Orient Paper Inc.
Form 10-K
March 15, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

FORM 10-K

S **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2011

or

£ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____________to ______________

Commission file number **001-34577**

ORIENT PAPER, INC.

(Exact name of registrant as specified in its charter)

Nevada	**20-4158835**
State or other jurisdiction of Incorporation or organization	(I.R.S. Employer Identification No.)

Science Park, Juli Road,

Xushui County, Baoding City

Hebei Province, The People's Republic of China 072550

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **011- (86) 312-8698215**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock	NYSE Amex LLC

Securities registered pursuant to section 12(g) of the Act:

Common Stock

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

¨ Yes þ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ¨ Yes þNo

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

þ Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

þ Yes ¨ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer þ
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Ac t). ¨ Yes þ No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter.

Note. – If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided that the assumptions are set forth in this Form.

The aggregate market value of the voting and non-voting common stock of the issuer held by non-affiliates as of June 30, 2011 was approximately $46,110,665 (13,212,225 shares of common stock held by non-affiliates) based upon a closing price of the common stock of $3.49 as quoted by the American Stock Exchange on June 30, 2011.

APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY

PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. ¨ Yes ¨ No

(APPLICABLE ONLY TO CORPORATE REGISTRANTS)

Indicate the number of shares outstanding of each of the registrant’s classes of common stock, as of the latest practicable date.

As of March 12, 2012, there are 18,459,775 shares of common stock, par value $0.001 issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents if incorporated by reference and the Part of the Form 10-K (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) Any annual report to security holders; (2) Any proxy or information statement; and (3) Any prospectus filed pursuant to Rule 424(b) or (c) under the Securities Act of 1933. The listed documents should be clearly described for identification purposes (e.g., annual report to security holders for fiscal year ended December 24, 1980).

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FORWARD LOOKING STATEMENTS

In this annual report, references to “Orient Paper,” “ONP,” “the Company,” “we,” “our,” “us,” and the Company’s wholly own subsidiary, “Baoding Shengde,” “Shengde Holdings,” and our controlled entity “HBOP” refer to Orient Paper, Inc.

This Annual Report on Form 10-K contains forward-looking statements regarding our business, financial condition, results of operations and prospects. Words such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “estimates” similar expressions or variations of such words are intended to identify forward-looking statements, but are not deemed to represent an all-inclusive means of identifying forward-looking statements as denoted in this Annual Report on Form 10-K. Additionally, statements concerning future matters are forward-looking statements.

Although forward-looking statements in this Annual Report on Form 10-K reflect the good faith judgment of our management, such statements can only be based on facts and factors currently known by us. Consequently, forward-looking statements are inherently subject to risks and uncertainties and actual results and outcomes may differ materially from the results and outcomes discussed in or anticipated by the forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include, without limitation, those specifically addressed under the headings “Risks Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” You are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this Annual Report on Form 10-K. We file reports with the SEC. The SEC maintains a website (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including us. You can also read and copy any materials we file with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. You can obtain additional information about the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

We undertake no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this Annual Report on Form 10-K, except as required by law. Readers are urged to carefully review and consider the various disclosures made throughout the entirety of this Annual Report, which are designed to advise interested parties of the risks and factors that may affect our business, financial condition, results of operations and prospects.

PART I

Item 1. **Business**

Corporate History

Orient Paper, Inc. was incorporated in the State of Nevada on December 9, 2005, under the name “Carlateral, Inc.” Through the steps described immediately below, we became the holding company for Hebei Baoding Orient Paper Milling Company Limited (“HBOP”), a producer and distributor of paper products in China, on October 29, 2007, and effective December 21, 2007, we changed our name to “Orient Paper, Inc.” to more accurately describe our business.

On November 13, 2006, Dongfang Zhiye Holding Limited (“Dongfang Holding”) was formed as a holding corporation with no operations under the laws of the British Virgin Islands. On July 16, 2007, Dongfang Holding entered an agreement to acquire all of the issued and outstanding stock and ownership of HBOP and placed such shares in trust with Zhenyong Liu, Xiaodong Liu, and Shuangxi Zhao pursuant to a trust agreement executed as of the same date. Under the terms of the trust agreement, Mr. Liu, Mr. Liu and Mr. Zhao (the original shareholders of HBOP) would exercise control over the disposition of Dongfang Holding’s shares in HBOP on Dongfang Holding’s behalf until Dongfang Holding successfully completed the change in registration of HBOP’s capital with the relevant PRC Administration of Industry and Commerce as the 100% owner of HBOP’s shares.

On October 29, 2007, Orient Paper entered into an agreement and plan of merger (the “Merger Agreement”) with (i) its own wholly owned subsidiary, CARZ Merger Sub, Inc., (ii) Dongfang Holding and (iii) each of Dongfang Holding shareholders (Zhenyong Liu, Xiaodong Liu, Chen Li, Ning Liu, Jie Liu, Shenzhen Huayin Guaranty & Investment Company Limited, Top Good International Limited, Total Giant Group Limited, Total Shine Group Limited, Victory High Investment Limited, Think Big Trading Limited, Huge Step Enterprises Limited, and Sure Believe Enterprise Limited) (the “Dongfang Holding Shareholders”).

Pursuant to the Merger Agreement, Dongfang Holding merged with CARZ Merger Sub, Inc. via a share exchange, with Dongfang Holding as the surviving entity (the “Merger Transaction”). In exchange for their shares in Dongfang Holding, the Dongfang Holding Shareholders received an aggregate of 7,450,497 (as adjusted for a four-for-one reverse stock split effected in November 2009) newly-issued shares of our common stock, which shares were distributed pro ratably among the Dongfang Holding Shareholders in accordance with their respective ownership interests in Dongfang Holding.

As a result of the merger transaction, Dongfang Holding became a wholly owned subsidiary of Orient Paper, which, in turn, made Orient Paper the indirect owner of Dongfang Holding's operating company subsidiary, HBOP. HBOP, the entity through which we operate our business, currently has no subsidiaries, either wholly or partially-owned.

Due to Dongfang Holding's inability, as the 100% owner of HBOP, to complete the registration of HBOP's capital under its name within the proper time limits set forth under PRC law, it was not recorded as the registered owner of HBOP in PRC. As such, Dongfang Holding's ownership of HBOP was deemed to be held in trust by Zhenyong Liu, Xiaodong Liu, and Shuangxi Zhao. In connection with the consummation of the restructuring transactions described below, Dongfang Holding directed its trustees to return its shares in HBOP to their original shareholders, and the HBOP shareholders entered into certain agreements with Baoding Shengde Paper Co., Ltd. ("Baoding Shengde") to transfer the control of HBOP over to Baoding Shengde.

On June 24, 2009, the Company consummated a number of restructuring transactions pursuant to which it acquired all of the issued and outstanding shares of Shengde Holdings, Inc., a Nevada corporation. Shengde Holdings Inc. was incorporated in the State of Nevada on February 25, 2009. On June 1, 2009, Shengde Holdings Inc. incorporated Baoding Shengde, a limited liability company organized under the laws of the PRC. Because Baoding Shengde is a wholly-owned subsidiary of Shengde Holdings, Inc., it is regarded as a wholly foreign-owned entity under PRC law.

Effective June 24, 2009 Baoding Shengde entered into a number of contractual arrangements with HBOP and the original shareholders of HBOP, which were amended on February 10, 2010, pursuant to which Baoding Shengde acts as the management company for HBOP, and HBOP conducts the principal operations of the business. The contractual agreements, as amended, effectively transferred the preponderance of the economic benefits of HBOP over to Baoding Shengde, and Baoding Shengde assumed effective control and management over HBOP. The contractual agreements, as amended, include the following:

(i) Exclusive Technical Service and Business Consulting Agreement

The exclusive technical service and business consulting agreement, entered into by and between Baoding Shengde and HBOP, provides that Baoding Shengde shall provide exclusive technical, business and management consulting services to HBOP, in exchange for service fees including a fee equivalent to 80% of HBOP's total annual net profits. The agreement is terminable upon mutual written agreement.

(ii) Call Option Agreement

The call option agreement, entered into by and between Baoding Shengde, HBOP and the shareholders of HBOP, provides that the shareholders of HBOP irrevocably grant to Baoding Shengde an option to purchase all or part of each shareholder's equity interest in HBOP. The exercise price for the options shall be RMB1 yuan for each of the shareholders' equity interests, or if at any time there are PRC laws regulating the minimum price of such options, then to the extent permitted under PRC Law. The call option agreement contains covenants from HBOP and its shareholders that they will refrain from taking certain actions without Baoding Shengde's consent that would materially affect HBOP's operations and asset value, including (i) supplementing or amending its articles of association or bylaws, (ii) changing HBOP's registered capital or shareholding structure, (iii) selling, transferring, mortgaging or disposing of any interests in HBOP's assets or income, or encumbering HBOP's assets or income in a way that would approve a security interest on such assets, (iv) incurring or guaranteeing any debts not incurred in its normal business operations, (v) entering into any material contract or urging HBOP management to dispose of any HBOP assets, unless it is within the company's normal business operations; (vi) providing any loan or guarantee to any third party; (vii) appointing or removing any management personnel or directors that can be changed upon HBOP shareholder approval; (viii) declaring or distributing any dividends to the stockholders. The agreement will remain effective until Baoding Shengde or its designees have acquired 100% of the equity interests of HBOP underlying the options.

(iii) Share Pledge Agreement

The share pledge agreement entered into by and between Baoding Shengde, HBOP and the shareholders of HBOP, provides that the HBOP shareholders will pledge all of their equity interests in HBOP to Baoding Shengde as security for their obligations under the other management agreements described in this section. Specifically, Baoding Shengde is entitled to dispose of the pledged equity interests in the event that the HBOP shareholders or HBOP fails to pay the service fees to Baoding Shengde pursuant to the exclusive technical service and business consulting agreement or fails to perform their other obligations under the other management agreement. The agreement contains promises from HBOP's shareholders that they will refrain from taking certain actions without Baoding Shengde's prior written consent, such as transferring or assigning their equity interests, or creating or permitting the creation of any pledges which may have an adverse effect on the rights or benefits of Baoding Shengde under the agreement. The HBOP shareholders also promise to comply with the laws and regulations relevant to the pledges under the agreement and to facilitate in good faith the protection of the ability of Baoding Shengde to exercise its rights under the agreement. The terms of the share pledge agreement shall remain in effect until all the obligations under the other management agreements have been fulfilled, whether or not the terms of the other management agreements have expired.

(iv) Proxy Agreement

The proxy agreement, entered into by and between Baoding Shengde, HBOP and the shareholders of HBOP, provides that the HBOP shareholders shall irrevocably entrust a designee of Baoding Shengde with such shareholder's voting rights and the right to represent such shareholder to exercise such shareholder's rights at any shareholder's meeting of HBOP or with respect to any shareholder action to be taken in accordance with the laws and HBOP's Articles of Association. The terms of the agreement are binding on the parties for as long as the HBOP shareholders continue to hold any equity interest in HBOP. An HBOP shareholder will cease to be a party to the agreement once it transfers its equity interests with the prior approval of Baoding Shengde.

On June 24, 2009, Zhao Tianqing, the sole shareholder of Shengde Holdings Inc., assigned to Orient Paper, for good and valuable consideration, 100 shares representing 100% of the issued and outstanding shares of Shengde Holdings Inc. As a result of this assignment and the restructuring transactions described above, Shengde Holdings Inc., Baoding Shengde, and HBOP became directly and indirectly controlled by Orient Paper, and HBOP continued to function as the Company's operating entity.

In addition to controlling the operations and beneficial ownership of HBOP, Baoding Shengde also acquired a digital photo paper production line (including two photo paper coating lines and ancillary equipments) in an asset acquisition transaction as of November 25, 2009 and began conducting business in the PRC.

As part of the restructuring transaction described above, Baoding Shengde also entered into a loan agreement with the HBOP shareholders on June 24, 2009. Because of Company's decision to fund future business expansions through Baoding Shengde instead of HBOP, such loan agreement was terminated on February 10, 2010. The $10,000,000 loan contemplated under the loan agreement was never made prior to its termination. The parties believe the termination of the loan agreement does not in itself compromise the effective control of the Company over HBOP and its businesses in the PRC.

The following diagram sets forth the current corporate structure of Orient Paper:

100% ownership
Controlled by contractual agreements

Our Business

HBOP, founded in 1996, engages mainly in production and distribution of products such as corrugating medium paper, offset printing paper, writing paper and other paper and packaging related products. HBOP uses recycled paper as its primary raw material and has its corporate offices in Baoding City, PRC.

HBOP's main products include various specifications of: (i) corrugating medium paper, (ii) medium-grade offset printing paper, (iii) high-grade offset printing paper, and (iv) writing paper. Since the fourth quarter of 2009, HBOP has produced only corrugating medium paper and medium-grade offset printing paper.

As of March 10, 2010, Baoding Shengde has begun operations of its digital photo paper plant, also in Baoding City, PRC.

Our principal executive offices are located at Science Park, Juli Road, Xushui County, Baoding City, Hebei Province, People's Republic of China. Our telephone number is (86) 312-8698215. Our website is located at http://www.orientpaperinc.com .

Manufacturing Process

Our current products (excluding digital photo paper) generally undergo two stages of manufacturing: (1) creating pulp from recycled paper products, and (2) treating the pulp and molding it into the desired type of paper product. A brief overview of the pulp and papermaking process is described below.

Pulping

The recycled waste paper is first sorted by hand and machine, and then broken down and beaten or smashed into small pieces using water and mechanical energy. It is then put through a course screening drum, followed by a fine screening drum in order to produce different grades of pulp. In order to purify the pulp further, an approach flow system is used to filter out any impurities or inconsistencies, such as sand, in the pulp. Bleaching agents are added to lighten the color of the pulp.

Paper Making

The pulp is then sieved removing the excess water and molded into size. The moisture content is further reduced by applying hydraulic pressure to the pulp. The pulp then enters the drying section where it is run over heated cylinders. The dried paper is then coated with a mixture of clay, white pigment, and binder to produce a surface on which ink can sit without being fully absorbed, enabling crisper, more consistent print quality.

The paper goes through a process called calendaring, which flattens and smoothes the paper into long sheets. The paper is then wound onto a reel that is mounted in a roll-slitting machine for rewinding, during which cutters are used to cut the paper into the desired widths. Upon completion, the rolls are fitted with sleeves, labeled, and then moved to quality control before shipment or storage.

Digital Photo Paper Making

The manufacturing process for making digital photo paper involves multiple steps of coating, drying and calendaring. The major raw material, digital photo base paper, is loaded into the main production line for (1) coating, (2) drying, (3) calendaring, (4) recoating, (5) drying, and (6) reeling for finished products. We make both glossy and semi-matt digital photo papers. Many of the products that we sell through our digital photo paper division at Baoding Shengde come in various sizes from A3 to A6 and 3R to 5R sheets, while other sizes and reels of paper roll are also produced and sold. We have special cutting machine to take reels of digital photo paper rolls and cut the paper into customer-specified sizes before packaging for shipment.

<u>Products</u>

Corrugating medium paper

Corrugating medium paper is used in the manufacturing of cardboards and comprises approximately 47% of our total paper production quantities and roughly 29% of our total revenue for the year ended December 31, 2011. Raw materials used in the production of corrugating medium paper include recycled paper board (or Old Corrugated Cardboard, “OCC”) and certain supplementary agents.

Medium and high-grade offset printing paper

Offset printing paper is used for offset printing. Our medium-grade offset printing paper comprises approximately 53% of our total paper production quantities and approximately 65% of our total sales revenue for the year ended December 31, 2011. The offset printing paper we manufacture is typically coated and brightened. Raw materials used in the production of offset printing paper include recycled white scrap paper, wood pulp, fluorescent whitening agent, sizing agent and pulvis talc. We have not produced any high-grade offset printing paper since the fourth quarter of year 2009.

Writing paper

Writing paper is suitable for printing and writing with ink on both sides, without the ink bleeding or striking through. Raw materials used in the production of writing paper include recycled text book paper and fluorescent whitening agent. We have not produced any writing paper since the fourth quarter of year 2009.

Digital photo paper

Starting in March 2010, Baoding Shengde began producing digital photo papers that are cast-coating, and water-proof. These digital photo papers are sold to printing companies and paper distributors, who eventually sell to advertising companies and printing companies which use photo-quality paper for multiple-color printing or local photo studios for production of special event printouts or personal home printing use. Our digital photo paper comprises approximately 1% of our total paper production quantities and approximately 6% of our total sales revenue for the year ended December 31, 2011.

Market for our Products

The PRC Paper Making Industry

According to the most recent general survey by the China Paper Association, in 2010, there were approximately 3,700 paper and paper board manufacturers in the People's Republic of China, with a total output of 92.70 million tons, up 7.29% from 86.4 million tons in 2009. Total domestic consumption was 91.73 million tons in 2010, up 7.05% from 85.69 million tons a year before.

Compared with year 2000, output in 2010 had increased by approximately 203.93% and consumption grew by approximately 156.59%. The output of paper and paper board maintained an average growth rate of approximately 11.76% during the eleven-year period of 2000-2010, while consumption increased at an annual rate of 9.88%, both higher than the GDP growth rate of the same period. The growth rate is expected to continue. It is believed that the People's Republic of China is currently the largest country in the world in terms of output and consumption of paper and paper board products (*Wikipedia: Pulp and Paper Industries*).

Data source: 2010 Annual Report of the Paper Making Industry, China Paper Association

Domestic corrugating medium paper production in 2010 totaled 18.70 million tons, a 9.04% increase from year 2009. Domestic consumption of corrugating medium paper amounted to 18.89 million tons, an increase of 7.45% as compared to year 2009.

Domestic coated offset printing paper production in 2010 totaled 6.4 million tons, an 8.47% increase from year 2009. Domestic consumption of coated offset printing paper amounted to 5.49 million tons, an increase of 18.57% as compared to year 2009.

The paper making industry in China is concentrated in eastern, coastal provinces. The largest paper production capacities by province during the years of 2009 and 2010 are summarized as follows:

Province	2009 Capacity ('000 tons)	2010 Capacity ('000 tons)	Change ('000 tons)	**% Change**
Shandong	14,300	15,100	800	5.59 %
Guangdong	13,160	14,350	1,190	9,04 %
Zhejiang	13,720	13,620	(100)	-0.73 %
Jiangsu	10,260	11,010	750	7.31 %
Henan	8,640	8,140	(500)	-5.79 %
Fujian	3,130	3,910	780	24.92 %
Hebei	3,670	3,710	40	**1.09 %**
Hunan	3,000	3,350	350	11,67 %
Sichuan	2,270	3,160	890	39.21 %

Industry Consolidation

Historically the paper and pulp industry in China was comprised of numerous small-scale production enterprises, many of which used low-tech production processes that were highly polluting. In 1996, China's State Council issued "Decisions on Environmental Protection Issues", setting forth strict rules and regulations intended to reduce pollution, including a directive for the closure of all paper plants with an annual output of less than 50,000 tons. Recognizing that China constitutes one of the largest markets for paper consumption in the world with potential for continued expansion, the PRC government continues its efforts to consolidate, modernize, and promote the environmental sustainability of the industry. As part of its 11th "Five Year Economic Development Plan," the PRC State Council announced on May 5, 2010 that up to 530,000 tons of inefficient/pollutive paper production capacity was to be eliminated or shut down in year 2010. On August 5, 2010, the Ministry of Industry and Information Technology published a list of mandatory capacity closures and ordered the shutdown of a total of 4.6 million tons by September 2010 (the “2010 Mandatory Closure”). The capacities in the following jurisdictions were most affected by the 2010 Mandatory Closure:

Province	No. of Companies Affected	Capacities Eliminated in 2010 (tons)
Henan	121	2,395,000
Shaanxi	9	463,200
Hebei	18	354,800
Heilongjiang	15	195,400
Liaoning	7	189,000
Sichuan	8	180,000
Hunan	10	152,000

Following the first wave of large scale mandatory capacity closure in 2010, the Ministry of Industry and Information Technology announced on July 11, 2011 that 8.2 million tons of outdated paper milling capacities located in 599 paper companies across China will be further forced to close down in year 2011 (the “2011 Mandatory Closure”). Of all of the paper mills affected by the 2011 Mandatory Closure, 72 companies with total capacities of 1.07 million tons (or 13% of total closure) are located in the province of Hebei, where many of the old paper mills only have capacities under 50,000 tons. The provinces that are most impacted by the 2011 Mandatory Closure are as follows:

Province	No. of Companies Affected	Capacities Eliminated in 2011 (tons)
Henan	73	1,839,100
Hebei	72	1,070,200
Hunan	92	989,800
Guangdong	61	509,500
Shangdong	26	508,200
Heilongjiang	26	350,800
Jiangxi	39	333,600

According to “*The Twelfth ‘Five-Year Plan’ for the Chinese Paper Industry*,” published jointly by the National Development and Reform Commission, the Ministry of Industry and Information Technology, and the National Forestry Bureau in December 2011, the central government of China has determined that during the five-year period ending year 2015, the government will seek to further eliminate more than 10 million tons of current paper production capacity. The goal is, through mandatory capacity elimination and industry consolidation, to transform the paper industry landscape into one where there are more than 20 one-million-tons-and-above manufacturers (as of year 2010, only the top-10 paper manufacturers in China boast annual production capacity of over one million tons).It is the industry consensus in China that mandatory closures initiated by the government will continue in the next few years and that the paper industry will witness a more severe competition and higher standards for environmental protection measures.

Customers

We generally sell our products to companies making cardboards (in the case of packaging products like corrugating medium paper) and to printing companies (in the case of cultural paper products such as offset printing and writing paper). We also sell digital photo paper mainly to distributors and advertising/printing companies. We sold corrugating medium paper and offset printing paper to about 90 customers in year 2010. We had 24 customers buying digital photo paper from us during year 2011. Three of our top 10 customers in year 2011 are printing companies, with the largest customer being a paper distributor in Beijing. 78% of our total corrugating medium and offset printing paper revenue in 2011 was derived from customers in Beijing, Tianjin or Hebei Province.

For the year ended December 31, 2011, major customers individually accounting for more than 3% of our total sales revenue were as follows:

	2011 Sales Amount ($USD, net of applicable VAT)	% of Total Revenue	
Company A (Beijing)	7,688,270	5.10	%
Company B (Xian)	6,874,751	4.56	%
Company C (Baoding)	6,754,156	4.48	%
Company D (Baoding)	6,519,696	4.32	%
Company E (Shanghai)	6,425,782	4.26	%
Company F (Baoding)	6,174,419	4.10	%
Company G (Baoding)	5,487,271	3.64	%
Total Major Customers	45,924,345	30.46	%

With the exception of Company A above, none of the 2011 major customers individually comprised more than 5% of our consolidated revenue. Out of the 10 largest customers of year 2011, seven of them (representing 77.93% of the 2010 top-10 customer sales) were in the same list for the year ended December 31, 2010.

For the year ended December 31, 2010, major customers individually accounting for more than 3% of our total sales revenue were as follows:

	2010 Sales Amount ($USD, net of applicable VAT)	% of Total Revenue	
Company A (Beijing)	5,541,426	4.47	%
Company B (Baoding)	4,953,012	3.99	%
Company C (Baoding)	4,545,653	3.67	%
Total Major Customers	15,040,091	12.13	%

Marketing Strategy

We target corporate customers in the middle range of the marketplace, where products such as corrugating medium paper and mid- to high-grade offset printing paper with reasonable quality and competitive pricing have potential for high volume growth. Our primary market has been the region of northern China, especially in the province of Hebei.

Expand Production Capacity

During the year ended December 31, 2011, HBOP operated two offset printing paper and one corrugating medium paper production lines. Estimated production capacity of these operating production lines at HBOP approximated 246,000 tons per year.

In order to meet the growing domestic demand for paper, which is currently exceeding domestic supply in the case of corrugating medium paper especially in our region of northern China, we installed a brand new corrugating medium paper production line with an estimated capacity of 360,000 tons per year. We completed the installation of the new production line in November 2011 and went into commercial production in December 2011. With the additional new capacity, we now have more than 500,000 tons capacity of corrugating medium paper by the time the new line starts operation in 2011.

We are also acquiring land large enough to allow us to build additional production facilities in the next five years. As of December 31, 2011, we have paid a $7,241,472 refundable deposit to a local village residents council in Xushui County in the City of Baoding. We have already started the first of the two stages of the land acquisition, which involves relocation of and financial restitution for residents currently occupying the approximately 667,000 square meters of land right across the street from our old manufacturing compound in the Xushui County of the city of Baoding. Under the original plan, we intended to build additional paper production facilities on the land to be acquired, including a 100,000 ton printing paper line and a 10,000 ton household paper production lines, as well as corrugating medium paper production lines. Because of strong opposition by some of the local residents over various reasons, including compensation that we offer for their land, it is unlikely we will be able to acquire the entire 667,000 square meters under the original plan. As of December 31, 2011, we believe we can eventually close the transaction for an adjacent lot that is approximately some 110,000 square meters, which is substantially smaller than the original plan calls for. If we are unable to acquire more land across the street, we may have to severely limit the scope the capacity expansion in the next few years, unless we find other location where the resource of land is available. We do not have a specific financing plan developed at this time, but generally believe that these expansions can be facilitated with internally generated cash flows, capital lease for equipment and additional bank loans in the next three to five years.

