

"Paper Contract with China" 2010 Second Quarter Report

Contents

Feature:

Policy Urges Chinese Paper Industry to be "Greener"

- Key Milestone
- Viewpoints
- Case Study: APP-China's Sustainability Practices

"Paper Contract with China" 2010 Q2 Updates

- Scientific Plantation
- Clean Production
- Corporate Social Responsibility

Since May 2010, the Chinese government has issued a number of consecutive policies aimed at eliminating backward production capacity with the targets for the pulp and paper industry being particularly onerous. Can rigorous regulations accelerate the optimization and upgrading of the paper industry? Will they help promote the healthy development of the industry in the long run? These topics are covered in the "Paper Contract with China" 2010 Second Quarter Report.

For more information, please visit www.app.com.cn or www.papercontract.com.cn.



Policy Urges Chinese Paper Industry to be "Greener"

2010 is a year of challenge for the Chinese paper industry because the Chinese government has consecutively issued two administrative decrees to drastically reduce the energy consumption and carbon emissions of the paper industry. In early May, the State Council issued a notice, reinforcing the energy-saving and carbon emission targets set under the 11th five-year plan and requesting that the paper industry eliminate 530,000 tons of backward production capacity. In late May, the Ministry of Industry and Information Technology (MIIT) further raised the target, requiring the paper industry to wash off 4.32 million tons of backward capacity, equivalent to a 715% increase in target.

"Backward production capacity" refers to outdated production facilities which consume vast amounts of energy but produce very little in terms of products. The Chinese paper industry has already made efforts by eliminating six million tons of backward capacity between 2007 and 2009, with the biggest contribution made from small-and-medium sized enterprises using straw pulp to produce low-end paper and wrapping paper and causing heavy pollution.

It is one of the reasons why the Chinese paper industry has always been targeted as a "polluting industry", a label not fair to all players. In fact paper industries in North America, Europe and Japan are considered as environmental friendly, and there are some leading enterprises in China such as Gold East Paper and Jinhai Pulp & Paper whose management and facilities have reached the international standards and their emissions level not only meets but exceeds the Chinese government's requirements.

It is expected that the latest policy will further weed out the small-scale, old and unsustainable plants and the market gap left will be filled by plants advanced in both technology and environmental performance. Such integration will not only reduce emissions and energy consumption, but also reshuffle the market and enhance the overall competitiveness of the Chinese paper industry.

To effectively eliminate backward capacity and make sustainable paper industry a reality, many leading paper-making enterprises such as APP-China has adopted a green circular economy model and implemented "clean production" facilities and "plantation-pulp-paper integration". The good practices of APP-China showed that the paper industry can indeed be a green industry leading to a triple-win situation for the economy, the environment and the society.

Given the fact that eliminating backward production capacity is the Chinese government policy for healthy economic growth, and adopting low carbon economic model is a way for sensitive industries like the paper industry to develop sustainably, there is no doubt that all Chinese paper companies should take this opportunity to enhance their efficiency, productivity as well as competitiveness.

And when that is happening, the paper industry will not only reap a profit gain; but also harvest a reputation reward of being "Greener".



Milestones of Paper Industry Backward Production Capacity Elimination

On May 1, 2009

The new Standard for Discharge of Water Pollutant in the Pulp & Papermaking Industry (GB3544-2008) took effect.

From 2007 to the end of 2009

The paper industry successfully eliminated six million tons of backward capacity, including the majority of backward capacity in large and medium cities. Thus the main target for future elimination will be the backward capacity in small towns and villages.

In early May, 2010

The State Council issued a decree, reinforcing the energy-saving and carbon emission targets set in the 11th five-year plan and requesting the paper industry eliminate 530,000 tons of backward production capacity.

On May 27th, 2010

MIIT raised the target, further requesting that the paper industry eliminate 4.32 million tons of backward capacity, equivalent to a 715% increase in target.

Viewpoints

Experts' Views

Zhao Wei, secretary general of the China Paper Association, expressed his support to the state policy of phasing out outdated industrial capacity, though the target set by MIIT for paper industry is much higher than before. Zhao commented the campaign would help speed up the paper industry upgrading and a new industry layout will be set with better environmental performance and high market competitiveness. This is in line with the government's efforts to combating global warming and climate change.

(Cited from "The Elimination of Backward Capacity is Speeding Up", *Economic Daily*, June 8, 2010)

Guo Yongxin, scholar on strategic development of Chinese paper industry recently remarked that with the elimination of small-scale straw-based plants, more market will be left to the modern pulp and paper making enterprises with advanced technology and better environmental performance. The policy is an immediate measure to adjust the industry structure; but in the long run, high technology, clean production as well as the advanced administrative management will be the key competitive edge.

