricity, heat, coal, plaster, paper making machinery parts; paper making technology research and development consultancy services; goods and technology import and export business as permitted by the government (projects that require pre-approvals according to laws can only be conducted after obtaining approvals from the relevant authorities)

***(IV) Economic Benefits Evaluation of the Project***

According to the feasibility analysis report of the project, the project will achieve an annual average revenue of RMB1.65382 billion upon the commencement of production with an investment payback period of 7.98 years (including 2 years of construction period) and an internal rate of return of 13.44%. The project will bring remarkable economic benefits and the implementation thereof is economically feasible.

***(V) Approvals for the Project***

The project has obtained the “Certificate for the Registration and Filing of Construction Projects in Shandong Province” (Registration and filing item code: 1300000071) issued by Shandong Development and Reform Commission and the “Approval and Reply from Shandong Provincial Environmental Bureau in Relation to the Environmental Impact Statement of the Bleached Sulfate Chemical Pulp Project with Annual Production Capacity of 400,000 Tonnes of Shouguang Meilun Paper Co., Ltd.” (Lu Huan Shen [2015] No. 205) issued by Shandong Provincial Environmental Bureau.

**III. Impact of the Issue on the Business Management and Financial Conditions of the Company**

***(I) Impact of the Non-Public Issue on the Business Management of the Company***

The proceeds of the issue will be used for the investment in the bleached sulfate chemical pulp project with annual production capacity of 400,000 tonnes so as to facilitate the continuous healthy development of the existing principal business of the listed company. Upon the completion of the non-public issue, the core competitiveness and ability to resist risks of the listed company will be further strengthened, thereby enhancing the value of the listed company. It will be conducive to the implementation and maintenance of the long-term interests of all shareholders and will have important strategic significance for the long-term sustainable development of the listed company.

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**APPENDIX III                      FEASIBILITY REPORT ON THE USE OF PROCEEDS FROM THE  
PROPOSED NON-PUBLIC ISSUE OF A SHARES (FOURTH AMENDMENT)**

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**(II) *Impact of the Non-Public Issue on the Financial Conditions of the Company***

**1. *Impact on the Capital Structure of the Company***

The non-public issue will help the Company to strengthen the capital strength, enlarge the asset size, further optimize the asset and liability structure and lay a foundation for the future development of the Company. Upon the completion of the non-public issue, the total assets and liabilities of the Company will increase while the gearing ratio of the Company will decrease, which will be beneficial to strengthen the capital strength of the Company, and optimize the financial conditions of the Company and improve the solvency, which will be beneficial to strengthen the stability of the asset structure and ability to resist risks of the Company.

**2. *Improving the Profitability of the Company***

Upon the implementation of the investment projects using the proceeds raised from the non-public issue, the principal business of the Company will be strengthened. Upon the receipt of proceeds, the profitability of the Company will be improved effectively. However, upon completion of the issue, the total amount of share capital of the Company will increase immediately but the investment projects using the proceeds will not be able to generate immediate benefits in short term. Hence, it will be possible for the return on net assets of the Company to decrease in short term.

**3. *Impact on the Cash Flow of the Company***

Upon the completion of the non-public issue, the receipt of proceeds will largely increase the cash inflow of the Company, further strengthening the capital strength. The issue will help improve the cash flow of the Company and reduce operation risk and cost.

**IV. *Conclusion on the Feasibility Analysis of the Use of Proceeds of the Non-Public Issue***

After careful analysis, the Board is of the opinion that, the investment projects using the proceeds raised from the non-public issue comply with the relevant policies and laws and regulations as well as the actual conditions and strategic requirements of the Company, and thus it is essential to implement such projects. The investment projects enjoy favourable prospects for market development. The use of proceeds will bring sound investment income to the Company and improve the business scale of the Company, which will be beneficial to the long-term sustainable development of the Company and the enhancement of the Company's core competitiveness, conforming to the fundamental interests of all shareholders.