On December 31, 2009, we acquired a digital photo paper production line, including two coating lines and ancillary equipment, in an asset acquisition transaction for a total purchase price of approximately $13.6 million. The estimated capacity of the digital photo paper facility is 2,500 tons per year.

Raw Materials and Principal Suppliers

The supplies used in our production processes are comprised mainly of recycled paper board (“OCC”) and printed and unprinted recycled white scrap paper, all of which are readily available items for which there are multiple domestic and foreign sources. We purchase all of our recycled paper supplies from domestic recycling stations and do not rely on any imported recycled paper. We also purchase coal and chemical agents from nearby suppliers. Even with the upcoming expansion in corrugating medium capacity in 2012, we do not anticipate difficulties in obtaining necessary supplies. Although ongoing inflationary pressures could lead to an increase in our costs of raw materials and production, which intend to pass those higher costs on to our customers.

We sign annual raw materials supplier contracts with our suppliers. Although we have supplier contracts with our suppliers, these contracts do not lock-in the purchase price of our raw materials or provide hedge against the fluctuation in the market price of these raw materials. For the year ended December 31, 2011, we had three large suppliers which primarily accounted for 61%, 11% and 6% of total major purchases. For the year ended December 31, 2010, we had three large suppliers which primarily accounted for 51%, 13%, and 8% of total major purchases.

For the years ended December 31, 2011 and 2010, our top 3 suppliers were as follows:

	2011 Purchase Amount ($USD, including applicable VAT)	2010 Purchase Amount ($USD, including applicable VAT)
Company A	74,894,045	49,190,698
Company B	14,082,218	-
Company C	7,144,432	-
Company D	-	12,194,668
Company E	-	7,916,398

Competition

HBOP's main competitors are: Chenming Paper Group Limited; Huatai Group Limited; Nine Dragons Paper (Holdings) Limited; and Sun Paper Group Limited. In addition to these competitors, there are numerous smaller family operations in Hebei and neighboring provinces serving the greater-Beijing and Tianjin area printing company customers or competing with us for our corrugating medium paper market in Hebei. A number of our competitors are larger public entities with larger capacities, broader customer bases and greater financial resources than those available to us. The business of our primary competitors is briefly described below:

Chenming Paper Group, Ltd. (“Chenming”), based in Shandong Province (located in northeast China), produces primarily newsprint paper and art paper (high quality, heavy, two-side coated printing paper). Chenming is believed to be the first company to have all three types of public listings available in China: renminbi A-shares and foreign currency B-shares in Shenzhen, the smaller of the mainland’s two stock exchanges, and H-shares in Hong Kong. Chenming has annual production capacity of 6 million tons for its coated wood-free paper product and is believed to rank among the top 500 enterprises in China.

Huatai Group, Ltd. (“Huatai”), based in Shandong Province (located in the northern part of the eastern coastal region of China), primarily produces newsprint, fine paper, special printing papers, coated board, and tissue paper. Huatai is the first Shandong papermaker to publicly list its stock and has become a famous brand in China. Its annual paper production volume is estimated to have reached 4 million tons.

Nine Dragons Paper (Holdings) Limited (“ND Paper”), based in Guangdong Province (located in southern China), is the largest paper manufacturer in China and primarily produces kraft paper and high-strength corrugating medium paper with annual capacity of 9 million tons. ND Paper has reported that in September 2009, the company’s two corrugating medium production lines in the city of Tianjin came into operation, boosting ND Paper's annual total production capacity in Tianjin area to 800,000 tons and making the company the largest high-strength corrugating medium paper manufacturer in China.

Sun Paper Group, Ltd., based in Shandong Province, primarily produces card paper, whiteboard paper, and art paper. It also produces alkaline peroxide mechanical pulp, sourced in part from woodchips harvested by the company’s poplar plantations. The company has reported that it has an annual production capacity of paper and pulp of approximately 3.5 million tons and has been listed on the Shenzhen Stock Exchange since 2006.

With the exceptions of Chenming on cultural paper and ND Paper on corrugating medium paper, which potentially constitute direct competition against our products in the Beijing/Tianjin/greater Hebei markets, we believe that we face indirect competition from the above-listed companies, either because we produce different types of paper products, or for those products that do overlap, because the transportation costs and storage costs make them difficult to compete effectively with us in our geographic area.

Our Competitive Edge

Regional advantage (Northern China). We believe that HBOP is one of the largest papermaking enterprises in Hebei Province. Our proximity to large urban centers in northern China, Beijing and Tianjin, gives us a large market in which to sell our products.

There are other paper manufacturers that are also located in Hebei Province (and close to metropolitan Beijing and Tianjin areas), but most of these other manufacturers are small in scale and are unable to compete with us effectively. We do compete with other large cultural paper manufacturers for Beijing printing company customers. We believe we do have cost and other advantages over our larger competitors.

Cost advantage. Unlike some of our out-of-province competitors who must set up interim warehouses and ship products from their production base to such interim warehouses close to the Beijing customers, because we are approximately 60 miles (100 kilometers) from Beijing, the cultural center of China and our largest target market, there is no need for us to set up interim warehouses. While we don't separately pay for transportation cost on raw material purchases, the transportation cost included in the raw material purchase price from our recycled paper suppliers is lower than the transportation cost paid by our competitors in the province of Shandong. We also enjoy lower transportation cost in the purchase of coal, a major source of energy used in the production process. By the same token, our customers pay trucking companies to pick up theirs ordered goods from our Baoding finished goods warehouse. The trucking cost our customers pay is lower than what they would pay if they had to pick up goods from offsite locations away from Beijing. Tianjin, another large urban center, is also approximately 60 miles from our facilities. Baoding city itself is also home to numerous printing and packaging companies. We therefore have lower freight costs and other associated costs of sales, enabling us to charge lower prices, if necessary, for our products to our customers.

In addition to providing timely customer service, the close proximity to the sources of raw materials from the cities of Beijing and Tianjin also enable us to have dynamic, long-term relationships with our suppliers. Currently, domestic recycled paper cost less than imported recycled paper. Because we are able to buy all recycled papers from Beijing and Tianjin, rather than from the United States or Japan, our purchase lead time is shortened. The result of the geographical advantage is a more flexible inventory purchase policy and better inventory management. We are also able to maintain a low raw materials inventory level at the time of declining prices, thereby optimizing the purchase price and production cost.

Research and Development

Our R&D activities are carried out by a task force led by a group of 5 senior managers (in charge of product development and quality control) and joined by a group of selected engineers and technicians. The Company charged the time spent on the R&D projects (manufacturing waste discharge recycling and digital photo paper manufacturing) to R&D expenses and incurred $19,756 and $18,233 in R&D expenses for the years ended December 31, 2011 and 2010, respectively. Our R&D efforts have resulted in our capability to improve the quality of digital photo paper products and to optimize the digital photo paper manufacturing process. Instead of producing glossy photo paper from only one designated coating line, we are now able to produce glossy paper from either of the two coating lines, essentially enhancing the utilization of the digital photo paper facilities and increasing production quantities.

In addition to the three operating production lines, HBOP has one idle production line that is under renovation. Since the fourth quarter of year 2010, we have spent approximately $1.57 million in machine parts and new components to renovate one production line, which we expect will be able to produce certain specialty papers, including wood-grain deco and furniture paper, wallpaper, and paper with security features (for anti-counterfeiting purposes). While we are optimistic about the prospect of the renovation project, we cannot estimate the completion time of the renovation or guarantee the success of such renovation.

Intellectual Property

HBOP has registered one trademark with the Trademark Bureau under the State of Administration for Industry & Commerce, which remains effective through April 6, 2014:

Trademark	**Certificate No.**	**Category**	**Registrant**	**Valid Term**
Shuangxing	3298963	Fax paper, thermal paper, blueprint paper, sensitized paper, spectrum sensitized paper, blueprint cloth, photographic paper, cyanotype solution, diazo paper	HBOP	April 4, 2004 through April 6, 2014

Domain names

Orient Paper owns the rights to the internet domain name, www.orientpaperinc.com .

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Government Regulation

The testing, approval, manufacturing, labeling, advertising and marketing, post-approval safety reporting, and export of our products are extensively regulated by governmental authorities in the PRC. We are also subject to various other regulations and permit systems by the Chinese government. These regulations and their impact on our business are set forth in more detail below.

Environmental Regulation

Our operations and facilities are subject to environmental laws and regulations stipulated by the national and the local environment protection bureaus in the PRC.

Since the implementation of the State Council's "Decisions on Environmental Protection Issues" in 1996, the PRC paper industry has been subject to rigorous environmental standards. We believe that we are one of the few major paper manufacturers in Hebei Province to obtain a Pollution Discharge Permit, which enables us to operate in compliance with PRC environmental regulations. We were first issued the permit in September 1996 and since we have remained in line with the PRC's restrictions on carbon dioxide and sulfur oxide byproducts, have successfully renewed the permit each year. Our last renewal of the Pollution Discharge Permit was issued in May 2011, and will be effective until May 2012.

Waste Water Treatment

HBOP uses a multi-level water recycling process. Waste water from the pulping process is fed into collection pools, where it is divided into two parts, namely water and recovered pulp fiber. The latter is returned into the pulping process.

Chemical agents are added to the waste water, and the waste water is fed into a biogas reactor and filtering pools, producing purified water and depositing sludge. The purified water is released and the sludge is pumped into a sludge pool, condensed and dehydrated. We then use the sludge as an ingredient in the manufacture of corrugating medium paper.

We maintain controls at our production facilities on a 24-hour basis to facilitate compliance with environmental rules and regulations. We are not aware of any investigations, prosecutions, disputes, claims or other proceedings with respect to environmental protection, nor have we been subject to any action by any environmental administration authorities of the PRC. To our knowledge, our operations meet or exceed the existing requirements of the PRC.

Employees

As of December 31, 2011, we have approximately 700 full time employees. The Company provides private insurance coverage for any workplace accident or injury for all operators of paper milling machinery in the workshops. These employees are organized into a labor union under the labor laws of the PRC and can bargain collectively with us. We generally maintain good relations with our employees and the labor union.

Executive Offices

Our executive offices in the PRC are located at Science Park, Juli Road, Xushui County, Baoding City, Hebei Province, People's Republic of China 072550. Our telephone and facsimile number are 011-86-312-8698215/8698212.

Item 1A. Risk Factors

Risks Relating to our Business

In order to comply with PRC regulatory requirements, we operate our businesses through companies with which we have contractual relationships but in which we do not have controlling ownership. If the PRC government determines that our agreements with these companies are not in compliance with applicable regulations, our business in the PRC could be materially adversely affected.

We do not have direct or indirect equity ownership of HBOP which operates our main business in China. At the same time, however, we have entered into contractual arrangements with HBOP and its individual owners pursuant to which we received an economic interest in, and exert a controlling influence over HBOP, in a manner substantially similar to a controlling equity interest.

Although we believe the restructuring transaction and our current business operations are in compliance with the current laws in China, we cannot be sure that the PRC government would view our operating arrangements to be in compliance with PRC regulations that may be adopted in the future. If we are determined not to be in compliance, the PRC government could levy fines, revoke our business and operating licenses, require us to discontinue or restrict our operations, restrict our right to collect revenues, require us to restructure our business, corporate structure or operations, impose additional conditions or requirements with which we may not be able to comply, impose restrictions on our business operations or on our customers, or take other regulatory or enforcement actions against us that could be harmful to our business. As a result, our business in the PRC could be materially adversely affected.

We rely on contractual arrangements with HBOP for our operations, which may not be as effective in providing control over these entities as direct ownership.

Our operations and financial results are dependent on HBOP in which we have no equity ownership interest and must rely on contractual arrangements to control and operate the businesses of HBOP. These contractual arrangements are not as effective in providing control over HBOP as direct ownership. For example, HBOP may be unwilling or unable to perform their contractual obligations under our commercial agreements, including payment of consulting fees under the Exclusive Technical Service and Business Consulting Agreement as they become due. Consequently, we will not be able to conduct our operations in the manner currently planned. In addition, HBOP may seek to renew their agreements on terms that are disadvantageous to us. Although we have entered into a series of agreements that provide us with substantial ability to control HBOP, we may not succeed in enforcing our rights under them insofar as our contractual rights and legal remedies under Chinese law are inadequate. In addition, if we are unable to renew these agreements on favorable terms when these agreements expire, or to enter into similar agreements with other parties, our business may not be able to operate or expand, and our operating expenses may significantly increase.

The shareholders of HBOP may have potential conflicts of interests with us, which may adversely affect our business.

We operate our businesses in China though HBOP. Our chairman, CEO and 27.87% shareholder, Zhenyong Liu owns 93.26% of the equity interest in HBOP. Conflicts of interests between his duties to us and to HBOP may arise. We cannot assure you that when conflicts of interest arise, he will act in the best interests of our company or that any conflict of interest will be resolved in our favor. These conflicts may result in management decisions that could negatively affect our operations and potentially result in the loss of opportunities.

Our arrangements with HBOP and its shareholders may be subject to a transfer pricing adjustment by the PRC tax authorities which could have an adverse effect on our income and expenses.

We could face material and adverse tax consequences if the PRC tax authorities determine that our contracts with HBOP and its shareholders were not entered into based on arm’s length negotiations. Although our contractual arrangements are similar to other companies conducting similar operations in China, if the PRC tax authorities determine that these contracts were not entered into on an arm’s length basis, they may adjust our income and expenses for PRC tax purposes in the form of a transfer pricing adjustment. Such an adjustment may require that we pay additional PRC taxes plus applicable penalties and interest, if any.

The exercise of our option to purchase part or all of the equity interests in HBOP under the Call Option Agreement might be subject to approval by the PRC government. Our failure to obtain this approval may impair our ability to substantially control HBOP and could result in actions by HBOP that conflict with our interests.

Our Call Option Agreement with HBOP and its shareholders gives our Chinese subsidiary, Baoding Shengde or its designated entity or natural person, the option to purchase all or part of the equity interests in HBOP. The option may not be exercised by Baoding Shengde if the exercise would violate any applicable laws and regulations in China or cause any license or permit held by, and necessary for the operation of HBOP, to be cancelled or invalidated. Under the laws of China, if a foreign entity, through a foreign investment company that it invests in, acquires a domestic related company, China’s regulations regarding mergers and acquisitions may technically apply to the transaction. If these regulations apply, an examination and approval of the transaction by China’s Ministry of Commerce (“MOFCOM”), or its local counterparts would be required. In addition, an appraisal of the equity interest or the assets to be acquired would also be mandatory. Since the scope of business activities (making of digital photo paper and other cultural paper products) as defined in the business license of Baoding Shengde does not involve the MOFCOM approval and monitoring, we do not believe at this time that an approval or an appraisal is required for Baoding Shengde to exercise its option to acquire HBOP. In light of the different views on this issue, however, it is possible that the central MOFCOM office in Beijing will issue a standardized opinion imposing the approval and appraisal requirement. If we are not able to purchase the equity of HBOP, then we will lose a substantial portion of our ability to control HBOP and our ability to ensure that HBOP will act in our interests.

Our operating history may not serve as an adequate basis to judge our future prospects and results of operations.

HBOP commenced its current line of business operations in 1996 and received its initial Pollution Discharge Permit in September 1996, which must be renewed every year for HBOP to stay in business. Although we have never had problem renewing the Pollution Discharge Permit, we cannot guarantee automatic renewal every year. Our operating history may not provide a meaningful basis on which to evaluate its business. We cannot assure you that HBOP will maintain its profitability or that we will not incur net losses in the future. We expect that HBOP's operating expenses will increase as it expands. Any significant failure to realize anticipated revenue growth could result in significant operating losses. We will continue to encounter risks and difficulties frequently experienced by companies at a similar stage of development, including our potential failure to:

- raise adequate capital for expansion and operations;
- implement our business model and strategy and adapt and modify them as needed;
- increase awareness of our brand name, protect our reputation and develop customer loyalty;
- manage our expanding operations and service offerings, including the integration of any future acquisitions;
- maintain adequate control of our expenses; or
- anticipate and adapt to changing conditions in paper markets in which we operate as well as the impact of any changes in government regulations, mergers and acquisitions involving our competitors, technological developments and other significant competitive and market dynamics.

If we are not successful in addressing any or all of these risks, our business may be materially and adversely affected.

HBOP's failure to compete effectively may adversely affect our ability to generate revenue.

Through HBOP, we compete in a highly developed market with companies that have significantly greater experience and history in our industry. If we do not compete effectively, we could lose market share and experience falling prices, adversely affecting our financial results. Our competitors will expand in the key markets and implement new technologies making them more competitive. There is also the possibility that competitors will be able to offer additional products, services, lower prices, or other incentives that we cannot or will not offer or that will make our products less profitable. We cannot assure you that we will be able to compete effectively with current or future competitors or that the competitive pressures we face will not harm our business.

Baoding Shengde does not have any operating history and has never competed in the digital photo paper market.

We conduct the digital photo paper business through our wholly-owned subsidiary Baoding Shengde, which has never had any experience competing in the Chinese digital photo paper market. Although we reasonably believe that we are able to compete effectively with our high quality digital photo paper products, Baoding Shengde has no industry experience in the past.

If HBOP fails to comply with covenants in its loan agreements, its lenders may allege a breach of a covenant and seek to accelerate the loan or exercise other remedies, which could strain our cash flow and harm our business, liquidity and financial condition.

HBOP received loans from commercial banks to fund its operations. Typically, these loans are made pursuant to customary loan agreements which contain representations and warranties about its business, financial covenants to which HBOP must adhere and other negative covenants in respect of its operations. Under some of these agreements, HBOP may be required to obtain the consent of its lenders prior to entering into its contractual arrangement with us but HBOP did not receive such prior consent. To date, our lenders have not given us any notice of default or otherwise objected to our contractual arrangements with HBOP. We intend to secure a waiver from our lenders in this regard, but cannot assure you that we will successfully do so. If we cannot obtain such a wavier and HBOP's lenders declare it to be in default under the loan agreements, they may accelerate HBOP's indebtedness to them which would negatively affect our cash flows and business operations.

We may not be able to effectively control and manage the growth of HBOP.

If HBOP's business and markets grow and develop, it will be necessary for us to finance and manage expansion in an orderly fashion. An expansion would increase demands on existing management, workforce and facilities. Failure to satisfy such increased demands could interrupt or adversely affect our operations and cause delay in production and delivery of our paper products, as well as administrative inefficiencies.

We, through our subsidiaries, may engage in future acquisitions that could dilute the ownership interests of our stockholders and cause us to incur debt and assume contingent liabilities.

We, through our subsidiaries, may review acquisition and strategic investment prospects that we believe would complement the current product offerings of HBOP, augment its market coverage or enhance its technical capabilities, or otherwise offer growth opportunities. From time to time we review investments in new businesses and we, through our subsidiaries, expect to make investments in, and to acquire, businesses, products, or technologies in the future. We expect that when we raise funds from investors for any of these purposes we will be either the issuer or the primary obligor while the proceeds will be forwarded to HBOP. In the event of any future acquisitions, we could:

- issue equity securities which would dilute current stockholders' percentage ownership;
- incur substantial debt;
- assume contingent liabilities; or
- expend significant cash.

These actions could have a material adverse effect on our operating results or the price of our common stock. Moreover, even if through our subsidiaries, we do obtain benefits in the form of increased sales and earnings, there may be a lag between the time when the expenses associated with an acquisition are incurred and the time when we recognize such benefits. Acquisitions and investment activities also entail numerous risks, including:

- difficulties in the assimilation of acquired operations, technologies and/or products;
- unanticipated costs associated with the acquisition or investment transaction;
- the diversion of management's attention from other business concerns;
- adverse effects on existing business relationships with suppliers and customers;
- risks associated with entering markets in which HBOP has no or limited prior experience;
- the potential loss of key employees of acquired organizations; and
- substantial charges for the amortization of certain purchased intangible assets, deferred stock compensation or similar items.

We cannot ensure that we will be able to successfully integrate any businesses, products, technology, or personnel that we might acquire in the future and our failure to do so could have a material adverse effect on our and/or HBOP's business, operating results and financial condition.

We are responsible for the indemnification of our officers and directors.

Our Articles of Incorporation provides for the indemnification and/or exculpation of our directors, officers, employees, agents and other entities which deal with us to the maximum extent provided, and under the terms provided, by the laws and decisions of the courts of the state of Nevada. Although we do maintain professional error and omission insurance for the officers and directors, due to limitations of the insurance coverage these indemnification provisions could still result in substantial expenditures which we may be unable to recoup through the insurance and could adversely affect our business and financial conditions. Zhenyong Liu, our Chairman of the Board and Chief Executive Officer, Winston C. Yen, our Chief Financial Officer, Dahong Zhou, our Secretary, and Drew Bernstein, Wenbing Christopher Wang, Zhaofang Wang, and Fuzeng Liu, our directors, are key personnel with rights to indemnification under our Articles of Incorporation.

We are dependent on certain key personnel and loss of these key personnel could have a material adverse effect on our business, financial condition and results of operations.

Our success is, to a certain extent, attributable to the management, sales and marketing, and paper factory operational expertise of key personnel. Zhenyong Liu, our Chief Executive Officer and Chairman of the Board, Winston C. Yen, our Chief Financial Officer, Dahong Zhou, our Secretary, and Zhongmin Ma, HBOP's General Engineer, Gengqi Yang, HBOP's Vice President of Sales and Marketing, Fulai Huang, HBOP's Vice President of Environmental Protection and Xiaodong Liu, Baoding Shengde's General Manager, perform key functions in the operation of our business. There can be no assurance that Orient Paper or HBOP or Baoding Shengde will be able to retain these officers after the term of their employment contracts expire. The loss of these officers could have a material adverse effect upon our business, financial condition, and results of operations. We do not carry key man life insurance for any of our key personnel or personnel nor do we foresee purchasing such insurance to protect against a loss of key personnel and the key personnel.

We are dependent upon the services of Mr. Zhenyong Liu for the continued growth and operation of our company because of his experience in the industry and his personal and business contacts in the PRC. Although Mr. Liu has entered into an employment agreement with Baoding Shengde Paper Co., Ltd., our wholly owned subsidiary and a PRC company, and that we have no reason to believe that Mr. Liu will discontinue his services with us or HBOP, the interruption or loss of his services would adversely affect our ability to effectively run our business and pursue our business strategy as well as our results of operations.

We may not be able to hire and retain qualified personnel to support our growth and if we are unable to retain or hire these personnel in the future, our ability to improve our products and implement our business objectives could be adversely affected.

We must attract, recruit and retain a sizeable workforce of technically competent employees. Competition for senior management and senior personnel in the PRC is intense, the pool of qualified candidates in the PRC is very limited, and we may not be able to retain the services of our senior executives or senior personnel, or attract and retain high-quality senior executives or senior personnel in the future. This failure could materially and adversely affect our future growth and financial condition.

Our operating results may fluctuate as a result of factors beyond our control.

Our operating results may fluctuate significantly in the future as a result of a variety of factors, many of which are beyond our control. These factors include:

- the costs of paper products and development;
- the relative speed and success with which we can obtain and maintain customers, merchants and vendors for our products;
- capital expenditure for equipment;
- marketing and promotional activities and other costs;
- changes in our pricing policies, suppliers and competitors;
- the ability of our suppliers to provide products in a timely manner to their customers;
- changes in operating expenses;
- increased competition in the paper markets; and
- other general economic and seasonal factors.

We face risks related to product liability claims.

We presently do not maintain product liability insurance. We face the risk of loss because of adverse publicity associated with product liability lawsuits, whether or not such claims are valid. We may not be able to avoid such claims. Although product liability lawsuits in the PRC are rare, and we have not, to date, experienced significant failure of our products, there is no guarantee that we will not face such liability in the future. This liability could be substantial and the occurrence of such loss or liability may have a material adverse effect on our business, financial condition and prospects.

Our operating results also depend on the availability and pricing of energy and raw materials.

In addition to our dependence upon wood pulp, recycled white scrap paper and paperboard costs, our operating results depend on the availability and pricing of energy and other raw materials, including chemical agents and coal. An interruption in the supply of supplemental chemical agents could cause a material disruption at our mill in Baoding. In addition, an interruption in the supply of coal could cause a material disruption at our facilities in Baoding. At present, our raw materials including coal are purchased from a number of suppliers, of which the three largest suppliers account for over 80% of all purchases. If any of these contracts were to be terminated for any reason, or not renewed upon expiration, or if market conditions were to substantially change creating a significant increase in the price of coal and recycled paper, we may not be able to find alternative, comparable suppliers or suppliers capable of providing coal to us on terms or in amounts satisfactory to us. As a result of any of these events, our business, financial condition and operating results could suffer.

A material disruption at one of our manufacturing facilities could prevent us from meeting customer demand, reduce our sales, and/or negatively affect our net income.

Any of our manufacturing facilities, or any of our machines within an otherwise operational facility, could cease operations unexpectedly due to a number of events, including:

- maintenance outages;
- prolonged power failures;
- an equipment failure;
- disruption in the supply of raw materials, such as wood fiber, energy, or chemicals;
- a chemical spill or release;
- closure because of environmental-related concerns;
- explosion of a boiler;
- the effect of a drought or reduced rainfall on our water supply;
- disruptions in the transportation infrastructure, including roads, bridges, railroad tracks, and tunnels;
- fires, floods, earthquakes, hurricanes, or other catastrophes;
- terrorism or threats of terrorism;
- labor difficulties; or
- other operational problems.

We have purchased property base insurance from Property Insurance and Casualty Company Limited, valid from March 2011 through March 2012. However, if any of the abovementioned events were to occur, we may be unable to meet customer demand, which may adversely affect our sales and net income.