(Cited from "Targets Set for Nine Industries to Eliminate Outdated Capacity, Benefiting the Industry Leaders", *China Securities Journal*, April 7, 2010)

Cao Zhenlei, secretary general of China Technical Association of Paper Industry, commented that eliminating outdated capacity is imperative. The enterprises advanced in the technology and management will take the lead in the future market.

(Cited from "Is the 30% Low Efficiency Enterprise Burden or Not", *Nanfang Daily*, May 31, 2010)

Media Comments

An editorial from *China Business News* commented that "The notice issued by the State Council reinforces eliminating the outdated production capacity with clear targets. Meanwhile it sets restrictive policies, incentive mechanism and examination system, to secure the effective implementation. Given that the administrative measurements and market readjustment complement each other, a mature market access system and product quality standards should be established for a healthy and sustainable market growth".

(Cited from "Clear Standards Keys to Eliminate Outdated Capacity", May 24, 2010)

People's Daily reported that "To perfect the policy-related incentive mechanism, the Chinese government will use the existing capital flow channels to comprehensively support each region for the work of phasing out outdated industrial capacity. The allocation of funds will be linked with each region's performance, focusing on the effectiveness of attempts by companies and local governments to switch from outdated forms of production."

(Cited from "Premier Wen: Eliminate Outdated Capacity with Iron Hand to Achieve the Goal in the 11th 5-year Plan", May 6, 2010)

Case Study: APP-China's Sustainability Practices

Advanced facilities, high technology and scientific management are key to upgrading the paper industry and enhancing its overall competitiveness. In fact, some Chinese leading paper companies, such as APP-China's subsidiaries are indeed performing well. They are cost effective, efficient and sustainable, as they adopt the green circular economy model based on the concept of "clean production". Their practices show that the investment in technology and scientific management not only benefits the society and the environment, but also creates direct economic benefits.

Gold East Paper

RMB 100-million annual profits
from environmental protection

By the end of 2008, Gold East Paper (GEP) had invested RMB 1.15 billion in environmental protection; the average return of this investment is RMB 100 million per year. Through strict regulations and first-class management on wastewater treatment, noise control and waste disposal, Gold East Paper achieves both ecological and economic benefits.

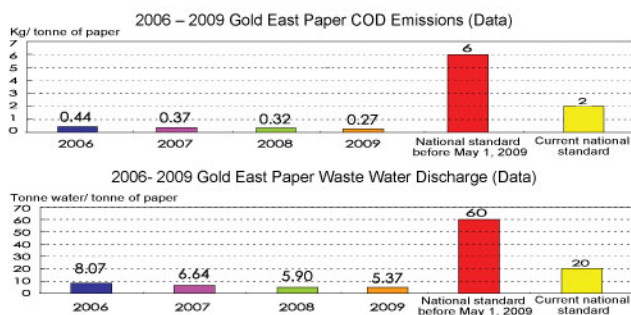
● Reusing residues

Reusing the residues of paper production means that GEP buys fewer raw materials and saves costs in terms of having to handle and dispose of the residues. This allows the company to save as much as RMB 10 million whilst also protects the environment through their in-house recycling system.

● Efficient wastewater control

GEP recovers 90% of white water and has a reclaimed water reuse rate of 7%. Recycled wastewater is mainly used for suppressing dust around the plant, cleaning roads, watering the grass, flowers and trees and irrigation.

Apart from the direct economic benefit, Gold East Paper is committed to bringing their environmental impact to a minimal. For example, their COD emissions and waste water discharge not only meet but exceed the Chinese government's requirements.



Gold Huasheng Paper

Turning waste into wonderful

In the waste water processing 45,000 tons of sludge are produced every year, consisting of calcium carbonate and fiber. In order to reduce its environmental impact, Gold Huasheng Paper mixes the sludge with other fiber materials in a high-temperature and high-pressure environment, turning it into various kinds of paper products. These types of paper are now commonly used as wrapping paper, helping the company to protect the environment and save up to RMB 11.38 million (USD 1.67 million) a year.

Jinhai Pulp & Paper

One fourth of the total
investment going to environmental protection

As the largest pulp making enterprise in China, Jinhai Pulp & Paper has invested RMB 2.7 billion in environmental protection facilities, amounting for 1/4 of the total investment (the total is RMB 10.5 billion). The majority of the fund is to establish the chemical treatment recycling system and wastewater treatment system.

Black Liquor is the byproduct of the pulp wood making process, which may have negative impact on the environment without proper treatment. In 2008, Jinhai Pulp & Paper invested more than RMB 360 million to install the #2 Alkali Recovery boiler, the largest alkali recovery boiler in the world. It can utilize the black liquor as a biofuel to generate electricity for the whole mill and recover the odor released during pulp making.

So far, 95% of the alkali generated has been recycled and 70% – 80% of electricity used at the plant is recycled energy.