**Report on use of proceeds from previous fund raising**

According to the requirements of the Regulations for Reports on the Use of Proceeds from Previous Fund Raising (《關於前次募集資金使用情況報告的規定》) (Zheng Jian Fa Xing Zi [2007] No. 500) published by the China Securities Regulatory Commission (the “CSRC”), Shandong Chenming Paper Holdings Limited (the “Company”) prepared the report on use of proceeds from previous fund raising as at 31 December 2017.

**I. Basic information about proceeds from previous fund raising**

On 17 September 2015, the Company obtained the Reply Concerning Approval of Non-public Issuance of Preference Shares of Shandong Chenming Paper Holdings Limited (Zheng Jian Xu Ke [2015] No. 2130) issued by the CSRC, which approved the non-public issue of preference shares of not more than RMB4.5 billion of the Company, with the initial issuance of not less than 2.25 billion shares. On 17 March 2016, 17 August 2016 and 22 September 2016, the Company cumulatively issued preference shares in three tranches with total proceeds of RMB4.5 billion. After deducting the paid issuance expenses of RMB22.5 million, the net proceeds of RMB4.4775 billion were deposited to the designated account for the proceeds from preference shares.

As verified by the capital verification reports titled Rui Hua Yan Zi [2016] No. 37020007, Rui Hua Yan Zi [2016] No. 37020016 and Rui Hua Yan Zi [2016] No. 37020018 issued by Ruihua Certified Public Accountants (Special General Partnership) respectively, the above proceeds of RMB4.4775 billion were deposited to the designated account for the proceeds (account: 377899991010003031390) opened with Bank of Communications Co., Ltd. Weifang Chengxi sub-branch by the Company in three tranches on 17 March 2016, 17 August 2016 and 22 September 2016 respectively.

As at 31 December 2017, the utilised proceeds amounted to RMB4.4775 billion, of which RMB3.0 billion was utilised for repayment of bank loans and RMB1.4775 billion was utilised for replenishment of working capital.

**II. Actual use of proceeds from previous fund raising****1. Comparison of use of proceeds from previous fund raising**

According to the proposal on the use of proceeds from preference shares disclosed in the prospectus of the non-public issuance of preference shares of the Company, “after deducting the issuance expenses, the proceeds from the issuance of preference shares will be utilised for repayment of bank loans and replenishment of working capital”.

Please refer to attachment 1 “Comparison table of use of proceeds from previous fund raising” for the comparison of the actual use of proceeds from previous fund raising as at 31 December 2017.

**2. Refinancing for investment projects with proceeds from previous fund raising**

As at 31 December 2017, the Company utilised the proceeds of RMB4.4775 billion, of which RMB3.0 billion was utilised for repayment of bank loans and RMB1.4775 billion were utilised for replenishment of working capital as refinancing.

**3. Comparison of return achieved by investment projects of proceeds from previous fund raising**

Please see attachment 2 for the comparison of return achieved by investment projects funded by proceeds from previous fund raising.

**III. Comparison of actual use of proceeds from previous fund raising and publicly disclosed information**

There is no discrepancy between the actual use of proceeds from previous fund raising of the Company and the corresponding disclosures at the 10th extraordinary meeting of the seventh session of the Board and the 3rd extraordinary meeting of the eighth session of the Board of the Company in 2016.

**IV. Conclusion**

The Board considers that the Company utilised the proceeds from previous fund raising according to the proposal on the use of proceeds from preference shares disclosed in the prospectus of non-public issuance of preference shares. The Company truthfully fulfilled its disclosure obligations with respect to the use and progress of proceeds from previous fund raising.

All directors of the Company warrant that there are no false representations, misleading statements and material omissions in this report, and are severally and jointly responsible for the authenticity, accuracy and completeness of the content herein.