Our certificates, permits, and licenses related to our papermaking operations are subject to governmental control and renewal and failure to obtain renewal will cause all or part of our operations to be terminated.

Due to the nature of the business, we are subject to environmental, health, and safety laws and regulations, including those related to the disposal of hazardous waste from our manufacturing processes. Compliance with existing and future environmental, health and safety laws could subject us to future costs or liabilities; impact our production capabilities; constrict our ability to sell, expand or acquire facilities; and generally impact our financial performance. Under the original factory land lease dated January 2, 2002, HBOP was obligated to return the land to the government to its original condition prior to the expiration of the lease. As such, Orient Paper would have to accrue the cost estimated to return the land to its prior condition over the 30-year life of the lease. However, on March 15, 2010, an amendment to the original January 2, 2002 lease was signed and removed the obligation of HBOP to return the land to its condition prior to the expiration of the lease. The management of the Company thus believes that no liabilities under the lease should be accrued as of December 31, 2011. Nevertheless, because of the uncertainties associated with environmental assessment and remediation activities, future expense to remediate any sites, which could be identified in the future for cleanup, could be higher than expected.

In 1988, the National Environmental Protection Bureau issued Interim Measures on the Administration of Water Pollutants Discharge Permits, requiring all companies discharging pollution into the water as a direct or indirect byproduct of production to adhere to certain caps on pollution discharge. Additionally, such companies were required to obtain and annually renew a Pollution Discharge Permit in order to conduct their operations. The PRC government has the authority to shut down a company's operations for failure to maintain a valid permit. We renewed our Pollution Discharge Permit in May 2011. Our latest permit is effective from May 25 2011 through May 24 2012. An application to renew will be filed with the local environment protection agency before the expiration.

If we are unable to make necessary capital investments or respond to pricing pressures, our business may be harmed.

In order to remain competitive, we need to invest in research and development, manufacturing, customer service and support, and marketing. From time to time we also have to adjust the prices of our products to remain competitive. We may not have available sufficient financial or other resources to continue to make investments necessary to maintain our competitive position.

In the last few years, the central government of China has adopted policies to force the elimination of small, inefficient competitors in certain industries (e.g., coal, steal, paper and cement) where production produces pollutants to the environment. In the paper industry, the government has implemented two rounds of "mandatory closures" in years 2010 and 2011 and forced hundreds of small paper mills across China to shut down. The purpose of the mandatory closure is to make sure that the market is left with only an optimal number of medium to large competitors, which size and financial resources are such that production efficiency can be enhanced and environment protection measures will not be compromised. The paper mills or production lines affected by the mandatory closures are typically with capacities of less than 50,000 tons. The central government of China has announced that, during the "Twelfth Five-Year Plan" period of 2011 through 2015, it intends to eliminate more than 10 million tons of paper production capacity nationwide. It is commonly believed that further mandatory of small and inefficient capacities will continue to be shut down in year 2012 and the following years. Although we do not believe any of our production line is in danger of being targeted by the government, if we are unable to maintain our competitiveness by replacing old production equipments with larger, newer equipments and by maintaining our water-treatment capability, over time we may be required by the government to increase capital investments to keep up with the competition if industry consolidation intensifies.

If we fail to introduce enhancements to our existing products or to develop new products, our business and results of operations could be adversely affected.

We believe our future success depends in part on our ability to enhance our existing products and develop new products in order to continue to meet customer demands. Our failure to introduce new or enhanced products on a timely and cost-competitive basis, or the development of processes that make our existing products obsolete, could harm our business and results of operations.

Risks Related To Doing Business in the PRC

Changes in the policies of the PRC government could have a significant impact upon the business we may be able to conduct in the PRC and the profitability of such business.

Our business operations may be adversely affected by the current and future political environment in the PRC. The PRC has operated as a socialist state since the middle of the 20th century and is controlled by the Communist Party of China. The Chinese government exerts substantial influence and control over the manner in which we must conduct our business activities. The PRC has only permitted provincial and local economic autonomy and private economic activities since 1978. The government of the PRC has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy, including the paper industry, through regulation and state ownership. Our ability to operate in the PRC may be adversely affected by changes in Chinese laws and regulations, including those relating to taxation, import and export tariffs, raw materials, environmental regulations, land use rights, property and other matters. Under its current leadership, the government of the PRC has been pursuing economic reform policies that encourage private economic activity and greater economic decentralization. There is no assurance, however, that the government of the PRC will continue to pursue these policies, or that it will not significantly alter these policies from time to time without notice.

The PRC's economy is in a transition from a planned economy to a market oriented economy subject to five-year and annual plans adopted by the government that set national economic development goals. Policies of the PRC government can have significant effects on the economic conditions of the PRC. The PRC government has confirmed that economic development will follow the model of a market economy. Under this direction, we believe that the PRC will continue to strengthen its economic and trading relationships with foreign countries and business development in the PRC will follow market forces. While we believe that this trend will continue, there can be no assurance that this will be the case.

A change in policies by the PRC government could adversely affect our interests by, among other factors: changes in laws, regulations or the interpretation thereof, confiscatory taxation, restrictions on currency conversion, imports or sources of supplies, or the expropriation or nationalization of private enterprises. Although the PRC government has been pursuing economic reform policies for more than two decades, there is no assurance that the government will continue to pursue such policies or that such policies may not be significantly altered, especially in the event of a change in leadership, social or political disruption, or other circumstances affecting the PRC's political, economic and social life.

The PRC laws and regulations governing our current business operations are sometimes vague and uncertain. Any changes in such PRC laws and regulations may harm our business.

The PRC laws and regulations governing our current business operations are sometimes vague and uncertain. The PRC's legal system is a civil law system based on written statutes, in which system decided legal cases have little value as precedents unlike the common law system prevalent in the United States. There are substantial uncertainties regarding the interpretation and application of PRC laws and regulations, including but not limited to the laws and regulations governing our business, the enforcement and performance of our contractual arrangements with our affiliated Chinese entity, HBOP, and its shareholders, or the enforcement and performance of our arrangements with customers in the event of the imposition of statutory liens, death, bankruptcy and criminal proceedings. The Chinese government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, because these laws and regulations are relatively new, and because of the limited volume of published cases and judicial interpretation and their lack of force as precedents, interpretation and enforcement of these laws and regulations involve significant uncertainties. New laws and regulations that affect existing and proposed future businesses may also be applied retroactively. Our major operating entity, HBOP, conducts its operations in China, and as a result, we are required to comply with PRC laws and regulations. We cannot assure you that our current ownership and operating structure would not be found in violation of any current or future PRC laws or regulations. Any of these or similar actions could significantly disrupt our business operations or restrict us from conducting a substantial portion of our business operations, which could materially and adversely affect our business, financial condition and results of operations. We cannot predict what effect the interpretation of existing or new PRC laws or regulations may have on our business. If the relevant authorities find that we are in violation of PRC laws or regulations, they would have broad discretion in dealing with such a violation, including, without limitation:

- levying fines;
- revoking HBOP's business and other licenses;
- requiring that we restructure our ownership or operations; and
- requiring that we discontinue any portion or all of our business.

Among the material laws that we are subject to are the Price Law of The People's Republic of China, Measurement Law of The People's Republic of China, Tax Law, Environmental Protection Law, Contract Law, Patent Law, Accounting Laws and Labor Law.

Our contractual arrangements with HBOP and its shareholders may not be as effective in providing control over HBOP as direct ownership.

Since the law of the PRC limits foreign equity ownership in companies in China, we operate our business through HBOP. We have no equity ownership interest in HBOP and rely on contractual arrangements to control and operate its business. These contractual arrangements may not be effective in providing control over HBOP as direct ownership. For example, HBOP could fail to take actions required for our business despite its contractual obligation to do so. If HBOP fails to perform under their agreements with us, we may have to incur substantial costs and resources to enforce such arrangements and may have to rely on legal remedies under the law of the PRC, which may not be effective. In addition, we cannot assure you that the HBOP's shareholders would always act in our best interests.

Because we may rely on the consulting services agreement with HBOP for essentially all of our revenue and cash flows, any difficulty for HBOP to pay consulting fees to Baoding Shengde under the consulting agreement may have a material adverse effect on our operations.

We are a holding company and currently do not conduct any business operations other than the contractual arrangements between Baoding Shengde and HBOP. As a result, we may rely entirely for our revenues on dividend payments from Baoding Shengde for any payment from HBOP pursuant to the consulting services agreement which forms a part of the contractual arrangements between Baoding Shengde and HBOP. Since Baoding Shengde is not a legal shareholder of HBOP under PRC statutes, the arrangement for HBOP to pay a substantial portion of its net income to Baoding Shengde may be challenged by the PRC government, which could prevent us from issuing dividends to our shareholders or making required payments to some of our service providers.

A slowdown, inflation or other adverse developments in the PRC economy may harm our customers and the demand for our services and products.

All of our operations are conducted in the PRC and all of our revenue is generated from sales in the PRC. Although the PRC economy has grown significantly in recent years, we cannot assure you that this growth will continue. A slowdown in overall economic growth, an economic downturn, a recession or other adverse economic developments in the PRC could significantly reduce the demand for our products and harm our business.

While the PRC economy has experienced rapid growth, such growth has been uneven among various sectors of the economy and in different geographical areas of the country. Rapid economic growth could lead to growth in the money supply and rising inflation. If prices for our products rise at a rate that is insufficient to compensate for the rise in the costs of supplies, it may harm our profitability. In order to control inflation in the past, the PRC government has imposed controls on bank credit, limits on loans for fixed assets and restrictions on state bank lending. Such an austere policy can lead to a slowing of economic growth. In January 2010, the People's Bank of China, the PRC's central bank, raised interest rates for the first time in nearly five months. Repeated rises in interest rates by the central bank would likely slow economic activity in the PRC which could, in turn, materially increase our costs and also reduce demand for our products.

Governmental control of currency conversion may affect the value of your investment.

The PRC government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of the PRC. We receive substantially all of our revenue in Renminbi, which is currently not a freely convertible currency. Shortages in the availability of foreign currency may restrict our ability to remit sufficient foreign currency to pay dividends, or otherwise satisfy foreign currency denominated obligations. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from the transaction, can be made in foreign currencies without prior approval from the PRC State Administration of Foreign Exchange by complying with certain procedural requirements. However, approval from appropriate governmental authorities is required where Renminbi is to be converted into foreign currency and remitted out of the PRC to pay capital expenses such as the repayment of bank loans denominated in foreign currencies.

The PRC government may also in the future restrict access to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay certain of our expenses as they come due.

The fluctuation of the Renminbi may harm your investment.

The value of the Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in the PRC's political and economic conditions. According to the Financial Management website of http://fms.treas.gov/intn.html, as of December 31, 2011, $1 = 6.3360 Yuan (RMB). As we rely entirely on revenues earned in the PRC, any significant revaluation of the Renminbi may materially and adversely affect our cash flows, revenues and financial condition. For example, to the extent that we need to convert U.S. dollars we receive from an offering of our securities into Renminbi for HBOP's operations, appreciation of the Renminbi against the U.S. dollar would diminish the value of the proceeds of the offering and this could harm our business, financial condition and results of operations because it would reduce the proceeds available to us for capital investment in proportion to the appreciation of the Renminbi. Thus if we raise 1,000,000 dollars and the Renminbi appreciates against the U.S. dollar by 15%, then the proceeds will be worth only RMB5,640,600 as opposed to RMB 6,336,000 prior to the appreciation. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of making payments for dividends on our common shares or for other business purposes and the U.S. dollar appreciates against the Renminbi, the U.S. dollar equivalent of the Renminbi we convert would be reduced in proportion to the amount the U.S. dollar appreciates. In addition, the depreciation of significant RMB denominated assets could result in a charge to our income statement and a reduction in the dollar value of these assets. Thus if HBOP has RMB1,000,000 in assets and Renminbi is depreciated against the U.S. dollar by 15%, then the assets will be valued at $134,154 as opposed to $157,828 prior to the depreciation.

On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an approximately 23.35% appreciation of the Renminbi against the U.S. dollar as of December 31, 2011. While the international reaction to the Renminbi revaluation has generally been positive, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of the Renminbi against the U.S. dollar.

Failure to comply with PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may materially adversely affect us.

In October 2005, the PRC State Administration of Foreign Exchange, or SAFE, issued the Notice on Relevant Issues in the Foreign Exchange Control over Financing and Round-Trip Investment Through Special Purpose Companies by Residents Inside China, generally referred to as Circular 75. The policy announced in this notice required PRC residents to register with the relevant SAFE branch before establishing or acquiring control over an offshore special purpose company, or SPV, for the purpose of engaging in an equity financing outside of China on the strength of domestic PRC assets originally held by those residents. Internal implementing guidelines issued by SAFE, which became public in May 2007 (known as Notice 106), expanded the reach of Circular 75. In the case of an SPV which was established, and which acquired a related domestic company or assets, before the implementation date of Circular 75, a retroactive SAFE registration was required to have been completed before March 31, 2006; this date was subsequently extended indefinitely by Notice 106, which also required that the registrant establish that all foreign exchange transactions undertaken by the SPV and its affiliates were in compliance with applicable laws and regulations. Failure to comply with the requirements of Circular 75, as applied by SAFE in accordance with Notice 106, may result in fines and other penalties under PRC laws for evasion of applicable foreign exchange restrictions. Any such failure could also result in the SPV's affiliates being impeded or prevented from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation to the SPV, or from engaging in other transfers of funds into or out of China.

Because of uncertainty over the interpretation of Circular 75, we cannot assure you that, if challenged by government agencies, the structure of our organization has fully complied with all applicable registrations or approvals required by Circular 75. Moreover, because of uncertainty over how Circular 75 will be interpreted and implemented, and how or whether SAFE will apply it to us, we cannot predict how it will affect our business operations or future strategies. A failure by such PRC resident beneficial holders or future PRC resident stockholders to comply with Circular 75 and Notice 106, if SAFE requires it, could subject these PRC resident beneficial holders to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit our subsidiaries' ability to make distributions or pay dividends or affect our ownership structure, which could adversely affect our business and prospects.

The PRC's legal and judicial system may not adequately protect our business and operations and the rights of foreign investors.

The PRC legal and judicial system may negatively impact foreign investors. In 1982, the National People's Congress amended the Constitution of China to authorize foreign investment and guarantee the "lawful rights and interests" of foreign investors in the PRC. However, the PRC's system of laws is not yet comprehensive. The legal and judicial systems in the PRC are still rudimentary, and enforcement of existing laws is inconsistent. Many judges in the PRC lack the depth of legal training and experience that would be expected of a judge in a more developed country. Because the PRC judiciary is relatively inexperienced in enforcing the laws that do exist, anticipation of judicial decision-making is more uncertain than would be expected in a more developed country. It may be impossible to obtain swift and equitable enforcement of laws that do exist, or to obtain enforcement of the judgment of one court by a court of another jurisdiction. The PRC's legal system is based on the civil law regime, that is, it is based on written statutes; a decision by one judge does not set a legal precedent that is required to be followed by judges in other cases. In addition, the interpretation of Chinese laws may be varied to reflect domestic political changes.

The trend of legislation over the last 20 years has significantly enhanced the protection of foreign investment and allowed for more control by foreign parties of their investments in Chinese enterprises. However, the promulgation of new laws, changes to existing laws and the pre-emption of local regulations by national laws may adversely affect foreign investors. A change in leadership, social or political disruption, or unforeseen circumstances affecting the PRC's political, economic or social life, may affect the PRC government's ability to continue to support and pursue these reforms. Such a shift could have a material adverse effect on our business and prospects.

The practical effect of the PRC legal system on our business operations in the PRC can be viewed from two separate but intertwined considerations. First, as a matter of substantive law, the foreign invested enterprise laws provide significant protection from government interference. In addition, these laws guarantee the full enjoyment of the benefits of corporate articles and contracts to foreign invested enterprise participants. These laws, however, do impose standards concerning corporate formation and governance, which are qualitatively different from the general corporation laws of the United States. Similarly, the PRC accounting laws mandate accounting practices, which are not consistent with U.S. generally accepted accounting principles. PRC's accounting laws require that an annual "statutory audit" be performed in accordance with PRC accounting standards and that the books of account of foreign invested enterprises are maintained in accordance with Chinese accounting laws. Article 14 of the People's Republic of China Wholly Foreign-Owned Enterprise Law requires a wholly foreign-owned enterprise to submit certain periodic fiscal reports and statements to designated financial and tax authorities, at the risk of business license revocation. While the enforcement of substantive rights may appear less clear than United States procedures, foreign invested enterprises and wholly foreign-owned enterprises are Chinese registered companies, which enjoy the same status as other Chinese registered companies in business-to-business dispute resolution. Any award rendered by an arbitration tribunal is enforceable in accordance with the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards (1958). Therefore, as a practical matter, although no assurances can be given, the Chinese legal infrastructure, while different in operation from its United States counterpart, should not present any significant impediment to the operation of foreign invested enterprises

Any recurrence of Severe Acute Respiratory Syndrome, or SARS, or another widespread public health problem, could harm our operations.

A renewed outbreak of SARS or another widespread public health problem (such as bird flu) in the PRC, where all of our revenues are derived, could significantly harm our operations. Our operations may be impacted by a number of health-related factors, including quarantines or closures of any of our two locations in the city of Baoding that would adversely disrupt our operations. Any of the foregoing events or other unforeseen consequences of public health problems could significantly harm our operations.

Because our principal assets are located outside of the United States and most of our directors and officers reside outside of the United States, it may be difficult for you to enforce your rights based on U.S. federal securities laws against us and our officers or to enforce U.S. court judgment against us or them in the PRC.

Most of our directors and officers reside outside of the United States. In addition, our operating company is located in the PRC and substantially all of our assets are located outside of the United States. It may therefore be difficult for investors in the United States to enforce their legal rights based on the civil liability provisions of the U.S. Federal securities laws against us in the courts of either the U.S. or the PRC and, even if civil judgments are obtained in U.S. courts, to enforce such judgments in PRC courts. Further, it is unclear if extradition treaties now in effect between the United States and the PRC would permit effective enforcement against us or our officers and directors of criminal penalties, under the U.S. Federal securities laws or otherwise.

We may be required to broaden the coverage of the mandatory social security insurance programs under the New Labor Law of the PRC

The PRC New Labor Law, effective January 1, 2008, requires that employers enroll in the following social security insurance programs and offer certain employer-sponsored premium benefits to eligible employees: (1) retirement endowment, (2) healthcare insurance, (3) unemployment insurance, (4) workers' compensation insurance, and (5) pregnancy insurance. Of these insurance programs, the retirement endowment fund requires employee withholdings of 4% to 8% of the gross compensation, while the employer's matching contribution varies from 16% to 20% of such compensation. While the Company is enrolled in the retirement endowment fund and is withholding employees' portion and the employer's portion of the endowment contribution, many of the Company's employees have elected to waive their coverage under these mandatory social security insurance programs in favor of certain other low-cost, local government-sponsored social security insurance programs for residents in non-urban districts. Although we have verified with the local government agencies for the validity of the employee waivers and reasonably believe that we are not required to cover the employees who waived the benefits, the local government may change its policy and ask us to broaden our insurance coverage to those who have specifically waived their rights.

Risks Related to Our Common Stock

Our officers and directors control us through their positions and stock ownership and their interests may differ from other stockholders.

As of December 31, 2011, there were 18,350,191 shares of our common stock issued and outstanding. Our officers and directors beneficially own approximately 28.00% of our common stock. Mr. Zhenyong Liu, our Chief Executive Officer, beneficially owns approximately 27.87% of our common stock. As a result, he is able to influence the outcome of stockholder votes on various matters, including the election of directors and extraordinary corporate transactions including business combinations. Yet Mr. Liu's interests may differ from those of other stockholders. Furthermore, ownership of 28.00% of our common stock by our officers and directors reduces the public float and liquidity, and may affect the market price, of our common stock as traded on the NYSE Amex.

We are not likely to pay cash dividends and any return on investment may be limited to the value of our common stock.

We intend to retain any future earnings for use in the operation and expansion of our business but will review this policy as circumstances dictate. Should we decide in the future to do so, as a holding company, our ability to pay dividends and meet other obligations depends upon the receipt of dividends or other payments from our operating subsidiaries. In addition, our operating subsidiaries, from time to time, may be subject to restrictions on their ability to make distributions to us, including restrictions on the conversion of local currency into U.S. dollars or other hard currency and other regulatory restrictions.

If we fail to comply with Section 404 of the Sarbanes-Oxley Act of 2002 in a timely manner, our business could be harmed and our stock price could decline.

Rules adopted by the SEC pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 require annual assessment of U.S. public companies' internal control over financial reporting, and attestation of this assessment by their independent registered public accountants. The standards that must be met for management to assess the internal control over financial reporting as effective are new and complex, and require significant documentation, testing and possible remediation to meet the detailed standards. While there has not been any detected significant deficiency or material weakness in our internal control and with respect to the assessment of the internal control for the year ended December 31, 2011, we cannot guarantee the implementation of controls and procedures in future years to be without any significant deficiency or material weakness.

Our common stock may be affected by limited trading volume and may fluctuate significantly.

Our common stock is traded on the NYSE Amex. Although an active trading market has developed for our common stock, there can be no assurance that an active trading market for our common stock will be sustained. Failure to maintain an active trading market for our common stock may adversely affect our shareholders' ability to sell our common stock in short time periods, or at all. Our common stock has experienced, and may experience in the future, significant price and volume fluctuations, which could adversely affect the market price of our common stock.

Future financings may dilute stockholders or impair our financial condition.

In the future, we may need to raise additional funds through public or private financing, which might include the sale of equity securities. The issuance of equity securities could result in financial and voting dilution to our existing stockholders. The issuance of debt could result in effective subordination of stockholders' interests to the debt, create the possibility of default, and limit our financial and business alternatives.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Our headquarters is located at Hebei Baoding Orient Paper Milling Company Limited, Juli Road, Xushui County, Baoding City, Hebei Province, People's Republic of China. The headquarters and our main production base, separated by approximately 4 kilometers apart in Xushui County of the city of Baoding, have a total area of 258.06 mu, or approximately 42.50 acres.

All land in the PRC is owned by the government and cannot be sold to any individual or entity. Instead, the government grants landholders a "land use right" after a purchase price for such "land use right" is paid to the government. The "land use right" allows the holder the right to use the land for a specified long-term period of time and enjoys all the incidents of ownership of the land. The following are the details regarding HBOP's land use rights with regard to the land that it uses in its business.

The land of our major operating entity and our main production base, comprising 200 mu, approximately 33 acres, of land, is leased from the local government pursuant to a 30 year lease that expires December 31, 2031. The lease requires an annual payment of approximately $18,891 (RMB 120,000) due by June 30 every year.

The remaining 58.06 mu, approximately 9.5 acres, of land on which our principal executive offices and other production facilities are situated (including the new digital photo paper production equipment), is obtained pursuant to a land use right granted by the local government on March 10, 2003. HBOP obtained the right to use the 58.06 mu of land for 50 years through March 10, 2053. The purchase price of the land use right was approximately $2,358,862 (RMB14,984,200), which was fully paid on March 8, 2005.

On November 25, 2009, Baoding Shengde entered into an asset purchase agreement to acquire two coating production lines of digital photo paper, for a total purchase price of RMB 93 million Yuan (approximately $13.6 million). Of the RMB 93 million Yuan, RMB 30 million Yuan was paid in cash by Baoding Shengde, the remaining cash payment in the amount of RMB 63 million Yuan was advanced by HBOP on behalf of Baoding Shengde and paid to the seller as of December 31, 2009.

As of December 31, 2011 our facilities include a total of 7 production lines, 5 warehouses, 2 office buildings, 2 cafeterias, and 4 dormitories (3 under construction). Major equipment includes 5 papermaking machines (4 currently operating and 1 under renovation) owned by HBOP and 2 coating production lines of digital photo paper that are owned by Baoding Shengde. Except for the new corrugating medium paper production line, for which we owe $936,908 unpaid bills to various contractors as of December 31, 2011, all costs of our facilities have been paid in full.

Item 3. Legal Proceedings

On August 6, 2010, a stockholder class action lawsuit was filed in the U.S. District Court for the Central District of California against the Company, certain current and former officers and directors of the Company, and Roth Capital Partners, LLP. The complaint in the lawsuit, Mark Henning v. Orient Paper et al., CV-10-5887 RSWL (AJWx), alleges, among other claims, that the Company issued materially false and misleading statements and omitted to state material facts that rendered its affirmative statements misleading as they related to the Company's financial performance, business prospects, and financial condition, and that the defendants failed to prevent such statements from being issued or corrected. The complaint seeks, among other relief, compensatory damages and plaintiff's counsel's fees and experts' fees. Mr. Henning purports to sue on his own behalf and on behalf of a class consisting of the Company's stockholders (other than the defendants and their affiliates). The plaintiffs filed an amended complaint on January 28, 2011, and the Company filed a motion to dismiss with the court on March 14, 2011. On July 20, 2011 the court denied the Company's motion to dismiss, thus allowing the litigation to proceed to discovery. Nevertheless, at this stage of the proceedings, management cannot opine that a favorable outcome for the company is probable or that an unfavorable outcome to the company is remote. While certain legal defense costs may be later reimbursed by the Company's insurance carrier, no reasonable estimate of any impact of the outcome of the litigation or related legal fees on the financial statements can be made as of the date of this statement.