Ningbo Zhonghua and Ningbo Asia Pulp & Paper

Making paper from paper

Ningbo Zhonghua and Ningbo Asia Pulp & Paper are among China's largest recycled industrial paper makers that use waste paper as raw materials, recycling more than 200,000 tons and 400,000 tons of waste paper respectively each year. One ton of waste paper can be used to produce 0.8 tons of paper, which saves 17 trees from being cut down and 3 cubic meters of landfill space. In addition, only half as much energy is needed to process waste paper compared to making new paper, which saves around 17 million trees from being cut down each year.

“Paper Contract with China” 2010 Second Quarter Updates

Scientific Plantation

● APP China Received “Green China Travel – Scientific Plantation 2009” Award

April 29, the “Green China Travel” ceremony was held in Wenchang, Hainan province. The campaign was jointly organized by China Green Foundation, Economic Development Research Center of State Forestry Administration, and People's Daily Online. At the event APP-China received the “Green China Travel – Scientific Plantation 2009” Award, thanks to its achievements in ecological management of plantation in China.

Latest Data of Scientific Forestry

Latest Plantation Data, First Quarter 2010	
Newly planted trees	None
Forest purchased	None
Timber felled	39,200 tons
Area coppiced after felling	1,027 hectares
Area replanted after felling	20 hectares
Cumulative total of plantation that APP-China manages: 314,000 hectares	

Clean Production

● Ningbo Asia Pulp & Paper Earns a Spot in the Energy-saving Red List

Recently, the Ningbo Municipal Government published a report regarding the energy use over the past 2-years of leading energy consumption companies in Ningbo. Companies with their energy consumption decrease were praised and put onto a Red List, while companies with increase were criticized and put onto a Black List. As the energy consumption of Ningbo Asia Pulp & Paper in Q1 2010 had decreased by 25% compared to the corresponding period of last year, the company earned a spot on the Energy-saving Red List.

Latest Data of Clean Production

Item	Unit	PCwC Target	2 nd Quarter, 2010	National Standard*
Water consumption / ton of paper	Ton water / ton of paper	≤ 10	8.74	/
Wastewater discharge / ton of paper	Ton water / ton of paper	≤ 9	7.38	20
COD emitted / ton of paper	Kg / ton of paper	≤ 0.61	0.42	2
Water consumption / ton of pulp	Ton water / ton of pulp	≤ 28	24.49	/
Water discharge / ton of pulp	Ton water / ton of pulp	≤ 17	16.61	80
COD emitted / ton of pulp	Kg / ton of pulp	≤ 2.16	1.56	16

*Source: Discharge Standard of Water Pollutant for Pulp and Paper Industry. Ministry of Environmental Protection, April 29, 2008

Corporate Social Responsibility

● APP-China together with Huang Yi Cong Foundation, Donated RMB 20 Million for Yushu Earthquake Relief

April 20, APP-China and Huang Yi Cong Foundation donated RMB 20 million to the Office of Overseas Chinese Affairs of the State Council, to show support and care to the victims in Yushu earthquake.

● Mr. Seng Fong Wu, General Manager of Gold East Paper Received the “Zhenjiang Philanthropies Award”

April 24, Zhenjiang Charity Federation honored Mr. Seng Fong Wu, general manager of Gold East Paper, with the “Zhenjiang Philanthropies Award”, to recognize the contributions of Gold East Paper made in fulfilling social responsibility and supporting public welfare.

● APP-China and Huang Yi Cong Foundation Supported the Children of Ethnic Minority in Yunnan

May 31, representatives of Huang Yi Cong Foundation visited the school in Funing County, Yunnan Province, bringing best wishes to the children of Shan Yao minority group on International Children's Day. The program is to help the children of ethnic minority group in Yunnan for fair education opportunity. So far, APP-China and the foundation has donated RMB 1 million (USD147, 000) to the program.

● “Virjoy Care for Youth Health Campaign” Launched in Beijing

June 9, “Virjoy Care for Youth Health Campaign” was launched in Beijing. It was jointly initiated by the All China Federation of Returned Overseas Chinese, Beijing Federation of Returned Overseas Chinese, APP-China and Huang Yi Cong Foundation, with an aim to cultivate good hygiene habits and advocate a healthy lifestyle among youngsters. Through the program, APP-China donated its tissue products valued RMB110,000 (USD16,176.5) to the students.

● APP-China Received the “2010 Good Social Responsibility Corporate Award”

June 19, APP-China was presented with the “2010 Good Social Responsibility Corporate” Award at the China Corporate Social Responsibility annual session jointly held by China Foreign Investment Enterprise Association, China Charity Federation and China Enterprise News.



APP-China and Huang Yi Cong Foundation Supported the Children of Ethnic Minority in Yunnan