The Board of Shandong Chenming Paper Holdings Limited  
4 June 2018

**APPENDIX IV**

**REPORT ON USE OF PROCEEDS FROM PREVIOUS FUND RAISING (AS AT 31 DECEMBER 2017)**

**Attachment 1:**

**Comparison table of use of proceeds from previous fund raising**

*Unit: RMB'0,000*

Total amount of proceeds			447,750.00			Total amount of accumulated utilised proceeds			447,750.00	
Total amount of proceeds with change in use						Total amount of utilised proceeds for the respective years			447,750.00	
						Including: 2017			447,750.00	
Proportion of total amount of proceeds with change in use										
Investment project			Total investments of proceeds			Cumulative investments of proceeds up to the calculation date				
No.	Name of project (creditor)	Actual investment project (creditor)	Committed investment amount before fund raising	Committed investment amount after fund raising	Actual investment amount	Committed investment amount before fund raising	Committed investment amount after fund raising	Actual investment amount	Different between actual investment amount and committed investment amount after fund raising	Date of project brought to the working condition for its intended use (or degree of completion level of project up to the calculation date)
1	Jinan branch of China Bohai Bank Co., Ltd.	Jinan branch of China Bohai Bank Co., Ltd.	40,000.00	40,000.00	40,000.00	40,000.00	40,000.00	40,000.00		
2	Weifang branch of Heng Feng Bank Co., Ltd.	Weifang branch of Heng Feng Bank Co., Ltd.	25,000.00	25,000.00	25,000.00	25,000.00	25,000.00	25,000.00		
3	Weifang branch of Heng Feng Bank Co., Ltd.	Weifang branch of Heng Feng Bank Co., Ltd.	25,000.00	25,000.00	25,000.00	25,000.00	25,000.00	25,000.00		
4	Qilu Bank Co., Ltd.	Qilu Bank Co., Ltd.	15,000.00	15,000.00	15,000.00	15,000.00	15,000.00	15,000.00		
5	Shouguang sub-branch of Agricultural Bank of China Limited	Shouguang sub-branch of Agricultural Bank of China Limited	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00		
6	Shouguang sub-branch of Agricultural Bank of China Limited	Shouguang sub-branch of Agricultural Bank of China Limited	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00		
7	Shouguang sub-branch of Postal Savings Bank of China	Shouguang sub-branch of Postal Savings Bank of China	50,000.00	50,000.00	50,000.00	50,000.00	50,000.00	50,000.00		
8	Qilu Bank Co., Ltd.	Qilu Bank Co., Ltd.	20,000.00	20,000.00	20,000.00	20,000.00	20,000.00	20,000.00		
9	Shouguang sub-branch of Agricultural Bank of China Limited	Shouguang sub-branch of Agricultural Bank of China Limited	8,000.00	8,000.00	8,000.00	8,000.00	8,000.00	8,000.00		
10	Jinan branch of China Bohai Bank Co., Ltd.	Jinan branch of China Bohai Bank Co., Ltd.	30,000.00	30,000.00	30,000.00	30,000.00	30,000.00	30,000.00		
11	Shouguang sub-branch of Agricultural Bank of China Limited	Shouguang sub-branch of Agricultural Bank of China Limited	8,000.00	8,000.00	8,000.00	8,000.00	8,000.00	8,000.00		
12	Jinan branch of China Bohai Bank Co., Ltd.	Jinan branch of China Bohai Bank Co., Ltd.	25,000.00	25,000.00	25,000.00	25,000.00	25,000.00	25,000.00		
13	Shouguang sub-branch of Industrial and Commercial Bank of China Limited	Shouguang sub-branch of Industrial and Commercial Bank of China Limited	20,000.00	20,000.00	20,000.00	20,000.00	20,000.00	20,000.00		
14	Shouguang sub-branch of Agricultural Bank of China Limited	Shouguang sub-branch of Agricultural Bank of China Limited	4,000.00	4,000.00	4,000.00	4,000.00	4,000.00	4,000.00		
15	Shouguang sub-branch of Bank of Communications Co., Ltd.	Shouguang sub-branch of Bank of Communications Co., Ltd.	20,000.00	20,000.00	20,000.00	20,000.00	20,000.00	20,000.00		
16	Replenishment of working capital		150,000.00	147,750.00	147,750.00	150,000.00	147,750.00	147,750.00		
	Total		450,000.00	447,750.00	447,750.00	450,000.00	447,750.00	447,750.00		

## Attachment 2:

Comparison table of return achieved by investment projects of proceeds  
from previous fund raising*Unit: RMB'0,000*

No.	Actual investment project Project name	Cumulative capacity utilisation rate of investment project up to the calculation date	Committed return	Actual return in the latest three years			Cumulative return achieved up to the calculation date	Expected return being achieved or not
				2015	2016	2017		
1	Repayment of bank loans	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
2	Replenishment of working capital	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable

Note 1: Where the committed return of an investment project varies for different years, such return should be disclosed for different years

Note 2: Cumulative capacity utilisation rate of investment project up to the calculation date refers to the ratio of actual output to the designed capacity of an investment project during the period from the date when the investment project is brought to working condition for its intended use up to the calculation date.