On April 1, 2011 the Company was served a summon for a complaint filed by Tribank Capital Investments, Inc. (“Tribank”) on March 30, 2011 in the Superior Court of the State of California for the County of Los Angeles against the Company and its Chairman and CEO Mr. Zhenyong Liu (the “Tribank Matter”). By filing the complaint, Tribank alleges, among other claims, that the Company breached the Non-Circumvention Agreement dated October 29, 2008 between the Company and Tribank (the “Agreement”), and that the Company was unjustly enriched as a result of breaching the Agreement. The complaint seeks, among other relief, compensatory damages and plaintiff’s counsel’s fees. On April 29, 2011 the Company filed a Notice of Removal to remove the jurisdiction of the case from the state court of California to the Federal District Court for the District of Central California and filed a motion to dismiss the lawsuit on May 6, 2011. On July 18, 2011, United States District Court Judge Manual Real granted Orient Paper motion to dismiss the complaint in its entirety, finding that venue is improper because the contract that forms the basis of the parties' relationship contains a valid and enforceable forum selection clause providing that the Hong Kong Special Administrative Region of China is the exclusive forum for resolution of disputes. Tribank subsequently filed a notice of appeal with the court on August 5, 2011. The Company continues to believe that the complaint has no merit and intends to vigorously defend the lawsuit. While certain legal defense costs may be later reimbursed by the Company’s insurance carrier, no reasonable estimate of any impact of the outcome of the litigation or related legal fees on the financial statements can be made as of date of this statement.

Item 4. Mine Safety Disclosures.

Not Applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Orient Paper’s common stock is quoted on NYSE Amex Equities under the symbol “ONP” since December 17, 2009, and was quoted on Over-the-Bulletin Board under the symbol “ORPN” and “OPAI” prior to December 17, 2009.

Until January 29, 2008, there was no active trading in our common stock.

The range of high and low bid quotations by quarter from January 1, 2010 through December 31, 2011 is listed below. The quotations are taken from the OTC Bulletin Board and NYSE AMEX. They reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not necessarily represent actual transactions.

Calendar Quarter	High Bid	Low Bid
2010 First Quarter	15.15	8.01
2010 Second Quarter	11.75	6.45
2010 Third Quarter	7.79	4.04
2010 Fourth Quarter	8.09	4.23
2011 First Quarter	6.40	4.51
2011 Second Quarter	4.68	3.18
2011 Third Quarter	4.54	2.55
2011 Fourth Quarter	4.04	2.05

As of March 1, 2012, we had approximately 3,500 shareholders of record of our common stock.

Dividends

Our Board of Directors has not declared a dividend on our common stock during the last two fiscal. Future dividend policy will be subject to the discretion of the Board of Directors and will be contingent upon future earnings, if any, our financial condition, capital requirements, general business conditions and other factors. There can be no assurance that any dividends of any kind will be paid in the future.

Equity Compensation Plan Information

On August 28, 2011, the Company’s Annual General Meeting approved the 2011 Incentive Stock Plan (the “2011 ISP”) as previously adopted by the Board of Directors on July 5, 2011. Under the 2011 ISP, the Company may grant an aggregate of 375,000 shares of the Company’s common stock to the Company’s directors, officers, employees or consultants. Specifically, the Board and/or the Compensation Committee have authority to (a) grant, in its discretion, Incentive Stock Options or Non-statutory Options, Stock Awards or Restricted Stock Purchase Offers; (b) determine in good faith the fair market value of the stock covered by any grant; (c) determine which eligible persons shall receive grants and the number of shares, restrictions, terms and conditions to be included in such grants; and (d) make all other determinations necessary or advisable for the 2011 ISP's administration. No stock or option was issued under the 2011 ISP until January 11, 2012, when the Compensation Committee granted 109,584 shares of restricted common stock to certain officers and directors of the Company.

Recent Sales of Unregistered Securities

On August 31, 2009, the Company, the Company's Chief Executive Officer, Zhenyong Liu and the HBOP entered into a Debt Assignment and Assumption Agreement. Pursuant to the Agreement, the Company agreed to assume $4,000,000 of the total aggregate debt of RMB 41,970,716 (approximately, $6,131,761 as of June 30, 2009) (the "Debt") owed by HBOP to Zhenyong Liu with immediate effect. On the same date, the Company issued to Zhenyong Liu a total of 1,204,340 restricted shares of common stock of the Company at $3.32132 per share. The Company has no obligation to register the shares issued in this transaction. The securities issued in this transaction were issued in connection with a private placement exempt from the registration requirements of Section 5 of the Securities Act of 1933, as amended, pursuant to the terms of Section 4(2) of that Act.

On October 7, 2009, the Company entered into a securities purchase agreement with Access America Fund, LP, Renaissance US Growth Investment Trust Plc, RENN Global Entrepreneurs Funds, Inc., Premier RENN Entrepreneurial Fund Limited, Pope Investments II, LLC and Steve Mazur (collectively, the "Buyers") to sell to the Buyers 2,083,333 shares of common stock, par value $0.001 of the Company for an aggregate purchase price of approximately $5,000,000. The issuance of the common stock to the Buyers under the securities purchase agreement dated October 7, 2009 was exempt from registration under Section 4(2) of the Securities Act based upon our compliance with Regulation D as promulgated by the SEC under the Securities Act of 1933, as amended. Transfers of such shares were restricted by the Company in accordance with the requirements of the Securities Act. All of the Buyers were provided with access to our Securities and Exchange Commission filings.

On November 12, 2009, the Company issued a total of 282,294 restricted shares of common stock to Chinamerica Holdings, Ltd as consideration of the consulting service of Chinamerica Holdings, Ltd. The issuance of the common stock to Chinamerica Holdings, Ltd under the consulting agreement was exempt from registration under Section 4(2) of the Securities Act based upon our compliance with Regulation D as promulgated by the SEC under the Securities Act of 1933, as amended (the "Securities Act"). Transfers of such shares were restricted by the Company in accordance with the requirements of the Securities Act. Chinamerica Holdings, Ltd was provided with access to our Securities and Exchange Commission filings.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

Company Stock Performance

The above graph compares the cumulative total stockholder return from January 29, 2008, the date of our common stock first began quoted on the Over-the-Counter Bulletin Board with a reverse-split adjusted price of $2.04/share, through February 17, 2012, for our existing common stock, the S&P 500 Index and the NASDAQ Composite Index. We have assumed that dividends have been reinvested, and the returns of each company in the S&P 500 Index and the peer groups have been weighted to reflect relative stock market capitalization. The graph above assumes that $100 was invested on January 29, 2008, in each of our existing common stock, the stocks comprising the S&P 500 Index and the stocks comprising the NASDAQ Composite Index.

Item 6. Selected Financial Data

Not applicable.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Notice Regarding Forward-Looking Statements

The following discussion of the financial condition and results of operation of the Company for the years ended December 31, 2011 and 2010 should be read in conjunction with the selected financial data, the financial statements, and the notes to those statements that are included elsewhere in this Annual Report.

We make certain forward-looking statements in this report, including information with respect to our plans and strategy for our business and related financing and include forward-looking statements that involve risks and uncertainties. Statements concerning our future operations, prospects, strategies, financial condition, future economic performance (including growth and earnings), demand for our services, and other statements of our plans, beliefs, or expectations, including the statements contained under the captions “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Business,” as well as captions elsewhere in this document, are forward-looking statements. In some cases these statements are identifiable through the use of words such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “plan,” “project,” “target,” “can”, “could,” “may,” “should,” “will,” “w
expressions. We intend such forward-looking statements to be covered by the safe harbor provisions contained in Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and in Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). The forward-looking statements we make are not guarantees of future performance and are subject to various assumptions, risks, and other factors that could cause actual results to differ materially from those suggested by these forward-looking statements. Because such statements are subject to risks and uncertainties, actual results may differ materially from those expressed or implied by the forward-looking statements. Indeed, it is likely that some of our assumptions will prove to be incorrect. Our actual results and financial position will vary from those projected or implied in the forward-looking statements and the variances may be material. You are cautioned not to place undue reliance on such forward-looking statements. These risks and uncertainties, together with the other risks described from time to time in reports and documents that we file with the SEC should be considered in evaluating forward-looking statements.

In evaluating these forward-looking statements, you should consider various factors, including the following: (a) those risks and uncertainties related to general economic conditions, (b) whether we are able to manage our planned growth efficiently and operate profitable operations, (c) whether we are able to generate sufficient revenues or obtain financing to sustain and grow our operations, (d) whether we are able to successfully fulfill our primary requirements for cash. Please refer to the section entitled “Liquidity and Capital Resources” contained in this Report for additional discussion. Please also refer to our other filings with the Securities and Exchange Commission. We assume no obligation to update forward-looking statements, except as otherwise required under the applicable federal securities laws.

You should also review the “Risk Factors” section of this Report for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Results of Operations

Comparison of the Year Ended December 31, 2011 and 2010

Revenue of Offset Printing Paper and Corrugating Medium Paper

Revenue from sales of offset printing paper (for purpose of this analysis, offset printing paper includes minor revenue from sales of Diazo and copy papers, which occurred in the year of 2010 only) and corrugating medium paper for the year ended December 31, 2011 was $142,498,116, an increase of $23,636,619 or 19.89% from $118,858,497 for the comparable period in 2010. In addition to the rising selling prices in the first three quarters of 2011 and other factors explained below, because of the loss of steam pressure caused by the removal of two old boilers for the installation of two new energy-efficient steam boilers during most part of the third quarter of 2010, total offset printing and corrugating medium paper produced and sold during the year ended December 31, 2010 were less than the quantity and dollar amount in the comparable period in 2011. Starting December 2011, we produce and sell corrugating medium paper from a new paper production line with a designed capacity of 360,000 tons/year. The total quantity of corrugating medium paper and offset printing paper sold in the year ended December 31, 2011 amounted to 230,494 tons, a net increase of 10,370 tons or 4.71%, compared to 220,124 tons sold in the previous year. The changes in revenue dollar amount and in tonnage for the years ended December 31, 2011 and 2010 are summarized as follows:

Sales Revenue	Year Ended December 31, 2011 Qty.(Ton)	Amount	Year Ended December 31, 2010 Qty.(Ton)	Amount	Change in Qty.(Ton)	Amount	Percentage Change Qty.(Ton)	Amount
Corrugating medium Paper	108,174	$44,013,774	107,203	$34,914,901	971	$9,098,873	0.91%	26.06 %
Medium-Grade Offset Printing Paper	122,320	98,484,342	112,900	83,923,667	9,420	14,560,675	8.34%	17.35 %
Diazo Paper and Copy Paper	-	-	21	19,929	(21)	(19,929)	n/a	n/a
Total Corrugating Medium and Offset Printing Paper Sales Revenue	230,494	$142,498,116	220,124	$118,858,497	10,370	$23,639,619	4.71%	19.89 %

Average Selling Prices ("ASPs") for our main products for the years ended December 31, 2011 and 2010 are summarized as follows:

	Medium-Grade Offset ASP	Corrugating Medium Paper ASP
Year ended December 31, 2010	$ 743	$ 326
Year ended December 31, 2011	$ 805	$ 407
Increase(decrease) from comparable period in the previous year	$ 62	$ 81
Increase(decrease) as a percentage	8.34 %	$ 24.85 %

Revenue from corrugating medium paper amounted to $44,013,774 (or 30.89% of total offset printing paper and corrugating medium paper revenue) for the year ended December 31, 2011, representing a $9,098,873 (or 26.06%) increase over the corrugating medium paper revenue of $34,914,901 for the comparable period in 2010. We sold 6,571 tons of corrugating medium paper produced from the new production line that we recently launched in November 2011 in the month of December 2011, generating gross revenue in the amount of $2,697,435, or 41.87% of total sales revenue of for the month of December 2011. ASP for corrugating medium paper rose from $326/ton in the year ended December 31, 2010 to $407/ton in the year ended December 31, 2011, representing a 24.85% increase over the comparable period. We believe the increase in ASP is primarily attributable to (1) increasing customer demand, and more importantly (2) a regional shortage in paper products supply, caused by mandatory closures of other smaller paper manufacturers under government mandates in 2010 and for the most part of 2011. For example, the provincial government of Hebei announced on June 12, 2010 that it was working on closing 64 inefficient paper production lines with 26 local paper mills by the end of the year 2010, accounting for an elimination of annual capacity of approximately 400,000 tons in 2010, while the neighboring province of Henan announced that it was closing more than 100 local paper mills with an aggregate capacity of over 2 million tons of paper production. The Ministry of Industry and Information Technology of the People's Republic of China announced on July 11, 2011 that 8.2 million tons of outdated paper milling capacities located in 599 paper companies across China would be forced to close down in the year 2011 (the "2011 Mandatory Closure"). Of all of the paper mills affected by the 2011 Mandatory Closure, 82 companies with total capacities of 1.07 million tons (or 13% of total closure) were located in the province of Hebei, where many of the old paper mills only have capacities under 50,000 tons. Our neighboring province of Henan saw 1.84 million tons capacities (or 22% of total 2011 closure), owned by 84 companies, had been eliminated before the end of 2011. Many industry commentators believe that the 2011 Mandatory Closure impacted mostly packaging paper, printing paper and household paper supplies in China in 2011 and has driven up selling prices of these products. However, as of December 31, 2011, we have seen ASP increases leveling out and stabilized. Some of our paper products (e.g., offset printing paper) may even experience slight downward ASP adjustment in the next few months.

Beginning in late June 2010, we shut down and later demolished one of our two corrugating medium paper production lines. We had originally planned to build the new 360,000 ton/year new corrugating medium paper production line and other facilities on approximately 667,000 square meters of land across the street of our current main manufacturing compound, but due to certain changes in the plan, we decided to instead build the new production line in our current manufacturing compound. To make room for the new production line and related pulping facilities, we tore down two existing buildings and an existing corrugating medium paper production line. We estimate the lost capacity was approximately 34,000 tons per year. We completed testing operations of the new production line in November 2011 and produced 6,571 tons of corrugating medium paper from the new line in December 2011.

Revenue from medium-grade offset printing paper amounted to $98,484,342 (or 69.11% of total offset printing paper and corrugating medium paper revenue) for the year ended December 31, 2011, which represents an $14,560,675 (or 17.35%) increase over the medium-grade offset printing paper revenue of $83,923,667 for the comparable period in 2010. We sold 122,320 tons of medium-grade offset printing paper in the year ended December 31, 2011 compared to 112,900 tons of medium-grade offset printing paper in the comparable period in year 2010, an increase of 9,420 tons or 8.34%. The factors contributing to the 2011 increase in both total quantity and dollar amount sold include (1) lower production quantity in the third quarter 2010, due to the installation of new boilers to replace the two old ones, (2) the increase in ASP for offset printing paper products from $743/ton in the year of 2010 to $805/ton in 2011, representing an increase of 8.34%, and (3) a regional shortage in paper products supply, caused by the 2011 Mandatory Closure. Absent further government-mandated capacity closure in the next few months, we believe the ASPs of our printing paper products are being stabilized. Our ASP for offset printing paper has started declining in the last two months of year 2011 and may remain slightly lower as a correction to the under-supplied market situation and as a reflection of the softening economy.

As a partial remedy for the lost production due to the disposal and temporary removal of two old boilers in the second half of 2010, starting in August 2010, the Company entered into four offset printing paper supply agreements with paper manufacturers in Hebei Province and the neighboring Shandong province (the "Supply Agreements"). During the year ended December 31, 2011, revenue generated from sales of offset printing paper finished goods purchased from these vendors pursuant to the Supply Agreements was in the amount of $25,625,731 (or 31,795 tons), representing 26.02% of total sales revenue of medium-grade offset printing paper during the year ended December 31, 2011. The sales of finished goods during the year ended December 31, 2010 was $12,961,311 for the last five months of the year, but nevertheless accounted for 15.44% of the total sales made during the year of 2010. Although gross profit margin of sales of paper purchased under these Supply Agreements registers significantly less than that of our own products (see discussions under "Gross Profit" below), we intend to extend these Supply Agreements past their current expiration as long as market conditions permit.

The following is a chart showing the month-by-month ASPs (except for the ASPs of the digital photo paper) for the two-year period ended December 31, 2011:

Monthly sales revenue, including revenue from the sales of purchased paper finished goods and excluding revenue of digital photo paper, for the two-year period ended December 31, 2011, are summarized below. Monthly sales in July/August 2010 were substantially lower than average mainly because of the loss of two old boilers as explained above. Monthly sales in February of 2010 and 2011 were seasonably lower because of the extended Chinese New Year holiday break.

Revenue of Digital Photo Paper

Since March 2010, we have produced and sold digital photo paper. Revenue generated from selling digital photo paper was $8,249,200 (or 5.47% of total consolidated revenue) for the year ended December 31, 2011:

Sales Revenue	Year Ended December 31, 2011 Qty.(Ton)	Amount	Year Ended December 31, 2010 Qty.(Ton)	Amount	Change in Qty.(Ton)	Amount	Percentage Change Qty.(Ton)	Amount
Digital Photo Paper	2,049.09	$8,249,200	1,039.50	$5,131,420	1,009.59	$3,117,780	97.12%	60.76 %

We currently produce glossy and semi-matte photo paper in various weights (from 120g/m^2 to 260g/m^2). During the second quarter of the year 2010, we made the decision to significantly lower the ASP by producing more light weight digital photo paper products to meet the needs of different customers. We lowered the ASP from $4,447/ton in June 2010 to $3,916/ton in June 2011 (the lowest since the inception of the operation), and as a result, monthly sales quantity increased from 82.23, 93.59 and 128.42 tons in July, August and September 2010 to 159.09 tons in December 2011.

Digital photo paper products' monthly ASPs, monthly sales quantity (in tons) and monthly sales revenue for the period from July 2010 to December 31, 2011 are summarized as follows:

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Cost of Sales

Total cost of sales for corrugating medium and offset printing paper for the year ended December 31, 2011 was $112,306,636, an increase of $17,401,011 or 18.34% from $94,905,625 for the comparable period in 2010. The increase in total cost of sales in the year of 2011 is primarily due to the increase in sales revenue over the last year when the new boilers were being installed, as explained above. Total sales revenue (excluding revenue from sales of digital photo paper) grew from $118,858,497 in 2010 to $142,498,116 in the year of 2011, representing a 19.89% year-over-year increase, which is primarily accountable for the 18.34% increase in cost of sales in 2011. The increase in cost of sales also is largely attributable to the ever-rising cost of raw materials, as total quantity sold on corrugating medium and offset printing paper grew only 4.71% in year 2011 on a year-over-year basis. Monthly average purchase costs of our major raw materials for the two-year period from January 2010 to December 2011 are as follows:

Costs for all types of raw materials in the 24-month period ended December 31, 2011 were generally on an upward trend and appeared to have reached the highest point over the period in October 2011. For example, our average unit purchase cost (net of applicable Value Added Tax) of recycled paper board, recycled white scrap paper, and recycled printed paper in the month of October 2011 were $204/ton, $424/ton, and $318/ton, respectively, which represent year-over-year increases of 24.26%, 8.41%, and 20.03% as compared to what we paid per unit for these raw materials a year ago. Although our production takes advantage entirely of domestic recycled paper (produced mainly from the Beijing metropolitan area) and do not have to rely on imported recycled paper, which tends to have a more volatile pricing behavior than the domestic recycled paper, it appears that demand for domestic paper is on the rise. According to the China Paper Association's Annual Report 2010, consumption of domestic recycled paper pulp in China increased from 27.8% in 2005 to 30% of total pulp used in the year of 2010. Because of the rising demand and the effect of inflation on various production factors of recycled paper, we estimate that all of the raw material prices may see keep rising in the long term. However, due to the softening economy in China, we have seen prices declining across the board for all of our major recycled paper raw materials. It is likely that raw material prices will continue to be relatively low in the next few months.

Electricity and coal are the two main sources of our paper manufacturing activities. Coal prices have been subject to seasonal fluctuations in China, with peaks often occurring in the winter months. Historically, electricity and coal account for approximately 10% and 12% of our total cost of sales, or approximately 8% and 9% of total sales, respectively. The monthly energy costs (electricity and coal) as a percentage of total monthly cost of sales (excluding the cost of sales purchased from other paper product suppliers and not manufactured by us, as well as the cost of sales of digital photo paper) of our main paper products for the two years ended December 31, 2011 are summarized as follows:

Because of the increase in total cost of sales caused by inflating recycled paper raw material prices, total energy (electricity and coal) cost accounted for 20.07% of the total cost of sales (excluding costs of sales of purchased finished goods and digital photo paper) in the year ended December 31, 2011, which is noticeably less as compared to 24.47% of total cost of sales for the year ended December 31, 2010. We observed a spike in unit cost in both coal and electricity in the last two months of year 2011. However, we believe the increases are within reasonable range and may be temporary.

The total cost of sales of digital photo paper amounted to $5,490,605 for the year ended December 31, 2011, representing an increase of $2,581,915, or 88.77%, over the cost of sales of $2,908,690 in the comparable period in year 2010. The increase appears to be attributable to the growth in sales of our digital photo paper. As explained above, the quantity (in tonnage) of our digital photo paper sales increased 97.12% in the year of 2011 as compared to the previous year in 2010.

Gross Profit

Gross profit for corrugating medium paper and offset printing paper for the year ended December 31, 2011 was $30,191,480, a net increase of $6,238,608 or 26.05% from $23,952,872 for the comparable period in 2010. The net increase in gross profit was primarily attributable to the low production output in the third quarter of 2010 caused by the disruption of production for the replacement work of two boilers. Because of this, (1) quantities sold for corrugating medium paper and offset printing paper were much lower than normal level in the third quarter of 2010, resulting in a lower gross profit for the year 2010; (2) capacity utilization was lower, resulting in lower gross profit margins of corrugating medium and offset printing paper in the third quarter of 2010.

In addition, the increase in product ASPs over the corresponding but lesser increase in cost of sales contributes to the increase in gross profit in 2011. As explained above, total sales revenue of corrugating medium and offset printing paper grew 19.89% in the year ended December 31, 2011, while total cost of sales grew only 18.34%, thus widening the spread of gross profit in the year of 2011.

The overall gross profit margin for corrugating medium paper and offset printing paper for the year ended December 31, 2011 increased slightly by 1.04%, from 20.15% a year ago to 21.19%. Because of the 24.85% increase in product ASP during the year 2011 as compared to the last year, gross profit margin for corrugating medium paper for the year ended December 31, 2011 was 28.46%, substantially higher than the 20.68% gross profit margin for corrugating medium paper for the year of 2010. On the other hand, total offset printing paper (including finished good papers that we purchased) generated a 17.94% gross profit margin in year 2011 as opposed to 19.93% in the year of 2010, or a decrease of 1.99% of total sales. The decrease in the gross profit margin of the offset printing paper in 2011 appears to be caused by the relatively low gross profit margin associated with the sales of purchased finished goods pursuant to the Supply Agreements, which were not effective until August 2010 and continue throughout the year of 2011.

We generated $1,627,999 of gross profit from sales of offset printing paper purchased under the Supply Agreements during the twelve months ended December 31, 2011, versus $1,033,230 for the last five months in year 2010. Gross profit margins for the offset printing paper purchased by us during the year ended December 31, 2011 was 6.35% (or 7.97% for the previous year of 2010) and was substantially lower than the gross profit margin of offset printing paper that was manufactured internally.

Monthly Gross Profit Margins on the sales of our corrugating medium and offset printing paper for the 24-month period ending December 31, 2011 are as follows:

Gross profit from the sales of digital photo paper for the year ended December 31, 2011 amounted to $2,758,595, or 33.44% as a percentage to total digital photo paper sales, compared to gross profit of $2,222,730 and gross profit margin of 43.32% for the previous year. The 2011 gross profit percentage represents a substantial decline as compared to the last year. This decline is due to our decision to lower the ASP as explained above. We believe the gross profit margin of our digital photo paper has been stabilized and do not expect to see further significant decline in the product ASP or the resulting gross profit margin.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the year ended December 31, 2011 were $2,517,530, a decrease of $556,726 or 18.11% from $3,074,256 for the comparable period in 2010. The decrease was primarily attributable to the large 2010 payments of various professional service fees including, more specifically, legal fees incurred in connection with an independent internal investigation conducted by the Audit Committee of the Company and lasted from August 2010 to January 2011 and a litigation of the shareholder class action as described above in "Legal Proceedings." For the year ended December 31, 2011, total expenses incurred or accrued for investors relations, legal and accounting/auditing fees amounted to $209,952, $525,140 and $529,263, respectively as opposed to $534,856, $970,167 and $323,692 during the year ended December 31, 2010.

Income from Operations

Operating income for the year ended December 31, 2011 was $30,111,345, an increase of $8,125,361 or 36.96% from $21,985,984 for the comparable period in 2010. The increase was primarily attributable to (1) the increase in product ASPs and gross profit of our corrugating medium paper and offset printing paper in year 2011, (2) recovery in the year of 2011 from the below-normal production caused by the loss of boilers pressure as explained above, (3) growth in gross profit in the amount of $535,865 from the digital photo paper operations in year 2011, and (4) a tightened operating expense control and the resulting decrease in general and administrative expenses in year 2011. In addition, income from operation for the year ended December 31, 2010 was also negatively impacted by losses from disposition of one corrugating medium paper production line and other facilities in June 2010 for a total amount of $1,115,362. In year 2011, loss from disposal of property, plant and equipment amounted to $321,200 as we disposed of certain idle equipment and an old employee cafeteria building.

Accounts Receivable

Net accounts receivable and trade notes receivable increased by $1,672,922 (or 77.89%) to $3,820,696 as of December 31, 2011, compared with $2,147,774 (including notes receivable in the amount of $308,539) as of December 31, 2010. Our year-end balance in year 2010 was lower than our normal year-end or quarter-end balance due to a more aggressive collection effort toward the end of the calendar year, a common practice followed by many Chinese businesses. Accounts receivable turnover, based on average accounts receivable using balances at the beginning and ending dates of the year and annual sales revenue for the entire year of 2010, decreased from 63.65 times in year 2010 to 50.51 times in year 2011, while days in accounts receivable increased from 5.73 days in year 2010 to 7.23 days in year 2011. Alternatively, accounts receivable turnover calculated using the average quarterly ending balances (at the end of first, second, and third quarter) of year 2011 was 53.38 times with days in accounts receivable at 6.84 days. We usually collect the accounts receivable within 30 days of delivery and completion of sales.

Inventory

Inventory consists of raw materials (accounting for 89.71% of total value of ending inventory as of December 31, 2011) and finished goods. As of December 31, 2011, the recorded value of our inventory had increased by 34.83% to $10,007,928 from $7,422,518 as of December 31, 2010. The largest increase came from the inventory item of recycled paperboard, which is the main raw material for the production of our corrugating medium paper, including the operations of the new 360,000 tons/year production line that expands our corrugating medium paper capacity significantly. We have also increased the stockpile of the recycled white scrap paper, as we believe the softening of cost for such item in the last two months of year 2011 as temporary and as an indication of better timing to build a larger inventory position as of December 31, 2011.

We decreased the amount of coal stored on hand to $661,891 as of December 31, 2011, as compared to the stock of coal for a total amount of $1,441,082 one year ago. The average price per ton that we paid for coal in the month of December 2011 was approximately $125/ton, which was substantially higher than the average price of $101 (translated by the 2011 year-end spot exchange rate) that we paid in the month of December 2010. We estimated that the relatively high coal price might not continue to rise significantly in the following months. Therefore we made a decision to lower the coal inventory level at the end of year 2011. A summary of changes in major inventory items is as follows:

	December 31, 2011	December 31, 2010	$ Change	% Change
Raw Materials				
Recycled paper board	$5,645,449	$ 3,807,678	$1,837,771	48.26 %
Pulp	13,718	13,180	538	4.08 %

Recycled printed paper	589,165	593,604	(4,439)	-0.75	%
Recycled white scrap paper	1,918,545	801,783	1,116,762	139.28	%
Coal	661,891	1,441,082	(779,191)	-54.07	%
Digital photo base paper and other raw materials	149,306	151,269	(1,963)	-1.30	%
Total Raw Materials	8,978,074	6,808,596	2,169,478	31.86	%
Finished Goods	1,029,854	613,922	415,932	67.75	%
Totals	$10,007,928	$ 7,422,518	$2,585,410	34.83	%

Accounts Payable

Accounts payable (excluding non-inventory purchase payables and accrued expenses) was $2,766,554 as of December 31, 2011, an increase of $2,353,086 or 569.11% from $413,468 as of December 31, 2010, due to the following reasons: (1) we paid down a large portion of accounts payable for the purchases made in November and December 2010, making the payable balance significantly lower than the normal level; and (2) in preparation for and to sustain the operation of the new corrugating medium paper line, we increased the purchases of recycled paperboard in the last quarter of year 2011. All accounts payable as of December 31, 2011 were within the normal payment terms of our suppliers.

Comparison of the Years Ended December 31, 2010 and 2009

Revenue of Offset Printing Paper and Corrugating Medium Paper

Revenue from sales of offset printing paper and corrugating medium paper for the year ended December 31, 2010 was $118,858,497, an increase of $16,715,669 or 16.36% from $102,142,828 for the comparable period in 2009. Nevertheless, total paper sold during the year ended December 31, 2010 amounted to 220,124 tons, a decrease of 18,758 tons or 7.85%, compared to 238,882 tons sold in the previous year. The changes in revenue dollar amount and in tonnage from year 2009 to year 2010 are summarized as the followings:

	Year Ended December 31, 2010		Year Ended December 31, 2009		Change in		Percentage Change	
Sales Revenue	Qty.(Ton)	Amount	Qty.(Ton)	Amount	Qty.(Ton)	Amount	Qty.(Ton)	Amount
Corrugating medium Paper	107,203	$34,914,901	150,242	$42,194,791	(43,039)	$(7,279,890)	(28.65)%	(17.25)%
Medium-Grade Offset Printing Paper	112,900	83,923,667	53,540	36,188,231	59,360	47,735,436	110.87%	131.91%
High-Grade Offset Printing Paper	-	-	11,276	10,544,055	(11,276)	(10,544,055)	n/a	n/a
Writing Paper	-	-	21,555	11,372,697	(21,555)	(11,372,697)	n/a	n/a
White Card Paper	-	-	2,269	1,843,054	(2,269)	(1,843,054)	n/a	n/a
Diazo Paper and Copy Paper	21	19,929	-	-	21	19,929	n/a	n/a
Total Corrugating Medium and Printing Paper Sales Revenue	220,124	$118,858,497	238,882	$102,142,828	(18,758)	$16,715,669	(7.85)%	16.36%

Revenue from corrugating medium paper amounted to $34,914,901 (or 29.38% of total offset printing paper and corrugating medium paper revenue) for the year ended December 31, 2010, representing a $7,279,890 (or 17.25%) decrease over the corrugating medium paper revenue of $42,194,791 for the comparable period in 2009. We sold 107,203 tons of corrugating medium paper in the year ended December 31, 2010 versus 150,242 tons sold a year ago, representing a 28.65% drop in quantities sold, due to the disposal of one of our corrugating medium paper production lines in June 2010 and the temporary loss of two boilers during the last two quarters of the year (see below). Despite the decrease in sales quantity, Average Selling Price ("ASP") for corrugating medium paper rose from $281/ton in year 2009 to $326/ton in 2010, representing a 15.97% increase over the comparable period. We believe the increase in

ASP is primarily attributable to (1) increasing customer demand, (2) the overall increased market price caused by relatively high wood pulp prices in the first half of year 2010, and most importantly (3) a regional shortage in paper products supply, caused by mandatory closures of other smaller paper manufacturers under government mandates. For example, the provincial government of Hebei announced on June 12, 2010 that it was working on closing 64 inefficient paper production lines with 26 local paper mills by the end of the year, accounting for an elimination of annual capacity of approximately 400,000 tons this year, while the neighboring province of Henan announced that it was closing more than 100 local paper mills with an aggregate capacity of over 2,000,000 tons of paper production. Unless further government-mandated capacity closure is implemented, we believe the ASP of major paper products may stabilize in the first quarter of year 2011.

Beginning in late June 2010, we shut down and later demolished one of our two corrugating medium paper production lines. We had originally planned to build a new 360,000 ton/year new corrugating medium paper production line and other facilities on some 667,000 square meters of land across the street from our current main manufacturing compound, but due to certain changes in the plan, we decided to instead build the new production line in our current manufacturing compound. To make room for the new production line and related pulping facilities, we tore down two existing buildings and an existing corrugating medium paper production line. We estimate the lost capacity could be approximately 34,000 tons per year. The new corrugating medium paper production line started its commercial production in December 2011.

In connection with the government's approval of our pending new corrugating medium paper production line, the Baoding City Environmental Protection Agency required that we replace two of our four steam boilers with new and more energy-efficient models. We removed the two old boilers in July 2010. Because of the loss of steam pressure, production quantities were lowered during this quarter. The new boilers were fully installed and inspected by the government in January 2011 and were placed in production.

As a partial remedy for the lost production, starting in August 2010 the Company entered into four offset printing paper supply agreements and one corrugating medium paper supply agreement with paper manufacturers in Hebei Province and the neighboring Shandong province (the "Supply Agreements"). These paper Supply Agreements are all effective through the end of year 2010. During year 2010, revenue generated from sales of corrugating medium paper finished goods purchased from these vendors pursuant to the Supply Agreements was in the amount of $1,072,469 (or 3,314 tons), representing 3.07% of annual sales revenue of corrugating medium paper in the year of 2010.

Revenue from medium-grade offset printing paper amounted to $83,923,667 (or 70.61% of total offset printing paper and corrugating medium paper revenue) for the year ended December 31, 2010, which represents a $47,735,436 (or 131.91%) increase over the medium-grade offset printing paper revenue of $36,188,231 for the comparable period in 2009. Since the fourth quarter of 2009, our only white paper-based product has been medium-grade offset printing paper. As such, though we sold high-grade offset printing paper (which uses wood pulp as a raw material) in year 2009, there were no sales of high-grade offset printing paper or writing paper in the entire year of 2010. We sold 112,900 tons of medium-grade offset printing paper in the year 2010 compared to 53,540 tons of medium-grade offset printing paper in the year 2009, an increase of 59,360 tons or 110.87%. Total white paper (high and medium-grade, plus writing paper and white card paper) sold in the year 2010 amounted to 112,921 tons, or $83,943,596, versus 88,640 tons and $59,948,037 during the same period in 2009. While production and sales activities in the second half of 2010 were negatively impacted by the loss of two boilers, the factors contributing to the year 2010 net increase of $23,995,559 or 40.03% in total white paper sales revenue include (1) ASP for offset printing paper products increased from $676/ton in year 2009 to $743/ton in the year 2010, representing an annual increase of 9.91%, (2) the increase of production in the first half of year 2010 from the 2008 writing paper production line, which was converted to production of medium-grade offset printing paper in 2009, and (3) additional revenue from the sales of offset printing paper finished goods purchased from other paper manufacturers. Out of the total medium-grade offset printing paper sales revenue in year 2010, $12,961,311 (or 17,444 tons, or 15.44% of total medium-grade offset printing paper revenue) was attributable to sales of medium-grade offset printing paper finished goods purchased from other vendors pursuant to the above supply agreements.

The following is a chart showing the month-by-month ASPs (except for the ASPs of the digital photo paper) for the period of 24 months ended December 31, 2010:

Monthly sales revenue, including revenue from the sales of purchased paper finished goods and excluding revenue of digital photo paper, for the period of January through December 2010, are summarized below:

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Revenue of Digital Photo Paper

Since March 2010, we have started producing and selling digital photo paper. Revenue generated from selling digital photo paper was $5,131,420 (or 4.14% of total revenue) for the period from inception to December 31, 2010:

	Ten Months Ended December 31, 2010		Year Ended December 31, 2009		Change in		Percentage Change	
Sales Revenue	Qty.(Ton)	Amount	Qty.(Ton)	Amount	Qty.(Ton)	Amount	Qty.(Ton)	Amount
Digital Photo Paper	1,039.50	$5,131,420	-	$ -	1,039.50	$5,131,420	n/a	n/a

During the second quarter of year 2010, the Company made a decision to significantly lower the ASP across the board for all digital photo paper products to make the pricing of our digital photo paper products more competitive. We currently produce glossy and semi-matte photo papers in various weights (from 120g/m 2 to 260g/m 2). As a result of the aggressive pricing in different product structure, which lowered the ASP from $12,365/ton in April 2010 to $4,293/ton in December 2010, monthly sales quantity increased from 29 tons and 39 tons in the months of April and May of 2010 to 196 tons in December 2010.

Digital photo paper products' monthly ASPs, monthly sales quantity (in tons) and monthly sales for the period from inception to December 31, 2010 are summarized as follows:

Cost of Sales

Total cost of sales (excluding cost of sales of digital photo paper, which was not produced and sold until March 2010) for the year ended December 31, 2010 was $94,905,625, an increase of $12,798,094 or 15.59% from $82,107,531 for the comparable period in 2009. The increase in total cost of sales in year 2010 is primarily due to the net increased sales revenue in the year relative to the revenue in 2009. As explained above, total sales revenue (excluding revenue from sales of digital photo paper) grew from $102,142,828 in year 2009 to $118,858,497 in year 2010, representing a 16.36% year-over-year increase. Despite a decrease in tonnage of corrugating medium and offset printing paper products sold in year 2010 relative to tonnage sold in year 2009, cost of sales of corrugating medium and offset printing paper per unit became higher in year 2010 than in year 2009 because of (1) the higher unit cost (and therefore, lower sales mark-up) for the sales of finished goods products purchased from other paper manufacturers under the Supply Agreements, and (2) the inflated market costs of raw materials and energy in year 2010 as opposed to year 2009.

Monthly average purchase costs of our major raw materials for the period of January 2009 through December 2010 are as follows:

Except for the purchase cost of recycled paper board, which market price fluctuates depending on various economic factors, costs for the other types of raw materials in the two-year period ended December 31, 2010 were on an upward trend and reached the highest point over the period toward the end of year 2010. We believe that all of the raw material prices will either remain stable or fluctuate slightly in the next few periods.

Electricity and coal are the two main sources of energy for our paper manufacturing activities. Coal prices have been subject to seasonal fluctuations in China, with peaks often occurring in the winter months. Historically, electricity and coal account for approximately 11% and 10% of our total cost of sales, or approximately 9% and 8% of total sales, respectively. The monthly energy costs (electricity and coal) as a percentage of total monthly cost of sales (excluding the cost of sales purchased from other paper product suppliers and not manufactured by us in year 2010) of our main paper products for the two years ended December 31, 2010 are summarized as follows:

The total cost of sales of digital photo paper amounted to $2,908,690 for the period from inception to December 31, 2010.

Gross Profit

Gross profit for corrugating medium paper and offset printing paper for the year ended December 31, 2010 was $23,952,872, a net increase of $3,917,575 or 19.55% from $20,035,297 for the comparable period in 2009. The net increase in gross profit was primarily attributable to various factors affecting the production activities and sales revenue in the year of 2010, including the rise in product ASPs and the utilization of the writing paper machine that was converted to produce medium grade offset printing paper, offset by the interruption in production for the loss of two boilers in the second half of year 2010. The overall gross profit margin for corrugating medium paper and offset printing paper for the year ended December 31, 2010 increased slightly by 0.54%, from 19.61% a year ago to 20.15%, because of reasons discussed above, offset by the substantially lower gross profit margins of the sales of the purchased finished good products. Gross profit margins for the purchased finished good of corrugating medium paper and offset printing paper during the year ended December 31, 2010 were 14.29% and 6.28%, respectively. Overall annual gross profit margins for corrugating medium paper and offset printing paper (including those contributed by sales of purchased finished goods) for the year ended December 31, 2010 were 20.68% and 19.93%, respectively.

Gross profit from the sales of digital photo paper for the year ended December 31, 2010 amounted to $2,222,730, or 43.32% as a percentage to total digital photo paper sales.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the year ended December 31, 2010 were $3,074,256, an increase of $1,045,055 or 51.50% from $2,029,201 for the comparable period in 2009. The increase was primarily attributable to payments of various professional service fees, investor relations, regulatory fees and, more specifically, legal and accounting fees incurred in connection with the independent investigation into certain allegations against the Company during the second half of year 2010 (for more information refer to “Item 4 – Legal Proceedings” and notes to consolidated financial statements). As of December 31, 2010, total expenses incurred or accrued for the independent investigation and legal defense cost amounted to $1,041,452.

Income from Operations

Operating income for the year ended December 31, 2010 was $21,985,984, an increase of $3,979,888 or 22.10% from $18,006,096 for the comparable period in 2009. The increase was primarily attributable to the increase in sales and gross profit of our corrugating medium paper and medium-grade offset printing paper products as explained above, as well as the additional operating income in the amount of $2,151,281 from the digital photo paper operations since March 2010.

Net Income

Net income was $15,551,536 for the year ended December 31, 2010, an increase of $2,831,328 or 22.26% from $12,720,208 for the comparable period in 2009. The increase was primarily attributable to the increased sales revenue and gross profit and accretive net income from the digital photo paper operations, offset by the increased legal and accounting expenses during the second half of the year ended December 31, 2010.

Accounts Receivable

Accounts receivable and trade notes receivable increased slightly by $90,916 (or 4.42%) to $2,147,774 (including notes receivable in the amount of $308,539) as of December 31, 2010, compared with $2,056,858 as of December 31, 2009. We usually collect accounts receivable within 30 days of delivery and completion of sales. Accounts receivable turnover, based on average accounts receivable using balances at the beginning and ending dates of the year and annual sales revenue for the entire year of 2010, increased from 58.66 times in year 2009 to 63.65 times in year 2010, while days in accounts receivable decreased from 6.22 days in year 2009 to 5.73 days in year 2010. We, similar to many other Chinese business enterprises, tend to accelerate receivable collection toward the end of the calendar year to prepare for the upcoming Chinese new year holidays. Therefore, accounts receivable (and to a certain extent, the accounts payable balance) usually appear lower than the balance during the rest of the year. Alternatively, accounts receivable turnover calculated using the average quarterly ending balances (at the end of first, second, and third quarter) of year 2010 was 33.93 times with days in accounts receivable at 10.76 days (with comparable accounts receivable turnover and days in accounts receivable being 38.79 times and 9.41 days for the year ended December 31, 2009). We usually collect the accounts receivable within 30 days of delivery and completion of sales.

Inventory

Inventory consists of raw materials (accounting for 91.73% of total value of ending inventory as of December 31, 2010) and finished goods. As of December 31, 2010, the recorded value of our inventory has increased 7.16% to $7,422,518 from $6,926,392 as of December 31, 2009. A summary of changes in major inventory items is as follows:

	December 31, 2010	December 31, 2009	$ Change	% Change
Raw Materials				
Recycled paper board	$ 3,807,678	$ 2,301,282	$1,506,396	65.46 %
Pulp	13,180	12,744	436	3.42 %
Recycled printed paper	593,604	533,771	59,833	11.21 %
Recycled white scrap paper	801,783	1,731,170	(929,387)	(53.69)%
Coal	1,441,082	1,704,905	(263,823)	(15.47)%
Digital photo base paper and other raw materials	151,269	36,801	114,468	311.05 %
Total Raw Materials	6,808,596	6,320,673	487,923	7.72 %
Finished Goods	613,922	605,719	8,203	1.35 %
Totals	$ 7,422,518	$ 6,926,392	496,126	7.16 %

To prepare for the launch of the new 360,000 tons corrugating medium paper production line, we have begun to purchase more recycled paper boards during the fourth quarter of year 2010. Although our purchase price of recycled white scrap paper increased substantially in December 2010 for approximately 20% as compared to the beginning of the year, we anticipate the price hike to be temporary and have not replenished the recycled white scrap paper at the level similar to the end of 2009. Because of the increase in ending inventory at the end of year 2010, inventory turnover of all items of inventory of the Company decreased from 16.85 times during the year 2009 to 13.63 times in the year 2010. Number of days in inventory increased from 21.72 days in year 2009 to 26.77 days for the year ended December 31, 2010.

Accounts Payable

Accounts payable (excluding non-inventory purchase payables and accrued expenses) was $413,468 as of December 31, 2010, a decrease of $1,405,980 or 77.28% from that as of December 31, 2009. The accounts payable balance decreased because, among other things and as explained above under the analysis of inventory, we purchased large quantities of recycled paper boards in November 2010 but purchased no recycled paper board in the following month of December. The large November payable balance was mostly paid down as of December 31, 2010.

Liquidity and Capital Resources

Overview

As of December 31, 2011 we had net working capital of $11,323,716, an increase of $1,975,790 over net working capital of $9,347,926 at December 31, 2010.

The Company finances its daily operations mainly by cash flows generated from its business operations and loans from banking institutions and major shareholders. Major capital expenditures in the year of 2011 were primarily financed by cash flows generated from business operations. As of December 31, 2011 we had approximately $114,919 in capital expenditure commitments that were mainly related to the remaining unbilled construction cost of a new corrugating medium paper production line and will be satisfied by payment of cash within the next 12 months. In addition to the binding contracts that we have entered into, we are considering capital expenditure plans with estimated costs of up to $10 million in the year of 2012. These plans include building 2 new production lines of tissue paper that has the capacity of producing 20,000 ton of tissue paper per year on the land we are acquiring, if we successfully acquire the land.

Within the next 3 months we also intend to complete the acquisition of land that was originally approved by the government for some 667,000 square meters. If the entire 667,000 square meters was acquired at the unit price offered as of June 2010, the acquisition would cost approximately $14,500,000 in financial compensation to current land owners and in land use rights from the government. However, similar to many other recent land acquisition transactions in China, the acquisition process has met significant opposition by some local residents. These opposing local residents hold various objections to the terms of the acquisition and amount of compensation that we offer. While the provincial and local governments are fully supportive for the proposed acquisition, it has been a recent trend in China that eminent domain not be exercised under such circumstances for fear of civil unrest. Under these circumstances, we are evaluating the options of (1) acquiring only a portion of the square footage as originally planned, (2) possibly raising the unit price of our compensation offer, or (3) withdrawing from the transaction and seeking other locations following a full refund of the security deposit put down on the 667,000 square meters land plot. As of December 31, 2011, we have pre-paid a security deposit of $7,241,472 to the local village council toward the purchase of the land and have taken possession of some 80,040 square meters of land. We expect to consummate a partial closing of an additional 30,015 square meters during the second quarter of year 2012 and to start the second phase of the acquisition, which involves the application and securing of the land use rights permit.

If we are able to obtain a significant portion of the 667,000 square meters, we expect to finance the acquisition with our working capital, net cash inflows generated from business operations in 2012, and if necessary, loans from local banks. We do not have any firm commitment from the local banks with respect to new credit facilities in addition to all current bank borrowings, which aggregated to approximately $8,524,471 as of December 31, 2011. However, based on the present loan to equity ratio (which is less than 14% as of December 31, 2011), we do not believe the Company will have problem securing additional bank loans as needed, unless the macroeconomic condition in China changes (e.g. government policies tighten bank credit facilities as a tool to control inflation).

The Company currently does not have any plan for equity financing in the next 12 months.

Cash and Cash Equivalents

Our cash and cash equivalents as of December 31, 2011 was $4,165,446, a decrease of $7,182,662 from $11,348,108 as of December 31, 2010. The decrease in year 2011 was primarily attributable to a number of factors, including the following:

i. Net cash provided by operating activities

Net cash provided by operating activities was $18,630,049 for the year ended December 31, 2011, representing a decrease of $1,729,689 or 8.5% from $20,359,738 for the previous year. The net income for the year ended December

31, 2011 in the amount of $21,648,664 represented an increase of $6,097,128 or 39.21% from $15,551,536 for the previous year in 2010. In addition to net income, there are certain non-cash charges (including depreciation in the amount of $4,424,531) that reduced the net income but did not have the effect of reducing the balance of cash and cash equivalents. Except for the increase in ending accounts payable balance, which provide an increase to net cash flow from operating activities, the increase in accounts receivable balances in the amount of $1,597,193, an increase in inventory for $2,246,090, an increase in prepayments (mainly due to the large recoverable VAT associated with the payments for the construction cost of our new production line) in the amount of $4,803,656, and a decrease in other payables and accrued liabilities for $1,402,290 contributed to additional cash outflows from the cash collected from operating activities.

ii. Net cash used in investing activities

The Company incurred $27,451,405 in cash expenditures for investing activities during the year ended December 31, 2011. These expenditures were mainly for the purchases of new equipment and progress payments for the construction of a new corrugating medium paper production line and ancillary facilities. The total contract price (including related VAT) for the new corrugating medium paper production equipment, which has an annual capacity of 360,000 tons, is $30,713,285, of which only $15,742 was unpaid as of December 31, 2011.In addition, cost (including related VAT) of other ancillary facilities for the new corrugating medium paper production line amounted to $36,603,612. Such ancillary facilities include, among other things, a new pulping station (for a total cost of approximately $3,620,736) and water treatment plant (for a total cost of approximately $3,764,337). We expect to finance any future capital expenditure commitment with (1) our current cash and cash equivalent balance of approximately $4.2 million, (2) cash flows from operating activities in the next twelve months, and (3) additional bank loans or capital leases, if necessary.

The Company made an $11,964,170 land acquisition deposit payment to the local resident's council in June 2010. The local resident's council is in charge of the reimbursement and relocation of the residents who occupied the parcel of subject land prior to our interest in acquisition of that land. Unsatisfied with the slow progress of the acquisition, we demanded partial returns of the deposit from the local resident village council in December 2010 and received two refunds in the total amount of $4,722,699. In addition to the remaining deposit, to complete the land acquisition at the price we offered as of June 2010, we estimate that the entire land acquisition process will require an additional amount of approximately $14,500,000 (based on an estimated total average cost of approximately $31.78 per square meter) of cash payment in the next nine to twelve months. We expect to pay this amount using future cash flows generated by our operating activities. As explained above, if we are unable to acquire and close the transaction for at least a meaningful portion of the subject land in the next three months, we may demand the full refund of our deposit from the local resident village council.

iii. Net cash provided by financing activities

Net cash provided by financing activities was $1,496,791 for the year ended December 31, 2011, as compared to $25,091,542 for the previous year. During the year ended December 31, 2011, the company paid off the principal balance and accrued interest of (1) the RMB 13,000,000 (approximately $1,966,182 at December 31, 2010) short-term loan from the Industrial & Commercial Bank of China ("ICBC") on the renewal date of January 11, 2011, (2) the RMB 13,280,000 ($2,008,530 at December 31, 2010) long-term loan from the Rural Credit Cooperative of Xushui County, and (3) on July 19, 2011, the RMB 6,000,000 ($907,468 at December 31, 2010) accounts receivable factoring facility from ICBC when the loan becomes due. The Company also obtained new financing facilities during the year ended December 31, 2011, including: (1) a short-term accounts receivable factoring facility for RMB 13,000,000 ($2,046,503 at December 31, 2011) with the ICBC, (2) a three-year term loan for RMB 9,850,000 ($1,550,619 at December 31, 2011) with Xushui County Rural Credit Union, (3) a two-year term loan for RMB 26,300,000 ($4,140,233 at December 31, 2011), also with Xushui County Rural Credit Union, and (4) a new ICBC accounts receivable factoring facility in the amount of RMB 5,000,000 ($787,116 at December 31, 2011) for a term of one year.