## 1. RESPONSIBILITY STATEMENT

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

## 2. DIRECTORS AND SUPERVISORS' INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the SFO), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them had taken or was deemed to have taken under the provisions of the SFO); or (b) to be recorded in the register required to be kept by the Company pursuant to section 352 of the SFO; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules were as follows:

### (a) Long position in the Company

Name of Director	Type of Shares	Nature of interest	Number of Shares held	Percentage of issued share capital of the Company
Chen Hongguo	A Share	Beneficial owner	6,696,296	0.35%
Chen Hongguo	A Share	Family interest	429,348	0.022%
Li Feng	A Share	Beneficial owner	471,818	0.024%
Geng Guanglin	A Share	Beneficial owner	437,433	0.023%
Li Dong	A Share	Beneficial owner	10,000	0.001%

Saved as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which each of them had taken or deemed to have taken under the provisions of the SFO); or (b) to be recorded in the register required to be kept by the Company pursuant to section 352 of the SFO; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code.

### 3. SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at the Latest Practicable Date and to the best knowledge of the Directors and the chief executive of the Company, persons having interests and short positions in 5% or more in the Shares, underlying Shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, and required to be recorded in the register of interests and short positions required to be kept by the Company pursuant to section 336 of the SFO were as follows:

#### Long Positions:

Type of shareholding	Name of Shareholder	Capacity and nature of interest	Number of Shares held	Percentage of such shareholding in the same type of issued share capital	Percentage of total issued share capital
A Shares	Chenming Holdings	Directly and beneficially owned	293,003,657	26.32%	15.13%
B Shares	Chenming Holdings	Indirectly and beneficially owned	140,478,375	29.83%	7.26%
B Shares	Chenming Holdings (Hong Kong) Limited	Directly and beneficially owned	140,478,375	29.83%	7.26%
H Shares	Chenming Holdings	Indirectly and beneficially owned	102,276,000	29.04%	5.28%
H Shares	Chenming Holdings (Hong Kong) Limited	Directly and beneficially owned	102,276,000	29.04%	5.28%
H Shares	The National Social Security Fund Council	Directly and beneficially owned	31,638,500	8.98%	1.63%

Save as disclosed above, as at the Latest Practicable Date, there were no other parties who had interests or short positions in the Shares or underlying Shares of the Company which would fall to be recorded in the register required to be kept under section 336 of SFO.

### 4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any existing or proposed service contract with the Company or any member of the Group which is not terminable within one year without payment of compensation (other than statutory compensation).



**5. MATERIAL CHANGE**

As disclosed in the announcements of the Company dated 16 June 2017 and 14 May 2018 (the “Announcements”), the Company has appealed against the order of Justice Harris dated 14 June 2017 on 12 July 2017. The hearing was completed at the Court of Appeal of the High Court of the HKSAR on 11 May 2018. At the conclusion of the hearing, the court indicated that a date will be set to hand down the judgment. The Company will make further announcement as and when appropriate. Please refer to the Announcements for the potential impact and material changes.

Save as disclosed above, the Directors are not aware of any other material changes since 31 December 2017, being the date to which the latest published audited financial statements of the Company were made up, up to the Latest Practicable Date.

**6. COMPETING BUSINESS**

As at the Latest Practicable Date, so far as the Directors are aware, none of the Directors nor Supervisors, nor their respective associates had any interests in other business, which competes or may compete, either directly or indirectly, with the business of the Group.

**7. DIRECTORS AND SUPERVISORS’ INTERESTS IN THE GROUPS ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP**

As at the Latest Practicable Date:

- (a) none of the Directors or Supervisors was materially interested in any contract or arrangement, which was significant in relation to the business of the Group; and
- (b) so far as the Directors are aware, none of the Directors or Supervisors nor their respective associates had any direct or indirect interests in any assets which had been acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group since 31 December 2017, being the date to which the latest published audited consolidated financial statements of the Group were made up.