Short-term bank loans

		December 31, 2011	December 31, 2010
Industrial & Commercial Bank of China	(a)	$ -	$ 1,966,182
Industrial & Commercial Bank of China	(b)	-	907,468
Industrial & Commercial Bank of China	(c)	2,046,503	-
Industrial & Commercial Bank of China	(d)	787,116	
Total short-term bank loans		$ 2,833,619	$ 2,873,650

(a) During year 2009 and up to May 2010, the Industrial & Commercial Bank of China provided two loans, which were secured by certain manufacturing equipment of the Company. The Company paid off one of the loans in May 2010. The remaining loan balance was in the amount of $1,966,182 as of December 31, 2010. The interest was payable monthly at the fixed rate of 5.841% per annum for the remaining loan, which was due and paid off at maturity on January 11, 2011.

(b) On July 28, 2010, the Company obtained from the Industrial & Commercial Bank of China a new accounts receivable factoring facility with a maximum credit limit of $907,468 as of December 31, 2010. Under the factoring agreement, the bank has recourse against the Company if the receivables, which remain in the Company's books at all times, are not fully collected. The term of the factoring facility expired on July 18, 2011 and carried an interest rate of 5.31% per annum. The Company paid off the outstanding factoring facility balance on July 19, 2011.

(c) On March 16, 2011, the Company obtained from the Industrial & Commercial Bank of China another accounts receivable factoring facility with a maximum credit limit of $2,046,503 as of December 31, 2011. Under the factoring agreement, the bank has recourse against the Company if the receivables, which remain in the Company's books at all times, are not fully collected. The term of the factoring facility expires on February 27, 2012 and carries an interest rate of 6.4236% per annum, which is 106% of the prime rate for the loan set forth by the People's Bank of China at the time of funding.

(d) On August 18, 2011, the Company obtained from the Industrial & Commercial Bank of China a new accounts receivable factoring facility with a maximum credit limit of $787,116 as of December 31, 2011. Under the factoring agreement, the bank has recourse against the Company if the receivables, which remain in the Company's books at all times, are not fully collected. The term of the factoring facility expires on August 15, 2012 and carries an interest rate of 8.528% per annum.

As of December 31, 2011 and December 31, 2010, short-term borrowings were $2,833,619 and $2,873,650, respectively, and no unsecured bank loans. The factoring facility was secured by essentially all of the Company's accounts receivable in the amount of $3,956,948 and $1,064,187 as of December 31, 2011 and December 31, 2010, respectively.

As of December 31, 2011 and December 31, 2010, the Company had no unutilized credit facility with the banks. The average short-term borrowing rates for the year ended December 31, 2011 and 2010 were approximately 6.38% and 5.76%, respectively.

Long-term loan from credit unions

As of December 31, 2010, loan payable to Rural Credit Cooperative of Xushui County, amounted to $2,008,530. The loan is guaranteed by an unrelated third party company. The entire principal of the loan as of December 31, 2010 was due and payable at maturity on September 16, 2011 and thus the entire principal amount was reclassified as current portion of long-term loan and recorded under current liabilities as of December 31, 2010. Interest is paid monthly at the rate of 0.774% per month.

On March 31, 2011, the Company prepaid the entire principal and accrued interest of the Rural Credit Cooperative of Xushui County loan and entered into a new three-year term loan agreement with Xushui County Rural Credit Union for $1,550,619. The new loan is guaranteed by an independent third party. Interest payment is due quarterly and bears the rate of 0.72% per month.

On June 10, 2011, the Company entered into a new term loan agreement with the Xushui County Rural Credit Union for $4,140,233. The new loan is secured by its manufacturing equipment of $10,646,244 and will mature on June 9, 2013. Interest payment is due quarterly and bears the rate of 0.72% per month.

Total interest expenses for the short-term bank loans and long-terms loan for the years ended December 31, 2011 and 2010 were $495,978 and $390,458, respectively.

Related Party Transactions

Mr. Zhenyong Liu is the director, principal stockholder and chief executive officer of the Company. He loaned money to HBOP for working capital purposes over a period of time. On August 31, 2009, Orient Paper, HBOP, and Mr. Liu entered into a tri-party Debt Assignment and Assumption Agreement, under which Orient Paper agreed to assume the loan of $4,000,000 due from HBOP to Mr. Liu. Concurrently, Orient Paper issued 1,204,341 shares of restricted common stock to Mr. Liu at the market price of $3.32132 per share. As of December 31, 2011 and 2010, net amount due to Mr. Liu were $2,299,311 and $2,209,068, respectively.

The loan of Mr. Liu is interest bearing and the interest rate is equal to the rate established by the People's Bank of China, which was 5.85% and 5.85% per annum as of December 31, 2011 and 2010. The term is for 3 years and starts from January 1, 2010.

On August 1 and August 5, 2008, two members of the Board of Directors of HBOP loaned money to the Company for working capital purposes. The amounts owed bear interest equals the rate established by the People's bank of China and are due on July 31 and August 4, 2011, respectively. As of December 31, 2010, the total loan amount payable was $2,041,804 to HBOP. The Company paid off the loan balance to both directors of HBOP by August 4, 2011. The interest rate for the year ended December 31, 2011 and 2010 was 5.85% and 5.85% per annum, respectively.

The interest expenses incurred for above related party loans are $203,914 and $242,552 for the years ended December 31, 2011 and 2010.

On February 5, 2010, the Company borrowed $200,000 from a shareholder to pay for various expenses incurred in the U.S. The amount is repayable on demand with interest free. The Company repaid the entire balance on April 14, 2010.

On November 30, 2011, the Company borrowed $200,000 from a shareholder to pay for various expenses incurred in the U.S. The amount is repayable on demand with interest free. The Company repaid the entire balance on January 4, 2012.

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Critical Accounting Policies and Estimates

The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States, which require us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Management makes these estimates using the best information available at the time the estimates are made. However, actual results could differ materially from those estimates. The most critical accounting policies are listed below:

Revenue Recognition Policy

The Company recognizes revenue when goods are delivered and a formal arrangement exists, the price is fixed or determinable, the delivery is completed, no other significant obligations of the Company exist, and collectability is reasonably assured. Goods are considered delivered when the customer's truck picks up goods at our finished goods inventory warehouse.

Long-Lived Assets

The Company evaluates the recoverability of long-lived assets and the related estimated remaining useful lives when events or circumstances lead management to believe that the carrying value of an asset may not be recoverable and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. In such circumstances, those assets are written down to estimated fair value. Our judgments regarding the existence of impairment indicators are based on market conditions, assumptions for operational performance of our businesses, and possible government policy toward operating efficiency of the Chinese paper manufacturing industry. For the years ended December 31, 2011 and 2010, no events or circumstances occurred for which an evaluation of the recoverability of long-lived assets was required. We are currently not aware of any events or circumstances that may indicate any need to record such impairment in the future.

Foreign Currency Translation

The functional currency of HBOP and Baoding Shengde is the Chinese Yuan Renminbi ("RMB"). Under ASC Topic 830-30, all assets and liabilities are translated into United States dollars using the current exchange rate at the end of each fiscal period. The current exchange rates used by the Company as of December 31, 2011 and 2010 to translate the Chinese RMB to the U.S. Dollars are 6.3523:1 and 6.61180:1, respectively. Revenues and expenses are translated using the prevailing average exchange rates at 6.4544:1, and 6.77875:1 for the years ended December 31, 2011 and 2010, respectively. Translation adjustments are included in other comprehensive income (loss).

Contractual Obligations and Off-Balance Sheet Arrangements

Contractual Obligations

We have certain fixed contractual obligations and commitments that include future estimated payments as of December 31, 2011. Changes in our business needs, cancellation provisions, changing interest rates, and other factors may result in actual payments differing from the estimates. We cannot provide certainty regarding the timing and amounts of payments. We have presented below a summary of the most significant assumptions used in our determination of amounts presented in the tables, in order to assist in the review of this information within the context of our financial position, results of operations, and cash flows.

	Payments Due by Period				
		Less than			More than
Contractual Obligations	Total	1 year	1 – 3 years	3 – 5 years	5 years
Debt Obligations	$11,834,359	$5,821,406	$6,012,953	$—	$—
Equipment and Construction Costs Commitment	4,860,965	4, 860,965	—	—	—
Operating Lease Obligations	377,816	18,891	37,782	37,782	283,361
Total	$17,073,140	$10,701,262	$6,050,735	$37,782	$283,361

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Incentive Stock Plan

On August 28, 2011, the Company's Annual General Meeting approved the 2011 Incentive Stock Plan (the "2011 ISP") as previously adopted by the Board of Directors on July 5, 2011. Under the 2011 ISP, the Company may grant an aggregate of 375,000 shares of the Company's common stock to the Company's directors, officers, employees or consultants. Specifically, the Board and/or the Compensation Committee have authority to (a) grant, in its discretion, Incentive Stock Options or Nonstatutory Options, Stock Awards or Restricted Stock Purchase Offers; (b) determine in good faith the fair market value of the stock covered by any grant; (c) determine which eligible persons shall receive grants and the number of shares, restrictions, terms and conditions to be included in such grants; and (d) make all other determinations necessary or advisable for the 2011 ISP's administration. No stock or option was issued under the 2011 ISP until January 11, 2012, when the Compensation Committee granted 109,584 shares of restricted common stock to certain officers and directors of the Company.

Off Balance Sheet Arrangements

None.

Recent Accounting Pronouncements

In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, which is a new accounting guidance to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. The guidance changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements. This guidance is effective for the Company's fiscal year beginning January 1, 2012. The Company is currently evaluating the impact of this guidance but believes the adoption of it will have no material effect on our consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income, which is a new guidance on the presentation of comprehensive income that will require a company to present components of net income and other comprehensive income in one continuous statement or in two separate, but consecutive statements. There are no changes to the components that are recognized in net income or other comprehensive income under current GAAP. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011, with early adoption permitted. It is applicable to the Company's fiscal year beginning January 1, 2012. Currently, the Company evaluated the effect of ASU 2011-05 on its financial statements and has concluded will not have a material impact on the Company's consolidated financial statements.

ASU 2011-05 was modified by the issuance of ASU 2011-12 - *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05* in December 2011, which indefinitely deferred certain provisions of ASU 2011-05, including the requirement to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement in which net income is presented and the statement in which other comprehensive income is presented. This amendment is effective for both annual and interim financial statements beginning after December 15, 2011. The Company believes that its adoption of ASU 2011-12 will not have any material impact on its consolidated financial statements.

In December 2011, the FASB issued ASU 2011-11 - *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*, which requires entities to disclose both gross and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting agreement. The objective of the disclosure is to facilitate comparison between those entities that prepare their financial statements on the basis of U.S. GAAP and those entities that prepare their financial statements on the basis of International Financial Reporting Standards ("IFRS"). This ASU is effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. Retrospective presentation for all comparative periods presented is required. The Company’s adoption of ASU 2011-11 is not expected to have a material impact on its consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Foreign Exchange Risk

While our reporting currency is the US dollar, almost all of our consolidated revenues and consolidated costs and expenses are denominated in RMB. All of our assets are denominated in RMB except for some cash and cash equivalents and accounts receivables. As a result, we are exposed to foreign exchange risk as our revenues and results of operations may be affected by fluctuations in the exchange rate between US dollar and RMB. If the RMB depreciates against the US dollar, the value of our RMB revenues, earnings and assets as expressed in our US dollar financial statements will decline. We have not entered into any hedging transactions in an effort to reduce our exposure to foreign exchange risk.

Inflation

Although we are generally able to pass along minor incremental cost inflation to our customers, inflationary factors such as increases in the costs of our products and overhead costs may adversely affect our operating results. We do not believe that inflation in China has had a material impact on our financial position or results of operations to date, a high rate of inflation in the future may have an adverse effect on our ability to maintain current levels of gross margin and selling and distribution, general and administrative expenses as a percentage of net revenues if the selling prices of our products do not increase to cope with these increased costs.

Item 8. Financial Statements and Supplementary Data

Our audited financial statements for the fiscal years ended December 31, 2011 and 2010, together with the report of the independent certified public accounting firms thereon and the notes thereto, are presented beginning at page F-1.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Orient Paper, Inc.

We have audited the accompanying consolidated balance sheet of Orient Paper, Inc. (the "Company") as of December 31, 2011 and the related consolidated statements of income and comprehensive income, stockholders' equity, and cash flows for the then year ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2011, and the results of its operations and its cash flows for the year then ended**,** in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 15, 2012 expressed an unqualified opinion thereon.

/s/ BDO China Shu Lun Pan Certified Public Accountants LLP

Shenzhen, the People's Republic of China

March 15, 2012

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Orient Paper, Inc.

We have audited the accompanying consolidated balance sheet of Orient Paper, Inc. ("the Company") as of December 31, 2010 and the related consolidated statements of income and comprehensive income, stockholders' equity and cash flows for the years ended December 31, 2010 and 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2010 and the results of its operations and its cash flows for the years ended December 31, 2010 and 2009, in conformity with accounting principles generally accepted in the United States of America.

/s/ BDO Limited

Hong Kong, March 15, 2011

ORIENT PAPER, INC.

CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2011 AND 2010

	December 31, 2011	December 31, 2010
ASSETS		
Current Assets		
Cash and cash equivalents	$4,165,446	$11,348,108
Notes receivable	-	308,539
Accounts receivable (net of allowance for doubtful accounts of $76,752 and $37,535 as of December 31, 2011 and December 31, 2010, respectively)	3,820,696	1,839,235
Inventories	10,007,928	7,422,518
Prepayments and other current assets	5,071,215	184,723
Total current assets	23,065,285	21,103,123
Prepayment on property, plant and equipment	7,241,472	6,957,258
Property, Plant, and Equipment, net	114,651,107	87,445,960
Total Assets	$144,957,864	$115,506,341
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Short-term bank loans	$2,833,619	$2,873,650
Current portion of long-term debt	-	2,008,530
Loan from related parties	2,499,312	2,041,804
Accounts payable	2,766,554	413,468
Accrued payroll and employee benefits	308,290	336,932
Other payables and accrued liabilities	1,589,541	2,363,686
Income taxes payable	1,744,253	1,717,127
Total current liabilities	11,741,569	11,755,197
Loan from credit union	5,690,852	-
Loan from related parties	-	2,209,068
Total liabilities	17,432,421	13,964,265
Commitments and Contingencies		
Stockholders' Equity		

Common stock, 500,000,000 shares authorized, $0.001 par value per share, 18,350,191 and 18,344,811 shares issued and outstanding as of December 31, 2011 and 2010, respectively	18,350	18,345
Additional paid-in capital	45,758,020	45,727,656
Statutory earnings reserve	5,863,442	5,661,587
Accumulated other comprehensive income	11,442,567	7,138,233
Retained earnings	64,443,064	42,996,255
Total stockholders' equity	127,525,443	101,542,076
Total Liabilities and Stockholders' Equity	$144,957,864	$115,506,341

See accompanying notes to consolidated financial statements.

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ORIENT PAPER, INC.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

	Year Ended December 31, 2011	2010	2009
Revenues	$150,747,316	$123,989,917	$102,142,828
Cost of Sales	(117,797,241)	(97,814,315)	(82,107,531)
Gross Profit	32,950,075	26,175,602	20,035,297
Selling, General and Administrative Expenses	(2,517,530)	(3,074,256)	(2,029,201)
Loss from Disposal of Property, Plant and Equipment	(321,200)	(1,115,362)	-
Income from Operations	30,111,345	21,985,984	18,006,096
Other Income (Expense):			
Interest income	36,437	163,183	108,610
Interest expense	(699,892)	(633,010)	(728,429)
Income before Income Taxes	29,447,890	21,516,157	17,386,277
Provision for Income Taxes	(7,799,226)	(5,964,621)	(4,666,069)
Net Income	21,648,664	15,551,536	12,720,208
Other Comprehensive Income:			
Foreign currency translation adjustment	4,304,334	3,159,472	(108,534)
Total Comprehensive Income	$25,952,998	$18,711,008	$12,611,674
Earnings Per Share:			
Basic Earnings per Share	$1.18	$0.89	$1.04
Fully Diluted Earnings per Share	$1.18	$0.89	$1.04
Weighted Average Number of Shares			
Outstanding - Basic	18,349,332	17,435,218	12,221,782
Outstanding - Fully Diluted	18,349,332	17,436,246	12,232,878

See accompanying notes to consolidated financial statements.

ORIENT PAPER, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

	Common Stock		Additional Paid-in	Statutory Earnings	Accumulated Other Comprehensive	Retained	
	Shares	Amount	Capital	Reserve	Income	Earnings	Total
Balance at December 31, 2008	11,275,497	$11,275	$9,598,944	$3,079,063	$4,092,839	$17,307,035	$34,089,156
Employee stock compensation	15,250	16	82,860	-	-	-	82,876
Common stock issued for services	297,294	297	361,914	-	-	-	362,211
Issuance of common stock to a director	1,204,340	1,205	3,998,795	-	-	-	4,000,000
Issuance of common stock for cash	2,083,333	2,083	4,896,766	-	-	-	4,898,849
Warrants issued for services	-	-	230,190	-	-	-	230,190
Foreign currency translation adjustment	-	-	-	-	(108,534)	-	(108,534)
Transfer to statutory earnings reserve	-	-	-	1,363,387	-	(1,363,387)	-
Net income for the year of 2009	-	-	-	-	-	12,720,208	12,720,208
Balance at December 31, 2009	14,875,714	$14,876	$19,169,469	$4,442,450	$3,984,305	$28,663,856	$56,274,956

Warrant issued for services	16,597	16	(30,048)	-	(5,544)	-	(35,576)
Issuance of common stock by public offering	3,450,000	3,450	26,566,711	-	-	-	26,570,161
Issuance of shares for officer services	2,500	3	21,524	-	-	-	21,527
Foreign currency translation adjustment	-	-	-	-	3,159,472	-	3,159,472
Transfer to statutory earnings reserve	-	-	-	1,219,137	-	(1,219,137)	-
Net income for the year of 2010	-	-	-	-	-	15,551,536	15,551,536
Balance at December 31, 2010	18,344,811	$18,345	$45,727,656	$5,661,587	$ 7,138,233	$42,996,255	$101,542,076
Issuance of shares to officer and directors	5,380	5	30,364	-	-	-	30,369
Foreign currency translation adjustment	-	-	-	-	4,304,334	-	4304,334
Transfer to statutory earnings reserve	-	-	-	201,855	-	(201,855)	-
Net income for the year of 2011	-	-	-	-	-	21,648,664	21,648,664
Balance at December 31, 2011	18,350,191	$18,350	$45,758,020	$5,863,442	$ 11,442,567	$64,443,064	$127,525,443

See accompanying notes to consolidated financial statements.

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ORIENT PAPER, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

	Year Ended December 31, 2011	2010	2009
Cash Flows from Operating Activities:			
Net income	$21,648,664	$15,551,536	$12,720,208
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	4,424,531	4,147,777	3,510,082
Loss from Disposition of property, plant and equipment	321,200	1,115,362	-
Allowance for bad debts	37,087	(5,728)	41,954
Stock-based expense for service received	30,369	101,046	560,182
Changes in operating assets and liabilities:			
Accounts and notes receivable	(1,597,193)	(14,557)	(676,861)
Prepayments and other current assets	(4,803,656)	138,782	(318,765)
Inventories	(2,246,090)	(253,598)	(4,111,602)
Accounts payable	2,299,240	(1,431,851)	1,818,470
Accrued payroll and employee benefits	(39,473)	56,246	43,710
Other payables and accrued liabilities	(1,402,290)	636,553	849,028
Income taxes payable	(42,340)	318,170	602,264
Net Cash Provided by Operating Activities	18,630,049	20,359,738	15,038,670
Cash Flows from Investing Activities:			
Prepayment/deposit for purchase of property, plant and equipment	(2,298,633)	(6,785,912)	-
Purchases of property, plant and equipment	(25,424,280)	(34,774,829)	(13,604,113)
Proceeds from disposal of property, plant and equipment	271,508	-	-
Net Cash Used in Investing Activities	(27,451,405)	(41,560,741)	(13,604,113)
Cash Flows from Financing Activities:			
Proceeds from related party loans	200,000	200,000	-
Repayment of related party loans	(2,091,596)	(200,000)	-
Proceeds from bank loans	8,389,626	885,119	-
Repayments of bank loans	(5,001,239)	(2,392,843)	(2,562,891)
Proceeds from issuing of common stock	-	26,570,161	4,898,849
Reclassification of restricted cash to cash and cash equivalents	-	29,105	(29,105)
Net Cash Provided by Financing Activities	1,496,791	25,091,542	2,306,853
Effect of Exchange Rate Changes on Cash and Cash Equivalents	141,903	507,616	(25,876)
Net (Decrease)/ Increase in Cash and Cash Equivalents	(7,182,662)	4,398,155	3,715,534

Cash and Cash Equivalents - Beginning of Period	11,348,108	6,949,953	3,234,419
Cash and Cash Equivalents - End of Period	$4,165,446	$11,348,108	$6,949,953
Supplemental Disclosure of Cash Flow Information:			
Cash paid for interest	$689,869	$390,458	$728,428
Cash paid for income taxes	$7,841,566	$5,592,563	$4,065,720
Supplemental Disclosure of significant non-cash transactions:			
Issuance of 1,204,340 shares of common stock to a director	-	-	4,000,000
Disposal of property, plant and equipment in lieu of payment for construction cost of a new plant	-	243,479	-
Issuance of warrants for consultancy services	-	79,521	115,093
Issuance of 297,294 shares of common stock for legal and consultancy services	-	-	362,211

See accompanying notes to consolidated financial statements.

ORIENT PAPER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Organization and Business Background

Orient Paper, Inc. ("Orient Paper" or "the Company") was incorporated under the laws of the State of Nevada on December 9, 2005, under the name of Carlateral, Inc. Carlateral, Inc. started its business by providing financing services specializing in subprime title loans, secured primarily using automobiles (and also boats, recreational vehicles, machinery, and other equipment) as collateral.

Hebei Baoding Orient Paper Milling Company Limited ("HBOP") was incorporated on March 10, 1996, under the laws of the People's Republic of China ("PRC"). HBOP is mainly engaged in the production and distribution of paper products such as corrugating medium paper, offset paper and writing paper. HBOP also has capability to produce other paper and packaging-related products, such as plastic paper and craft paper. HBOP uses recycled paper as its primary raw material.

Dongfang Zhiye Holding Limited ("Dongfang Holding") was formed on November 13, 2006, under the laws of the British Virgin Islands, and is an investment holding company. As such, Dongfang Holding does not generate any financial or operating transactions. On July 16, 2007, Dongfang Holding entered into an agreement to acquire the equity ownership of HBOP and placed all the equity interest in trust with Mr. Zhenyong Liu, Mr. Xiaodong Liu, and Mr. Shuangxi Zhao (the original equity owners of HBOP, each, an "HBOP Equity Owner" and collectively, "HBOP Equity Owners"), pursuant to a trust agreement executed on the same date. Under the terms of the trust agreement, the HBOP Equity Owners would exercise control over the disposition of Dongfang Holding's shares in HBOP on Dongfang Holding's behalf until Dongfang Holding successfully completed the change in registration of HBOP's capital with the relevant PRC Administration of Industry and Commerce as the 100% owner of HBOP's equity interest. In connection with the consummation of the restructuring transactions on June 24, 2009 as described below, Dongfang Holding directed its trustee to return its equity ownership in HBOP to the HBOP Equity Owners.

On October 29, 2007, Orient Paper entered into an Agreement and Plan of Merger ("Merger Agreement") with (i) Orient Paper wholly owned subsidiary, CARZ Merger Sub, Inc., (ii) Dongfang Holding, and (iii) all shareholders of Dongfang Holding (Zhenyong Liu, Xiaodong Liu, Chen Li, Ning Liu, Jie Liu, Shenzhen Huayin Guaranty & Investment Company Limited, Top Good International Limited, Total Giant Group Limited, Total Shine Group Limited, Victory High Investment Limited, Think Big Trading Limited, Huge Step Enterprises Limited, and Sure Believe Enterprise Limited).

Pursuant to the Merger Agreement, Dongfang Holding merged with CARZ Merger Sub, Inc. via a share exchange, with Dongfang Holding as the surviving entity. In exchange for their shares in Dongfang Holding, the Dongfang Holding shareholders received an aggregate of 7,450,497 newly-issued shares of Orient Paper's common stock, $0.001 par value, which were distributed pro ratably among the Dongfang Holding shareholders in accordance with their respective ownership interests in Dongfang Holding.

As a result of the merger transaction, Dongfang Holding became a wholly-owned subsidiary of Orient Paper, which, in turn, has the controlling right on Dongfang Holding's operating company, HBOP, pursuant to the terms of the trust agreement. HBOP, the entity through which the Company operates its business currently has no subsidiaries, either wholly- or partially-owned.

Prior to the completion of the reverse merger, Orient Paper only had limited operations (since its incorporation on December 9, 2005). On December 21, 2007, the name of the Company was changed from Carlateral, Inc. to Orient Paper, Inc. in order to better reflect the current business plan subsequent to the reverse merger. Accordingly, the reverse merge has been recorded as a recapitalization of Orient Paper.

ORIENT PAPER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

To ensure proper compliance of the Company’s control over the ownership and operations of HBOP with certain PRC regulations, on June 24, 2009, the Company entered into a series of contractual agreements (the “Contractual Agreements”) with HBOP and HBOP Equity Owners via the Company’s wholly owned subsidiary Shengde Holdings, Inc. (“Shengde Holdings”) a Nevada corporation and Baoding Shengde Paper Co., Ltd. (“Baoding Shengde”), a wholly foreign-owned enterprise in the PRC with an original registered capital of $10,000,000 (subsequently increased to $60,000,000 in June 2010). Baoding Shengde is mainly engaged in production and distribution of digital photo paper and is 100% owned by Shengde Holdings. Prior to February 10, 2010, the Contractual Agreements included (i) Exclusive Technical Service and Business Consulting Agreement, which generally provides that Baoding Shengde shall provide exclusive technical, business and management consulting services to HBOP, in exchange for service fees including a fee equivalent to 80% of HBOP’s total annual net profits; (ii) Loan Agreement, which provides that Baoding Shengde will make a loan in the aggregate principal amount of $10,000,000 to HBOP Equity Owners in exchange for each such shareholder agreeing to contribute all of its proceeds from the loan to the registered capital of HBOP; (iii) Call Option Agreement, which generally provides, among other things, that HBOP Equity Owners irrevocably grant to Baoding Shengde an option to purchase all or part of each owner’s equity interest in HBOP. The exercise price for the options shall be RMB1 which Baoding Shengde should pay to each of HBOP Equity Owner for all their equity interests in HBOP; (iv) Share Pledge Agreement, which provides that HBOP Equity Owners will pledge all of their equity interests in HBOP to Baoding Shengde as security for their obligations under the other agreements described in this section. Specifically, Baoding Shengde is entitled to dispose of the pledged equity interests in the event that HBOP Equity Owners breach their obligations under the Loan Agreement or HBOP fails to pay the service fees to Baoding Shengde pursuant to the Exclusive Technical Service and Business Consulting Agreement; and (v) Proxy Agreement, which provides that HBOP Equity Owners shall irrevocably entrust a designee of Baoding Shengde with such shareholder’s voting rights and the right to represent such shareholder to exercise such owner’s rights at any equity owners’ meeting of HBOP or with respect to any equity owner action to be taken in accordance with the laws and HBOP’s Articles of Association. The terms of the agreement are binding on the parties for as long as HBOP Equity Owners continue to hold any equity interest in HBOP. An HBOP Equity Owner will cease to be a party to the agreement once it transfers its equity interests with the prior approval of Baoding Shengde. As the Company had controlled HBOP since July 16, 2007 through Dongfang Holding and the trust until June 24, 2009, and continues to control HBOP through Baoding Shengde and the Contractual Agreements, the execution of the Contractual Agreements is considered as a business combination under common control.

On February 10, 2010, Baoding Shengde and the HBOP Equity Owners entered into a Termination of Loan Agreement to terminate the above $10,000,000 Loan Agreement. Because of the Company’s decision to fund future business expansions through Baoding Shengde instead of HBOP, the $10,000,000 loan contemplated was never made prior to the point of termination. The parties believe the termination of the Loan Agreement does not in itself compromise the effective control of the Company over HBOP and its businesses in the PRC.

An agreement was also entered into among Baoding Shengde, HBOP and the HBOP Equity Owners on December 31, 2010, reiterating that Baoding Shengde is entitled to 100% of the distributable profit of HBOP, pursuant to the above mentioned Contractual Agreements. In addition, HBOP and the HBOP Equity Owners shall not declare any of HBOP's unappropriated earnings as dividend, including the unappropriated earnings of HBOP from its establishment to 2010 and thereafter.

Orient Paper has no direct equity interest in HBOP. However, through the Contractual Agreements described above Orient Paper is found to be the primary beneficiary of HBOP and is deemed to have the effective control over HBOP's activities that most significantly affect its economic performance, resulting in HBOP being treated as a controlled variable interest entity of Orient Paper in accordance with Topic 810- *Consolidation* of the Accounting Standards Codification (the "ASC") issued by the Financial Accounting Standard Board (the "FASB"). The revenue of the Company generated from HBOP for the year ended December 31, 2011, 2010 and 2009 were 94.5%, 95.5% and 100%, respectively. HBOP also accounted for 68.2%, 79.6% and 81.0% of the total assets of the Company as at December 31, 2011, 2010 and 2009 respectively.

ORIENT PAPER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2011, and 2010, details of the Company's subsidiaries and variable interest entities are as follows:

Name	Date of Incorporation or Establishment	Place of Incorporation or Establishment	Percentage of Ownership		Principal Activity
Subsidiary:					
Dongfang Holding	November 13, 2006	BVI	100	%	Inactive investment holding
Shengde Holdings	February 25, 2009	State of Nevada	100	%	Investment holding
Baoding Shengde	June 1, 2009	PRC	100	%	Paper Production and distribution
Variable interest entity:					
HBOP	March 10, 1996	PRC	Control*		Paper Production and distribution

* HBOP is treated as a 100% controlled variable interest entity of the Company

(2) Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements of the Company are prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"), and include the assets, liabilities, revenues, expenses and cash flows of all subsidiaries and variable interest entities. All significant inter-company balances, transactions and cash flows are eliminated on consolidation.

Foreign Currency Translation

The Company accounts for foreign currency translation pursuant to ASC Topic 830, *Foreign Currency Matters*. The functional currency of HBOP and Baoding Shengde is the Chinese Yuan Renminbi ("RMB"). Monetary assets and liabilities denominated in currencies other than RMB are translated into RMB at the rates of exchange ruling at the balance sheet date. Transactions in currencies other than RMB are converted into RMB at the applicable rates of exchange prevailing the transactions occurred. Transaction gains and losses are recognized in the consolidated statements of income. The functional currency of Orient Paper, Dongfang Holding and Shengde Holdings is United States dollars. Monetary assets and liabilities denominated in currencies other than United States dollars are translated into United States dollars at the rates of exchange ruling at the balance sheet date. Translation in currencies other than United States dollars are converted into United States dollars at the applicable rates of exchange prevailing when the transactions occurred. Transaction gains or losses are recognized in the consolidated statement of income.

Under ASC Topic 830-30, all assets and liabilities are translated into United States dollars using the current exchange rate at the end of each fiscal period. The current exchange rates used by the Company as of December 31, 2011 and 2010 to translate the Chinese RMB to the U.S. Dollars are 6.35230:1,and 6.61180:1, respectively. Revenues and expenses are translated using the average exchange rates prevailing throughout the respective years at 6.45440:1, 6.77875:1 and 6.84088:1 for the years ended December 31, 2011, 2010 and 2009, respectively. Translation adjustments are included in other comprehensive income (loss).

Use of Estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of December 31, 2011 and 2010, and revenues and expenses for the years ended December 31, 2011, 2010 and 2009. The most significant estimates relate to allowance for uncollectible accounts receivable, inventory valuation, useful lives of property, plant and equipment, valuation allowance for deferred tax assets and contingencies. Actual results could differ from those estimates made by management.

ORIENT PAPER, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Cash and Cash Equivalents

For purposes of reporting within the statements of cash flows, Orient Paper considers all cash on hand, cash accounts not subject to withdrawal restrictions or penalties, and all highly liquid debt instruments purchased with a maturity of three months or less to be cash and cash equivalents.

Accounts Receivable

Trade accounts receivable are recorded on shipment of products to customers. The trade receivables are all without customer collateral and interest is not accrued on past due accounts. Periodically, management reviews the adequacy of its provision for doubtful accounts based on historical bad debt expense results and current economic conditions using factors based on the aging of its accounts receivable. Additionally, the Company may identify additional allowance requirements based on indications that a specific customer may be experiencing financial difficulties. Actual bad debt results could differ materially from these estimates. As of December 31, 2011 and 2010, the balance of allowance for doubtful accounts was $76,752 and $37,535, respectively; and the movement of the provision of the doubtful accounts is as below. While management uses the best information available upon which to base estimates, future adjustments to the allowance may be necessary if economic conditions differ substantially from the assumptions used for the purposes of analysis.

Allowance of doubtful accounts	December 31, 2011	December 31, 2010
Opening balance	$ 37,535	$ 41,977
Provision/ (Reversal of provision) for the year	37,087	(5,728)
Exchange difference	2,130	1,286
Closing balance	$ 76,752	$ 37,535

Inventories

Inventories consist principally of raw materials and finished goods, and are stated at the lower of cost (average cost method) or market. Cost includes labor, raw materials, and allocated overhead. No provision in inventories has been provided for the fiscal year 2011 and 2010.

Property, Plant, and Equipment

Property, plant, and equipment are stated at cost less accumulated depreciation and any impairment losses. Major renewals, betterments, and improvements are capitalized to the asset accounts while replacements, maintenance, and repairs, which do not improve or extend the lives of the respective assets, are expensed to operations. At the time property, plant, and equipment are retired or otherwise disposed of, the asset and related accumulated depreciation or amortization accounts are relieved of the applicable amounts. Gains or losses from retirements or sales are credited or charged to operations.

Construction-in-progress is stated at cost and capitalized as expenses are incurred or as payments are made pursuant to relevant construction contracts. Contract retention is recorded as accrued liability. Construction in progress is not depreciated until project completion and the constructed property being placed in service, at which time the capitalized balance will be transferred to appropriate account of property, plant and equipment.

The Company depreciates property, plant, and equipment using the straight-line method as follows:

Land use right	Over the lease term
Building and improvements	30 years
Machinery and equipment	5-15 years
Vehicles	15 years

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Fair Value of Financial Instruments

The Company estimates the fair value of financial instruments using the available market information and valuation methods. Considerable judgment is required in estimating fair value. Accordingly, the estimates of fair value may not be indicative of the amounts that the Company could realize in a current market exchange. As of December 31, 2011 and 2010, the carrying value of the Company's financial instruments approximated at their fair value.

Statutory Reserves

According to the laws and regulations in the PRC, the Company is required to provide for certain statutory funds, namely, reserve fund by an appropriation from net profit after taxation but before dividend distribution based on the local statutory financial statements of the PRC subsidiary and variable interest entity prepared in accordance with the PRC accounting principles and relevant financial regulations.

The Company's wholly owned subsidiary and variable interest entity in the PRC are required to allocate at least 10% of its net profit to the reserve fund until the balance of such fund has reached 50% of its registered capital. Appropriations of additional reserve fund are determined at the discretion of its directors. The reserve fund can only be used, upon approval by the relevant authority, to offset accumulated losses or increase capital.

For the years ended December 31, 2011, 2010 and 2009, Orient Paper made transfers to this reserve fund in the amounts of $201,855, $1,219,137 and $1,363,387, respectively. For the year ended December 31, 2011, all transfers to statutory reserves were made by Baoding Shengde. The Company's variable interest entity HBOP, which statutory reserve account has been fully funded for 50% of its registered capital in the amount of RMB 75,030,000 (or approximately $11,811,470) as of December 31, 2010, did not make any transfer to statutory reserves during the year ended December 31, 2011.

Employee Benefit Plan

Full time employees of the PRC entities participate in a government mandated multi-employer defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance and other welfare benefits are provided to employees. Chinese labor regulations require the Company to accrue for these benefits based on certain percentages of the employees' salaries. The total provision for such employee benefits was nil, nil and $29,283 for the years ended December 31, 2011, 2010 and 2009.

Revenue Recognition Policy

The Company recognizes revenue when goods are delivered, when a formal arrangement exists, the price is fixed or determinable, the delivery is completed, no other significant obligations of the Company exist, and collectability is reasonably assured. Goods are considered delivered when customer's truck picks up goods at our finished goods inventory warehouse.

Shipping Cost

Substantially all customers use their own trucks or hire commercial trucking companies to pick up goods from the Company. The Company usually incurs no shipping cost for delivery of goods to customers. For those rare situations where products are not shipped utilizing customer specified shipping services, the Company charges customers a shipping fee which is included in net revenues and was not material. Freight-in and handling costs incurred by the Company with respect to purchased goods are recorded as a component of inventory cost and charged to cost of sales when the inventory items are sold.

Advertising

The Company expenses all advertising and promotion costs as incurred. The Company incurred $6,818, $5,545 and $439 of advertising and promotion costs for the years ended December 31, 2011, 2010 and 2009, respectively.

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Research and development costs

Research and development costs are expensed as incurred and included in selling, general and administrative expenses. R&D expenses incurred $19,756, $18,233 and $30,546 for the years ended December 31, 2011, 2010 and 2009, respectively.

Borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalized as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalized. All other borrowing costs are recognized in interest expenses in the period in which they are incurred.

Lease Obligations

All non-cancellable leases with an initial term greater than one year are categorized as either capital or operating leases. Assets recorded under capital leases are amortized according to the same depreciation methods employed for property, plant and equipment or over the term of the related lease, if shorter.

Income Taxes

The Company accounts for income taxes pursuant to ASC Topic 740, Income Taxes. Income taxes are provided on an asset and liability approach for financial accounting and reporting of income taxes. Any tax paid by subsidiaries during the year is recorded. Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purpose and is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date. ASC Topic 740 also requires the recognition of deferred tax assets and liabilities for both the expected impact of differences between the financial statements and the tax basis of assets and liabilities, and for the expected future tax benefit to be derived from tax losses and tax credit carry-forwards. ASC Topic 740 additionally requires the establishment of a valuation allowance to reflect the likelihood of realization of deferred tax assets. Realization of deferred tax assets, including those related to the U.S. net operating loss carry-forwards, are dependent upon future earnings, if any, of which the timing and amount are uncertain.

The Company adopted ASC Topic 740-10-05, *Income Tax*, which provides guidance for recognizing and measuring uncertain tax positions, it prescribes a threshold condition that a tax position must meet for any of the benefits of the uncertain tax position to be recognized in the financial statements. It also provides accounting guidance on derecognizing, classification and disclosure of these uncertain tax positions.

The Company's policy on classification of all interest and penalties related to unrecognized income tax positions, if any, is to present them as a component of income tax expense.

Value Added Tax

Both the PRC subsidiary and variable interest entity of the Company are subject to value added tax ("VAT") imposed by the PRC government on its purchase and sales of goods. The output VAT is charged to customers who purchase goods from the Company and the input VAT is paid when it purchases goods from its vendors. VAT rate is 17% in general, depending on the types of products purchased and sold. The input VAT can be offset against the output VAT. Debit balance of VAT payable represents a credit against future collection of output VAT instead of a receivable.

Comprehensive Income (Loss)

The Company presents comprehensive income (loss) in accordance with ASC Topic 220, *Comprehensive Income*. ASC Topic 220 states that all items that are required to be recognized under accounting standards as components of comprehensive income (loss) be reported in the consolidated financial statements. The components of comprehensive income were the net income for the years and the foreign currency translation adjustments.

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Earnings Per Common Share

Basic earnings per share is computed by dividing the net income attributable to the common stockholders by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed similar to basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive.

Share-Based Compensation

The Company uses the fair value recognition provision of ASC Topic 718, *Compensation-Stock Compensation,* which requires the Company to expense the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of such instruments over the vesting period.

The Company also applies the provisions of ASC Topic 505-50, *Equity Based Payments to Non-Employees* to account for stock-based compensation awards issued to non-employees for services. Such awards for services are recorded at either the fair value of the consideration received or the fair value of the instruments issued in exchange for such services, whichever is more reliably measurable.

Fair Value Measurements

The Company has adopted ASC Topic 820, *Fair Value Measurements and Disclosures*, which defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. It does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information.

Its establishes a three-level valuation hierarchy of valuation techniques based on observable and unobservable inputs, which may be used to measure fair value and include the following:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Classification within the hierarchy is determined based on the lowest level of input that is significant to the fair value measurement.

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(3) Inventories

Raw materials inventory includes mainly recycled paper and coal. Finished goods include mainly products of offset printing paper and corrugating medium paper. Inventories consisted of the following as of December 31, 2011 and 2010:

	December 31, 2011	December 31, 2010
Raw Materials		
Recycled paper board	$ 5,645,449	$ 3,807,678
Pulp	13,718	13,180
Recycled printed paper	589,165	593,604
Recycled white scrap paper	1,918,545	801,783
Coal	661,891	1,441,082
Base paper and other raw materials	149,306	151,269
	8,978,074	6,808,596
Finished Goods	1,029,854	613,922
Totals	$ 10,007,928	$ 7,422,518

(4) Prepayment and other current assets

Prepayment and other current assets consisted of the following as of December 31, 2011 and 2010:

	December 31, 2011	December 31, 2010
Prepaid AMEX annual fee	$ 18,125	$ -
Recoverable VAT	4,776,962	-
Prepaid insurance	61,357	19,000
Prepayment for purchase of materials	206,930	158,848
Others	7,841	6,875
	$ 5,071,215	$ 184,723

(5) Prepayment on property, plant and equipment

As of December 31, 2011 and 2010, prepayment on property, plant and equipment consisted of $7,241,472 and $6,957,258, respectively in respect of prepaid land use right.

(6) Property, plant and equipment

As of December 31, 2011 and 2010, property, plant and equipment consisted of the following:

	December 31, 2011	December 31, 2010
Property, Plant, and Equipment:		
Land use rights	$2,358,862	$2,266,282
Building and improvements	11,145,342	7,283,466
Machinery and equipment	122,844,563	64,913,451
Vehicles	233,217	224,063
Construction in progress	2,335,579	32,316,540
	138,917,563	107,003,802
Less accumulated depreciation and amortization	(24,266,456)	(19,557,842)
Property, Plant and Equipment, net	$114,651,107	$87,445,960

Land use rights represent state-owned land located in China with lease terms of 50 years expiring in 2053.

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Construction in progress mainly represents payments for the staff dormitory and canteen under construction.

Property, plant and equipment with net values of $10,646,244 and $4,928,033 have been pledged for short-term bank loans of HBOP as of December 31, 2011 and 2010, respectively. Depreciation and amortization of property, plant and equipment was $4,424,531, $4,147,777 and $3,510,082 during the years ended December 31, 2011, 2010 and 2009, respectively.

(7) Loans Payable

Short-term bank loans

		December 31, 2011	December 31, 2010
Industrial & Commercial Bank of China	(a)	$ -	$ 1,966,182
Industrial & Commercial Bank of China	(b)	-	907,468
Industrial & Commercial Bank of China	(c)	2,046,503	-
Industrial & Commercial Bank of China	(d)	787,116	
Total short-term bank loans		$ 2,833,619	$ 2,873,650

(a) During year 2009 and up to May 2010, the Industrial & Commercial Bank of China provided two loans, which were secured by certain manufacturing equipment of the Company. The Company paid off one of the loans in May 2010. The remaining loan balance was in the amount of $1,966,182 as of December 31, 2010. The interest was payable monthly at the fixed rate of 5.841% per annum for the remaining loan, which was due and paid off at maturity on January 11, 2011.

(b) On July 28, 2010, the Company obtained from the Industrial & Commercial Bank of China a new accounts receivable factoring facility with a maximum credit limit of $907,468 as of December 31, 2010. Under the factoring agreement, the bank has recourse against the Company if the receivables, which remain in the Company's books at all times, are not fully collected. The term of the factoring facility expired on July 18, 2011 and carried an interest rate of 5.31% per annum. The Company paid off the outstanding factoring facility balance on July 19, 2011.

(c)

On March 16, 2011, the Company obtained from the Industrial & Commercial Bank of China another accounts receivable factoring facility with a maximum credit limit of $2,046,503 as of December 31, 2011. Under the factoring agreement, the bank has recourse against the Company if the receivables, which remain in the Company's books at all times, are not fully collected. The term of the factoring facility expires on February 27, 2012 and carries an interest rate of 6.4236% per annum, which is 106% of the prime rate for the loan set forth by the People's Bank of China at the time of funding.

(d) On August 18, 2011, the Company obtained from the Industrial & Commercial Bank of China a new accounts receivable factoring facility with a maximum credit limit of $787,116 as of December 31, 2011. Under the factoring agreement, the bank has recourse against the Company if the receivables, which remain in the Company's books at all times, are not fully collected. The term of the factoring facility expires on August 15, 2012 and carries an interest rate of 8.528% per annum.

As of December 31, 2011 and December 31, 2010, short-term borrowings were $2,833,619 and $2,873,650, respectively, and no unsecured bank loans. The factoring facility was secured by essentially all of the Company's accounts receivable in the amount of $3,956,948 and $1,064,187 as of December 31, 2011 and December 31, 2010, respectively.

As of December 31, 2011 and December 31, 2010, the Company had no unutilized credit facility with the banks. The average short-term borrowing rates for the year ended December 31, 2011, 2010 and 2009 were approximately 6.38%, 5.76% and 6.21%, respectively.

Long-term loans from credit union

As of December 31, 2010, loan payable to Rural Credit Cooperative of Xushui County, amounted to $2,008,530. The loan is guaranteed by an unrelated third party company. The entire principal of the loan as of December 31, 2010 was due and payable at maturity on September 16, 2011 and thus the entire principal amount was reclassified as current portion of long-term loan and recorded under current liabilities as of December 31, 2010. Interest is paid monthly at the rate of 0.774% per month.

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On March 31, 2011, the Company repaid the entire principal and accrued interest of the Rural Credit Cooperative of Xushui County loan and entered into a new three-year term loan agreement with Xushui County Rural Credit Union for $1,550,619. The new loan is guaranteed by an independent third party. Interest payment is due quarterly and bears the rate of 0.72% per month.

On June 10, 2011, the Company entered into a new term loan agreement with the Xushui County Rural Credit Union for $4,140,233. The new loan is secured by its manufacturing equipment of $10,646,244 and will mature on June 9, 2013. Interest payment is due quarterly and bears the rate of 0.72% per month.

Total interest expenses for the short-term bank loans and long-term loans for the years ended December 31, 2011, 2010 and 2009 were $495,978, $390,458 and $621,863, respectively.

(8) Related Party Transactions

Mr. Zhenyong Liu is the director, principal stockholder and chief executive officer of the Company. He loaned money to HBOP for working capital purposes over a period of time. On August 31, 2009, Orient Paper, HBOP, and Mr. Liu entered into a tri-party Debt Assignment and Assumption Agreement, under which Orient Paper agreed to assume the loan of $4,000,000 due from HBOP to Mr. Liu. Concurrently, Orient Paper issued 1,204,341 shares of restricted common stock to Mr. Liu at the market price of $3.32132 per share. As of December 31, 2011 and 2010, net amount due to Mr. Liu were $2,299,312 and $2,209,068, respectively.

The loan of Mr. Liu is interest bearing and the interest rate is equal to the rate established by the People's Bank of China, which was 5.85% and 5.85% per annum as of December 31, 2011 and 2010. The term is for 3 years and starts from January 1, 2010 and is due December 31, 2012.

On August 1 and August 5, 2008, two members of the Board of Directors of HBOP loaned money to the Company for working capital purposes. The amounts owed bear interest equals the rate established by the People's bank of China and are due on July 31 and August 4, 2011, respectively. As of December 31, 2010, the total loan amount payable was $2,041,804. The Company paid off the loan balance to both directors of HBOP by August 4, 2011. The interest rate for the year ended December 31, 2011, 2010 and 2009 was 5.85%, 5.85% and 5.40% per annum, respectively.

The interest expenses incurred for above related party loans are $203,914, $242,552 and $106,565 for the years ended December 31, 2011, 2010 and 2009.

On February 5, 2010, the Company borrowed $200,000 from a shareholder to pay for various expenses incurred in the U.S. The amount is repayable on demand with interest free. The Company repaid the entire balance on April 14, 2010.

On November 30, 2011, the Company borrowed $200,000 from a shareholder to pay for various expenses incurred in the U.S. The amount is repayable on demand with interest free. The Company repaid the entire balance on January 4, 2012.

(9) Other payables and accrued liabilities

Other payables and accrued liabilities consist of the following:

	December 31, 2011	December 31, 2010
Accrued electricity	$ 314,598	$ 573,294
Accrued professional fees	58,000	290,000
Value-added tax payable	-	884,779
Accrued interest	269,019	248,676
Payable for purchase of equipment	936,908	236,698
Others	11,016	130,239
Totals	$ 1,589,541	$ 2,363,686

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(10) Common Stock

Issuance of warrants

In July, 2009, the Company entered into an agreement with CCG Investor Relations Partners LLC ("CCG"), who provides service related to investor relationship activities for the Company for one year. In consideration for CCG's service and a cash payment of $7,000 per month, at the same date, the Company issued a warrant to CCG to purchase 25,000 shares of the Company's common stock at the price of $4.00 per share. The warrant is exercisable for two years after grant and has a "cashless" exercise provision and a piggyback registration right. The value of the warrant issued for the service should be measured at the service completion date according to ASC Topic 505-50. Throughout the period of the contracted services, the fair value of the warrants was estimated using the Black-Scholes option pricing model.

There is no unamortized balance as at December 31, 2010 as it has been amortized over the servicing period of one year since July 2009. The Company charged $79,521 and $115,093 to earnings for the year ended December 31, 2010 and 2009, respectively.