## 8. MATERIAL LITIGATION

As at the Latest Practicable Date, the Company is involved in the following litigation.

Basic information about litigation (arbitration)	Amount (RMB*0,000)	Will liability be incurred	Progress of litigation (arbitration)	Judgment result of the litigation (arbitration) and its effect	Judgment execution of the litigation (arbitration)	Disclosure date	Disclosure index
Statutory demand and Winding-up Petition	RMB167.86 million and the interest thereon, USB3,5489 million and the interest thereon, HK\$3,3039 million and the interest thereon	Yes	<ol style="list-style-type: none"> <li>The Court of First Instance in the High Court of the HKSAR completed the hearing held from 21 February 2017 to 23 February 2017.</li> <li>The office address of the Company in Hong Kong received the notice in relation to the injunction order with a case number of HCMP3060/2016 to the legal representative of the Company from the Court of First Instance in the High Court of the HKSAR on 15 June 2017.</li> <li>On 26 June 2017, there was an ex-parte hearing in chambers in the High Court of the HKSAR in which the petitioner applied for an interim injunction order to prohibit the Company from distribution of the 2016 final dividend to the holders of H shares.</li> <li>On 30 June 2017, the Hon Mr. Justice Harris of the High Court of the HKSAR discharged the interim injunction order on the same date after the hearing.</li> <li>The decision was handed down by the Hon Mr. Justice Harris of the High Court of the HKSAR on 7 July 2017.</li> <li>The winding-up petition was scheduled to be heard before the High Court of the HKSAR at 9:30 a.m. on 23 August 2017.</li> <li>The Company through its legal adviser applied to the Court of HKSAR for the validation order relating to the transfer of fully paid-up shares of the Company on 19 July 2017 (case no. HCCW175/2017). The hearing of the application of the validation order was scheduled to be heard at 9:30 a.m. on 19 October 2017.</li> <li>The winding-up petition was heard by the Hon Mr. Justice Harris of the High Court of the HKSAR on 28 August 2017.</li> </ol>	<ol style="list-style-type: none"> <li>The office address of the Company in Hong Kong received the notice in relation to the injunction order with a case number of HCMP3060/2016 to the legal representative of the Company from the Court of First Instance in the High Court of the HKSAR on 15 June 2017: (1) the amended originating summonses for the injunction order be dismissed; and (2) an order nisi be made on the costs of the legal proceedings. The Company paid the costs to the defendant (including the fees payable to two counsels). The costs shall be taxed if not agreed. The High Court of the HKSAR anticipated the reasons for decision of the case would be handed down on 7 July 2017.</li> <li>On 15 June 2017, the office address of the Company in Hong Kong received a winding-up petition dated 15 June 2017 filed by the defendant to the High Court of the HKSAR.</li> <li>The decision was handed down by the Hon Mr. Justice Harris of the High Court of the HKSAR on 7 July 2017.</li> <li>Having considered the reasons for decision and the consequences to the Company once the winding up petition is given, the Company applied for an appeal against the decision to the High Court of HKSAR on 12 July 2017. The hearing was scheduled to be heard before the Court of Appeal of the High Court of the HKSAR at 10:00 a.m. on 11 May 2018.</li> <li>The High Court of HKSAR granted the Validation Order to the Company. Therefore, the transfer of fully paid-up shares of the Company since the Winding Up Petition (i.e. 15 June 2017) would not be deemed void because of the Winding Up Petition.</li> </ol>	Not applicable	24 February 2017, 16 June 2017, 22 June 2017, 29 June 2017, 3 July 2017, 17 July 2017, 19 July 2017, 31 July 2017, 24 August 2017, 28 August 2017, 11 September 2017, 19 October 2017	<a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a> , announcement number: 2017-015, 2017-067, 2017-069, 2017-070, 2017-071, 2017-076, 2017-084, 2017-128, 2017-103, 2017-106

Basic information about litigation (arbitration)	Amount (RMB'0,000)	Will liability be incurred	Progress of litigation (arbitration)	Judgment result of the litigation (arbitration) and its effect	Judgment execution of the litigation (arbitration)	Disclosure date	Disclosure index
Statutory demand and Winding-up Petition		Yes	<p>9. On 5 July 2017, the Company initiated legal proceedings for a civil complaint against Arjowiggins HKK2 Limited ("HKK2") and related parties (the "Civil Complaint") at the Intermediate People's Court of Weifang City in Shandong Province of the People's Republic of China ("Weifang Court"). The Civil Complaint was admitted to be heard by Weifang Court on 8 July 2017.</p> <p>Justice Mimmie Chan of the Court of First Instance of the High Court of the HKSAR on 19 January 2018 in chambers (open to public) ordered that the Company be restrained from further proceeding with the Civil Complaint that it had filed on 5 July 2017 against HKK2 and the related parties before Weifang Court.</p> <p>The Company withdrew the Civil Complaint from Weifang Court on 22 February 2018.</p>	<p>6. The Court ordered an adjournment of the Winding-up Petition, on the Company's undertaking that it would procure a third party to pay into court the amount of the Statutory Demand plus interest to 27 August 2018, totalling approximately HK\$389 million within 14 days. The costs of the Winding-up Petition were kept.</p> <p>7. The Company had procured payment by a third party into the High Court of the HKSAR in the sum of HK\$389,112,432.44 (this sum being the Hong Kong dollar equivalent of the amount set out in the Statutory Demand and interest thereon from 19 October 2016 to 27 August 2018).</p>			

## 9. EXPERT

- (a) The following sets out the qualifications of the expert who have given its opinions or advice as contained in this supplemental circular:

Name	Qualification
Gram Capital Limited	a licensed corporation to carry on Type 6 (advising on corporate finance) regulated activity under the SFO

- (b) As at the Latest Practicable Date, Gram Capital had no shareholding in the Company or any other member of the Group or the right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in the Company or any other member of the Group.
- (c) As at the Latest Practicable Date, Gram Capital had no direct or indirect interests in any assets which has been acquired or disposed of by or leased to any member of the Group since 31 December 2017 (the date to which the latest published audited consolidated financial statements of the Group were made up) or proposed to be so acquired, disposed of or leased.

- (d) Gram Capital has given and has not withdrawn its written consent to the issue of this supplemental circular with the inclusion of its advice, letters, reports and/or summary of its opinions (as the case may be) and references to its name and logo in the form and context in which they respectively appear.
- (e) The letter and recommendation given by Gram Capital is given as at the date of this supplemental circular for incorporation herein.

**10. MISCELLANEOUS**

- (a) The registered office of the Company is at No. 595 Shengcheng Road, Shouguang City, Shandong Province, 262700, PRC.
- (b) The company secretary of the Company is Mr. Poon Shiu Cheong, a Fellow Certified Public Accountant of Hong Kong Institute of Certified Public Accountants and CPA Australia. He obtained a master degree in Accounting from Central Queensland University and a master degree in Business Administration from Southern Cross University. He joined the Company in 2008, and is currently the qualified accountant and company secretary of the Company.
- (c) The Company's H Share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited is situated at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

**11. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection at the office of Messrs Li and Partners at 22/F, World-Wide House, Central, Hong Kong, during normal office hours on Monday to Friday from the date of this supplemental circular up to and including the date of the EGM and the H Shares Class Meeting:

- (a) the audited consolidated accounts of the Company for the last two financial years ended 31 December 2016 and 31 December 2017, respectively;
- (b) the Supplemental Shares Subscription Agreement;
- (c) the letter from the Board, the text of which is set out on pages 1 to 9 of this circular;
- (d) the letter from the Independent Board Committee, the text of which is set out on pages 10 to 11 of this circular;
- (e) the letter from Gram Capital, the text of which is set out on pages 12 to 20 of this circular; and
- (f) the letter of consent from Gram Capital referred to in the paragraph headed "Expert" in this appendix.

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## NOTICE OF 2018 THIRD EXTRAORDINARY GENERAL MEETING

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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)

### REVISED NOTICE OF 2018 THIRD EXTRAORDINARY GENERAL MEETING

IMPORTANT NOTICE: This revised notice of 2018 third extraordinary general meeting (the "Revised Notice") has replaced the notice of 2018 third extraordinary general meeting uploaded to the website of The Stock Exchange of Hong Kong Limited on 4 June 2018. Resolutions for the 2018 third extraordinary general meeting as set out in this Revised Notice shall prevail.

**NOTICE IS HEREBY GIVEN** THAT the 2018 third extraordinary general meeting (the "EGM") of Shandong Chenming Paper Holdings Limited (the "**Company**") will be held at 2:00 p.m. on Friday, 20 July 2018, at the conference room of the research and development centre of the Company, No. 2199 Nongsheng Road East, Shouguang City, Shandong Province, the People's Republic of China (the "**PRC**") for the purpose of passing the following resolutions:

#### Special Resolutions

1. Resolution in relation to the fifth amendments to the proposed non-public offering of A shares
2. Resolution in relation to the fifth amendments to the dilution of current returns by the non-public offering of A shares and remedial measures
3. Resolution in relation to the adjustment to the price determination date for non-public offering of A shares
4. Resolution in relation to the non-public issue of A shares involving related party transaction and the entering into of conditional share subscription agreement with the subscriber
5. Resolution in relation to the feasibility analysis report on the use of proceeds of the non-public issue of shares of the Company (fourth revision)

\* For identification purpose only

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## NOTICE OF 2018 THIRD EXTRAORDINARY GENERAL MEETING

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6. Resolution in relation to the report on use of proceeds from previous fund raising (as at 31 December 2017)

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

Shandong, PRC  
5 June 2018

*Notes:*

1. The register of members of the Company will be temporarily closed from 20 June 2018 to 20 July 2018 (both days inclusive) during which no transfer of H shares of the Company will be registered in order to determine the list of holders of H shares of the Company for attending the EGM. The last lodgment for the transfer of the H shares of the Company should be made on 19 June 2018 at Computershare Hong Kong Investor Services Limited by or before 4:30 p.m. The holders of H shares of the Company or their proxies being registered at the close of business on 19 June 2018 are entitled to attend the EGM by presenting their identity documents. The address of Computershare Hong Kong Investor Services Limited, the H share registrar of the Company, is Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
2. Each shareholder having the rights to attend and vote at the EGM is entitled to appoint one or more proxies (whether a shareholder or not) to attend and vote on his behalf. Should more than one proxy be appointed by one shareholder, such proxy shall only exercise his voting rights on a poll.
3. Shareholders can appoint a proxy by an instrument in writing (i.e. by using the revised proxy form enclosed). The revised proxy form shall be signed by the person appointing the proxy or an attorney authorised by such person in writing. If the revised proxy form is signed by an attorney, the power of attorney or other documents of authorisation shall be notarially certified. To be valid, the revised proxy form and the notarially certified power of attorney or other documents of authorisation must be delivered to, in the case of H shares, the Company's H share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 24 hours before the time scheduled for the holding of the EGM or any adjournment thereof.
4. Shareholders or their proxies shall present proofs of their identities upon attending the EGM. Should a proxy be appointed, the proxy shall also present the revised proxy form.
5. The EGM is expected to last for half day. The shareholders and proxies attending the EGM shall be responsible for their own travelling and accommodation expenses.
6. The Company's registered address:  
No. 595 Shengcheng Road, Shouguang City, Shandong Province, the PRC  
Postal code: 262705  
Telephone: (86)-536-2158008  
Facsimile: (86)-536-2158977

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# NOTICE OF 2018 THIRD CLASS MEETING FOR HOLDERS OF H SHARES

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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)

### REVISED NOTICE OF 2018 THIRD CLASS MEETING FOR HOLDERS OF H SHARES

IMPORTANT NOTICE: This revised notice of 2018 third class meeting for holders of H shares (the "Revised Notice") has replaced the notice of 2018 third class meeting for holders of H shares uploaded to the website of The Stock Exchange of Hong Kong Limited on 4 June 2018. Resolutions for the 2018 third class meeting for holders of H shares as set out in this Revised Notice shall prevail.

NOTICE IS HEREBY GIVEN that the 2018 third class meeting for holders of overseas listed foreign shares (H shares) of the Company ("**H Shares**") (the "**Class Meeting**") of Shandong Chenming Paper Holdings Limited (the "**Company**") will be held immediately after the conclusion of the 2018 third class meeting for holders of domestic-listed shares (A shares and B shares) (or any adjourned meeting thereof) of the Company on Friday, 20 July 2018 at the conference room of the research and development centre of the Company, No. 2199 Nongsheng Road East, Shouguang City, Shandong Province, the People's Republic of China (the "**PRC**") for the purposes of considering and, if thought fit, passing the following resolutions:

#### Special Resolutions

1. Resolution in relation to the fifth amendments to the proposed non-public offering of A shares
2. Resolution in relation to the fifth amendments to the dilution of current returns by the non-public offering of A shares and remedial measures
3. Resolution in relation to the adjustment to the price determination date for non-public offering of A shares
4. Resolution in relation to the non-public issue of A shares involving related party transaction and the entering into of conditional share subscription agreement with the subscriber
5. Resolution in relation to the feasibility analysis report on the use of proceeds of the non-public issue of shares of the Company (fourth revision)

\* For identification purpose only

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## NOTICE OF 2018 THIRD CLASS MEETING FOR HOLDERS OF H SHARES

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6. Resolution in relation to the report on use of proceeds from previous fund raising (as at 31 December 2017)

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

Shandong, PRC  
5 June 2018

*Notes:*

1. The register of members of the Company will be temporarily closed from 20 June 2018 to 20 July 2018 (both days inclusive) during which no transfer of H shares of the Company will be registered in order to determine the list of holders of H shares of the Company for attending the 2018 third class meeting for holders of H Shares. The last lodgment for the transfer of the H shares of the Company should be made on 19 June 2018 at Computershare Hong Kong Investor Services Limited by or before 4:30 p.m. The holders of H shares of the Company or their proxies being registered at the close of business on 19 June 2018 are entitled to attend the 2018 third class meeting for holders of H Shares by presenting their identity documents. The address of Computershare Hong Kong Investor Services Limited, the H share registrar of the Company, is Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
2. Each shareholder having the rights to attend and vote at the 2018 third class meeting for holders of H Shares is entitled to appoint one or more proxies (whether a shareholder or not) to attend and vote on his behalf. Should more than one proxy be appointed by one shareholder, such proxy shall only exercise his voting rights on a poll.
3. Shareholders can appoint a proxy by an instrument in writing (i.e. by using the revised proxy form enclosed). The revised proxy form shall be signed by the person appointing the proxy or an attorney authorised by such person in writing. If the revised proxy form is signed by an attorney, the power of attorney or other documents of authorisation shall be notarially certified. To be valid, the revised proxy form and the notarially certified power of attorney or other documents of authorisation must be delivered to, in the case of H shares, the Company's H share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 24 hours before the time scheduled for the holding of the general meeting or any adjournment thereof.
4. Shareholders or their proxies shall present proofs of their identities upon attending the 2018 third class meeting for holders of H Shares. Should a proxy be appointed, the proxy shall also present the revised proxy form.
5. The 2018 third class meeting for holders of H Shares is expected to last for half day. The shareholders and proxies attending the 2018 third class meeting for holders of H Shares shall be responsible for their own travelling and accommodation expenses.
6. The 2018 third class meeting for holders of domestic listed shares (A shares and B shares) of the Company will be held immediately after the 2018 third extraordinary general meeting.
7. The Company's registered address:  
No. 595 Shengcheng Road, Shouguang City, Shandong Province, the PRC  
Postal code: 262705  
Telephone: (86)-536-2158008  
Facsimile: (86)-536-2158977

*As at the date of this notice, the executive Directors are Mr. Chen Hongguo, Mr. Li Feng and Mr. Geng Guanglin, the non-executive Directors are Ms. Yang Guihua and Ms. Zhang Hong, and the independent non-executive Directors are Ms. Pan Ailing, Ms. Wang Fengrong, Mr. Huang Lei and Ms. Liang Fu.*