As of January 19, 2010, the warrant has been cashless exercised for 16,597 shares. As of December 31, 2011 and 2010, there is no outstanding warrant.

Make Good Securities Escrow Agreement

On October 7, 2009, the Company entered into a Securities Purchase Agreement with Access America Fund, LP, Renaissance US Growth Investment Trust Plc, RENN Global Entrepreneurs Funds, Inc., Premier RENN Entrepreneurial Fund Limited, Pope Investments II, LLC and Steve Mazur (collectively, the "Buyers") to sell to the Buyers 2,083,333 shares of the Company's common stock for an aggregate purchase price of $5,000,000 (the "Private Placement"). The Private Placement was closed on October 7, 2009. In connection with the Private Placement, the Company entered into a Make Good Securities Escrow Agreement with the Buyers of the Private Placement and Mr. Liu, the Company's Chief Executive Officer and a major shareholder. As an inducement for the Buyers to enter and consummate the Private Placement, Mr. Liu agreed to place 750,000 shares of common stock (the "Escrow Shares") into escrow for the benefit of the Buyers in the event the Company fails to achieve the following financial performance thresholds for the 12-month periods ended December 31, 2009 (“2009”) and December 31, 2010 (“2010”):

The 2009 Performance Threshold shall equal or exceed the Company’s 2009 Net Income (as defined in accordance with the United States GAAP and subject to carve-outs of certain loss or expense) of $10,000,000 and the 2010 Performance Threshold shall equal or exceed the Company’s 2010 Net Income (as defined in accordance with the United States GAAP and subject to carve-outs of certain loss or expense) of $18,000,000. Pursuant to the agreement, no 2009 or 2010 escrow shares should be transferred to any Buyer in the event the Company fails to achieve the 2009 or 2010 Performance Threshold by less than 10%. The number of escrow shares to be transferred to Buyer shall be equivalent to the percentage by which the Company missed the 2009 or 2010 Performance Threshold. For example, if the Company were to miss the 2009 Performance Threshold by 15%, 112,500 shares of common stock should be transferred to the Buyers.

During the period that the shares are held under escrow (the “Period”), Mr. Liu, as the original shareholder of the escrow shares retains all rights of ownership, including voting rights and the right to receive any dividends that may be declared during the Period.

The Company has achieved the financial performance threshold for 2009. For 2010, the Company’s net income determined in accordance with the US GAAP for the year 12-month period ended December 31, 2010 is $15,551,536, which failed the 2010 Performance Threshold of $18 million by more than 10%. However, the Buyers and the Company have agreed to reduce the 102,019 Escrow Shares that are otherwise transferable to the Buyers by 50% to 51,010 Escrow Shares pursuant to a carve-out term under Article 1.6 (vii) of the Make Good Securities Escrow Agreement for items that are “whatsoever beyond the Company’s reasonable control,“ including part of the $1,041,452 of 2010 legal and professional fees related to (1) the internal independent investigation conducted by the Company’s Audit Committee during 2010 in response to certain allegations against the Company and its financial positions and operations, and (2) defending the shareholder class action lawsuit filed on August 6, 2010 (see Pending Litigation in Note (13) Commitments and Contingencies, below).

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April 2010 Public Offering

On March 31, 2010, the Company entered into an Underwriting Agreement with Roth Capital Partners, LLC (the "Underwriter"), under which the Company agreed to sell the Underwriter an aggregate of 3,000,000 shares of common stock with an option for the Underwriter to purchase an additional 450,000 shares to cover its over-allotment within 45 days of the date of the Underwriting Agreement. All of these shares, which are offered to the public at $8.25 per share by the Underwriter, are issued and sold to the Underwriter at $7.7962 per share net of discounts and commissions. The first closing for the sale of 3,000,000 shares was closed on April 6, 2010. The Underwriter exercised its option for the purchase of the additional 450,000 shares on April 14, 2010. The Company received total proceeds, net of expenses, in the amount of $26,570,161.

(11) Earnings Per Share

For the years ended December 31, 2011, 2010 and 2009, basic and diluted net income per share are calculated as follows:

	Year Ended December 31,		
	2011	2010	2009
Basic income per share			
Net Income for the year – numerator	$21,648,664	$15,551,536	$12,720,208
Weighted average common stock outstanding – denominator	18,349,332	17,435,218	12,221,782
Net income per share	$1.18	$0.89	$1.04
Diluted income per share			
Net Income for the year – numerator	$21,648,664	$15,551,536	$12,720,208
Weighted average common stock outstanding - denominator	18,349,332	17,435,218	12,221,782
Effect of dilution			
Warrant	-	1,028	11,096
Weighted average common stock outstanding - denominator	18,349,332	17,436,246	12,232,878
Diluted income per share	$1.18	$0.89	$1.04

(12) Income Taxes

United States

Orient Paper and Shengde Holdings are incorporated in the State of Nevada and are subject to the U.S. federal tax and state statutory tax rates up to 34% and 0%, respectively.

PRC

HBOP and Baoding Shengde are PRC operating companies and are subject to PRC Enterprise Income Tax. Pursuant to the PRC New Enterprise Income Tax Law, Enterprise Income Tax is generally imposed at a statutory rate of 25%.

The provision for income taxes for the years ended December 31, 2011, 2010 and 2009 were as follows:

	Year Ended December 31,		
	2011	2010	2009
Provision for Income Taxes			
Current Tax Provision – PRC	$7,799,226	$5,964,621	$4,666,069
Deferred Tax Provision	-	-	-
Total Provision for Income Taxes	$7,799,226	$5,964,621	$4,666,069

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Orient Paper, Inc. was incorporated in the United States and has incurred aggregate net operating losses of approximately $5,149,592, $3,533,052 and $1,235,962 for U.S. income tax purposes for the years ended December 31, 2011, 2010 and 2009, respectively. The net operating loss carried forward may be available to reduce future years' taxable income. These carry forwards will expire, if not utilized, through 2030, 2029 and 2028. Management believes that the realization of the benefits from these losses, which generally would generate a deferred tax asset if it can be expected to be utilized in the future, appears not more than likely due to the Company's limited operating history and continuing losses for United States income tax purposes. Accordingly, the Company has provided a 100% valuation allowance on the deferred tax asset benefit to reduce the asset to zero. Management will review this valuation allowance periodically and make adjustments as warranted. A summary of the otherwise deductible (or taxable) deferred tax items is as follows:

	December 31,	
	2011	2010
Deferred tax assets (liabilities) – current		
Allowance for doubtful accounts	$346	$9,384
Deferred tax assets - non current		
Net Operating Loss Carryover for U.S. income tax purposes	1,827,128	1,201,238
Total deferred tax assets	1,827,474	1,210,622
Less: Valuation allowance	(1,827,474)	(1,210,622)
Net Operating Loss Carryover for U.S. income tax purposes	$-	$-

The following table reconciles the statutory rates to the Company's effective tax rate as of

	Year ended December 31,		
	2011	2010	2009
Statutory rate	25.0%	25.0%	25.0%
Effect of different tax jurisdiction	(0.6)	(1.0)	(0.6)
Effect of expenses not deductible for PRC tax purposes	0.1	0.1	0.1
Effect of income not taxable for PRC tax purposes	(0.3)	-	-
Under provision in previous year	0.1	0.1	-
Change in valuation allowance	2.2	3.5	2.3
Effective income tax rate	26.5%	27.7%	26.8%

For U.S. tax purposes, the Company has cumulative undistributed earnings of foreign subsidiaries of approximately $69,816,970 and $46,529,307 as of December 31, 2011 and 2010, respectively, which are included in consolidated retained earnings and will continue to be indefinitely reinvested in international operations. Accordingly, no provision has been made for U.S. deferred taxes related to future repatriation of these earnings, nor is it practicable to estimate the amount of income taxes that would have to be provided if we concluded that such earnings will be remitted to the U.S. in the future.

The Company has adopted ASC Topic 740-10-05, *Income Taxes*. To date, the adoption of this interpretation has not impacted the Company’s financial position, results of operations, or cash flows. The Company performed self-assessment and the Company’s liability for income taxes includes the liability for unrecognized tax benefits, interest and penalties which relate to tax years still subject to review by taxing authorities. Audit periods remain open for review until the statute of limitations has passed, which in the PRC is usually 5 years. The completion of review or the expiration of the statute of limitations for a given audit period could result in an adjustment to the Company’s liability for income taxes. Any such adjustment could be material to the Company’s results of operations for any given quarterly or annual period based, in part, upon the results of operations for the given period. As of December 31, 2011, management considered that the Company had no uncertain tax positions affecting its consolidated financial position and results of operations or cash flows, and will continue to evaluate for any uncertain position in future. There are no estimated interest costs and penalties provided in the Company’s consolidated financial statements for the years ended December 31, 2011, 2010 and 2009, respectively. The Company’s tax positions related to open tax years are subject to examination by the relevant tax authorities and the major one is the China Tax Authority.

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(13) Stock Incentive Plan

On August 28, 2011, the Company's Annual General Meeting approved the 2011 Incentive Stock Plan (the "2011 ISP") as previously adopted by the Board of Directors on July 5, 2011. Under the 2011 ISP, the Company may grant an aggregate of 375,000 shares of the Company's common stock to the Company's directors, officers, employees or consultants. Specifically, the Board and/or the Compensation Committee have authority to (a) grant, in its discretion, Incentive Stock Options or Non-statutory Options, Stock Awards or Restricted Stock Purchase Offers; (b) determine in good faith the fair market value of the stock covered by any grant; (c) determine which eligible persons shall receive grants and the number of shares, restrictions, terms and conditions to be included in such grants; and (d) make all other determinations necessary or advisable for the 2011 ISP's administration. No stock or option was issued under the 2011 ISP until January 11, 2012, when the Compensation Committee granted 109,584 shares of restricted common stock to certain officers and directors of the Company.

(14) Commitments and Contingencies

Operating Lease

Orient Paper leases 32.95 acres of land from a local government through a real estate lease with a 30-year term, which expires on December 31, 2031. The lease requires an annual rental payment of approximately $18,891(RMB 120,000). This operating lease is renewable at the end of the 30-year term.

Future minimum lease payments are as follows:

December 31,	Amount
2012	$18,891
2013	18,891
2014	18,891
2015	18,891
2016	18,891
Thereafter	283,361
Total operating lease payments	$377,816

Capital commitment

The Company has signed several contracts for constructing staff hostel and purchase of equipment totally $7,047,968 with outstanding commitments of $4,860,965 as of December 31, 2011. The Company expected to pay off all the balances by the end of first quarter of 2012.

Pending Litigation

On August 6, 2010, a stockholder class action lawsuit was filed in the U.S. District Court for the Central District of California against the Company, certain current and former officers and directors of the Company, and Roth Capital Partners, LLP. The complaint in the lawsuit, *Mark Henning, et al. v. Orient Paper et al.*, CV-10-5887 RSWL (AJWx), alleges, among other claims, that the Company issued materially false and misleading statements and omitted to state material facts that rendered its affirmative statements misleading as they related to the Company’s financial performance, business prospects, and financial condition, and that the defendants failed to prevent such statements from being issued or corrected. The complaint seeks, among other relief, compensatory damages, attorneys' fees and experts’ fees. Plaintiffs purport to sue on behalf of themselves and a class consisting of the Company’s stockholders (other than the defendants and their affiliates). The plaintiffs filed an amended complaint on January 28, 2011, and the Company filed a motion to dismiss with the court on March 14, 2011. On July 20, 2011 the court denied the Company’s motion to dismiss, thus allowing the litigation to proceed to discovery. Nevertheless, at this stage of the proceedings, management cannot opine that a favorable outcome for the company is probable or that an unfavorable outcome to the company is remote. While certain legal defense costs may be later reimbursed by the Company’s insurance carrier, no reasonable estimate of any impact of the outcome of the litigation or related legal fees on the financial statements can be made as of the date of this statement.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On April 1, 2011 the Company was served a summon for a complaint filed by Tribank Capital Investments, Inc. (“Tribank”) on March 30, 2011 in the Superior Court of the State of California for the County of Los Angeles against the Company and its Chairman and CEO Mr. Zhenyong Liu (the “Tribank Matter”). By filing the complaint, Tribank alleges, among other claims, that the Company breached the Non-Circumvention Agreement dated October 29, 2008 between the Company and Tribank (the “Agreement”), and that the Company was unjustly enriched as a result of breaching the Agreement. The complaint seeks, among other relief, compensatory damages and plaintiff’s counsel’s fees. On April 29, 2011 the Company filed a Notice of Removal to remove the jurisdiction of the case from the state court of California to the Federal District Court for the District of Central California and filed a motion to dismiss the lawsuit on May 6, 2011. On July 18, 2011, United States District Court Judge Manual Real granted Orient Paper motion to dismiss the complaint in its entirety, finding that venue is improper because the contract that forms the basis of the parties' relationship contains a valid and enforceable forum selection clause providing that the Hong Kong Special Administrative Region of China is the exclusive forum for resolution of disputes. Tribank subsequently filed a notice of appeal with the court on August 5, 2011. The Company continues to believe that the complaint has no merit and intends to vigorously defend the lawsuit. While certain legal defense costs may be later reimbursed by the Company’s insurance carrier, no reasonable estimate of any impact of the outcome of the litigation or related legal fees on the financial statements can be made as of date of this statement.

(15) Segment Reporting

Since March 10, 2010, Baoding Shengde started its operations and thereafter the Company manages its operations through two business operating segments: HBOP, which produces printing paper and corrugating medium paper, and Baoding Shengde, which produces digital photo paper. They are managed separately because each business requires different technology and marketing strategies.

The Company evaluates performance of its operating segments based on net income. Administrative functions such as finance, treasury, and information systems are centralized. However, where applicable, portions of the administrative function expenses are allocated between the operating segments based on gross revenue generated. The operating segments do share facilities in Xushui County, Baoding City, Hebei, China. All sales were sold to customers located in the PRC.

Summarized financial information for the two reportable segments is as follows:

Year Ended
December 31, 2011

	HBOP	Baoding Shengde	Not Attributable to Segments	Elimination of Inter-segment	Enterprise-wide, consolidated
Revenues	$142,498,116	$8,249,200	-	-	$ 150,747,316
Gross Profit	30,191,480	2,758,595	-	-	32,950,075
Depreciation and amortization	3,504,717	919,814	-	-	4,424,531
Interest income	20,847	15,273	317	-	36,437
Interest expense	699,892	-	-	-	699,892
Income tax expense	7,136,886	662,340	-	-	7,799,226
Net Income (Loss)	21,527,824	1,961,694	(1,840,854)	-	21,648,664
Total Assets	111,305,277	46,180,744	224,868	(12,753,025)	144,957,864

	Year Ended December 31, 2010				
	HBOP	Baoding Shengde	Not Attributable to Segments	Elimination of Inter-segment	Enterprise-wide, consolidated
Revenues	$118,858,497	$5,131,420	-	-	$ 123,989,917
Gross Profit	23,952,872	2,222,730	-	-	26,175,602
Depreciation and amortization	3,421,975	725,802	-	-	4,147,777
Interest income	72,303	83,749	7,131	-	163,183
Interest expense	633,010	-	-	-	633,010
Income tax expense	5,405,884	558,737	-	-	5,964,621
Net Income (Loss)	16,172,333	1,676,293	(2,297,090)	-	15,551,536
Total Assets	91,883,320	32,931,982	95,724	(9,404,685)	115,506,341

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For the year ended December 31, 2009, all business operations, except for costs to maintain the Company as a U.S. public company, were entirely attributable to HBOP.

(16) Concentration and Major Suppliers

For the year ended December 31, 2011, the Company had three major suppliers which primarily accounted for 61%, 11% and 6% of the total purchases. For the year ended December 31, 2010, the Company had three major suppliers which primarily accounted for 51%, 13% and 8% of total purchases. For the year ended December 31, 2009, the Company had three major suppliers accounted for 37%, 32% and 13% of total purchases.

(17) Concentration of Credit Risk

Financial instruments for which the Company is potentially subject to concentration of credit risk consist principally of cash. The Company places its temporary cash investments in reputable financial institutions in the PRC and the United States. Although it is generally understood that the PRC central government stands behind all of the banks in China in the event of bank failure, there is no deposit insurance system in China that is similar to the protection provided by the Federal Deposit Insurance Corporation (FDIC) of the United States. The Company's U.S. bank accounts are all fully covered by the FDIC insurance as of December 31, 2011 and 2010, respectively.

(18) Risks and Uncertainties

Orient Paper is subject to substantial risks from, among other things, intense competition associated with the industry in general, other risks associated with financing, liquidity requirements, rapidly changing customer requirements, foreign currency exchange rates, and operating in the PRC under its various laws and restrictions.

(19) Recent Accounting Pronouncements

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, which is a new accounting guidance to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. The guidance changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements. This guidance is effective for the Company's fiscal year beginning January 1, 2012. The Company is currently evaluating the impact of this guidance but believes the adoption of it will have no material effect on our consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*, which is a new guidance on the presentation of comprehensive income that will require a company to present components of net income and other comprehensive income in one continuous statement or in two separate, but consecutive statements. There are no changes to the components that are recognized in net income or other comprehensive income under current GAAP. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011, with early adoption permitted. It is applicable to the Company's fiscal year beginning January 1, 2012. Currently, the Company evaluated the effect of ASU 2011-05 on its financial statements and has concluded that it would have no material impact on the Company's consolidated financial statements.

ASU 2011-05 was modified by the issuance of ASU 2011-12 - *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05* in December 2011, which indefinitely deferred certain provisions of ASU 2011-05, including the requirement to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement in which net income is presented and the statement in which other comprehensive income is presented. This amendment is effective for both annual and interim financial statements beginning after December 15, 2011. The Company believes that its adoption of ASU 2011-12 will not have any material impact on its consolidated financial statements.

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In December 2011, the FASB issued ASU 2011-11 - *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*, which requires entities to disclose both gross and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting agreement. The objective of the disclosure is to facilitate comparison between those entities that prepare their financial statements on the basis of U.S. GAAP and those entities that prepare their financial statements on the basis of International Financial Reporting Standards ("IFRS"). This ASU is effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. Retrospective presentation for all comparative periods presented is required. Its adoption of ASU 2011-11 is not expected to have material impact on its consolidated financial statements.

(20) Summarized Quarterly Financial Data (Unaudited)

Quarterly financial information for 2010 and 2011 is as follows:

	Quarter			
2011	First	Second	Third	Fourth
Revenues	$33,225,219	$41,534,386	$37,074,759	$38,912,952
Income from operations	6,842,861	8,088,971	7,532,363	7,647,150
Net income	4,852,924	5,860,950	5,431,760	5,503,030
Net income per share:				
Basic	$0.26	$0.32	$0.30	$0.30
Diluted	$0.26	$0.32	$0.30	$0.30

	Quarter			
2010	First	Second	Third	Fourth
Revenues	$26,458,188	$38,257,140	$23,006,314	$36,268,275
Income from operations	4,401,191	7,405,657	2,723,879	7,455,257
Net income	3,126,094	5,351,855	1,764,228	5,309,359
Net income per share:				
Basic	$0.21	$0.30	$0.10	$0.28
Diluted	$0.21	$0.30	$0.10	$0.28

(21) Condensed Financial Information of the Parent Company

The condensed financial statements of Orient Paper Inc. (“ONP”, the “parent company”) have been prepared in accordance with accounting principles generally accepted in the United States of America. Under the PRC laws and regulations, the Company’s PRC subsidiaries are restricted in their ability to transfer certain of their net assets to the parent company in the form of dividend payments, loans or advances. The amounts restricted include paid-in capital, capital surplus and statutory reserves, as determined pursuant to PRC generally accepted accounting principles, totaling $50,502,923 and $48,326,851 as of December 31, 2011 and 2010, respectively.

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The following represents condensed unconsolidated financial information of the parent company only:

CONDENSED BALANCE SHEETS

	December 31, 2011	December 31, 2010
ASSETS		
Current Assets		
Cash and cash equivalents	$145,386	$69,849
Prepayments and other current assets	79,482	25,874
Due from inter-companies	4,000,000	4,000,000
Total current assets	4,224,868	4,095,723
Investment in subsidiaries	126,637,592	98,840,998
Total Assets	$130,862,460	$102,936,721
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Inter-company payable	$3,008,524	$1,057,596
Loan from shareholder	200,000	-
Accrued expenses	58,000	290,000
Accured payroll and benefit	70,493	47,050
Total current liabilities	3,337,017	1,394,645
Total liabilities	3,337,017	1,394,645
Total stockholders' equity	127,525,443	101,542,076
Total Liabilities and Stockholders' Equity	$130,862,460	$102,936,721

CONDENSED STATEMENTS OF INCOME

	Year Ended December 31, 2011	2010	2009
Operating expenses			
Selling, General and Administrative Expenses	$1,841,171	$2,304,222	$1,235,963
Income (Loss) from Operations	(1,841,171)	(2,304,222)	(1,235,963)
Equity in earnings of unconsolidated subsidiaries	23,489,518	17,848,627	13,956,171
Other Income (Expense):	317	7,131	-
Income (Loss) before Income Taxes	21,648,664	15,551,536	12,720,208
Provision for Income Taxes	-	-	-
Net Income	$21,648,664	$15,551,536	$12,720,208

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2011	2010	2009
Net Cash Provided by/ (Used in) Operating Activities	$75,537	$(1,491,808)	$(675,276)
Net Cash Used in Investing Activities	-	(25,000,000)	(14,509,069)
Net Cash Provided by Financing Activities	-	26,561,657	15,184,345
Net Increase in Cash and Cash Equivalents	75,537	69,849	-
Cash and Cash Equivalents - Beginning of Period	69,849	-	-
Cash and Cash Equivalents - End of Period	$145,386	$69,849	$-

BASIS OF PRESENTATION

The condensed financial information has been prepared using the same accounting policies as set out in the Company's consolidated financial statements except that the parent company has used equity method to account for its investments in the subsidiaries.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not Applicable.

Item 9A. Controls and Procedures

Our management is responsible for establishing and maintaining a system of disclosure controls and procedures (as defined in Rule 13a-15(e)) under the Exchange Act) that is designed to ensure that information required to be disclosed by the Company in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time specified in the Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Pursuant to Rule 13a-15(b) under the Exchange Act, the Company carried out an evaluation with the participation of the Company’s management, including Zhenyong Liu, the Company’s Chief Executive Officer (“CEO”), and Winston C. Yen, the Company’s Chief Financial Officer (“CFO”), of the effectiveness of the Company’s disclosure controls and procedures (as defined under Rule 13a-15(e) under the Exchange Act) as of September 30, 2010. Based upon that evaluation, the Company’s CEO and CFO concluded that the Company’s disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports that the Company files or submits under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to the Company’s management, including the Company’s CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Management conducted an assessment of the effectiveness of the Company’s internal control over financial reporting as of December 31, 2011. In making this assessment, management used the framework set forth in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has determined that, as of December 31, 2011, the Company’s internal control over financial reporting is effective.

The Company’s internal control over financial reporting as of December 31, 2011 has been audited by BDO China Shu Lun Pan Certified Public Accountants LLP (“BDO China”), the independent registered public accounting firm who also audited the Company’s consolidated financial statements. Their attestation report on the Company’s internal control over financial reporting is shown on Exhibit 23.3 attached hereto.

Changes in internal controls

Our management, with the participation of our CEO and CFO, performed an evaluation as to whether any change in our internal controls over financial reporting occurred during the year ended December 31, 2011. Based on that evaluation, our CEO and CFO concluded that no change occurred in the Company's internal controls over financial reporting during the year ended December 31, 2011 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Set forth below is certain information regarding our directors and executive officers. Our Board of Directors is comprised of five directors. There are no family relationships between any of our directors or executive officers. Each of our directors is elected to serve until the next annual meeting of our shareholders and until his successor is elected and qualified or until such director’s earlier death, removal or termination.

The following table sets forth certain information with respect to our directors and executive officers:

Name	**Age**	**Position/Title**
Zhenyong Liu	48	Chief Executive Officer and Chairman of the Board
Winston C. Yen	43	Chief Financial Officer
Dahong Zhou	32	Secretary
Drew Bernstein	55	Director
Wenbing Christopher Wang	40	Director
Fuzeng Liu	62	Director
Zhaofang Wang	56	Director

The Directors initially elected in Class I, Drew Bernstein and Wenbing Christopher Wang, will serve until the annual meeting of stockholders in 2013 and until their respective successors have been elected and have qualified, or until their earlier resignation, removal or death. The Directors initially elected in Class II, Zhenyong Liu, Fuzeng Liu and Zhaofang Wang will serve until the annual meeting of stockholders in 2012 and until their respective successors have been elected and have qualified, or until their earlier resignation, removal or death. Beginning with the election of Directors to be held at the year 2011 annual meeting, the class of Directors to be elected in such year (Class I) would be elected for a two year term, and at each successive annual meeting, the class of Directors to be elected in such year would be elected for a two year term, so that the term of office of one class of Directors shall expire in each year. Our officers serve at the discretion of our Board of Directors.

Set forth below is biographical information about our current directors and executive officers:

Zhenyong Liu . On November 30, 2007, Zhenyong Liu became a member of the Board of Directors and was appointed Chairman of the Board of Directors. Mr. Liu has also served as the Company's Chief Executive Officer since November 16, 2007. Mr. Liu also serves as Chairman of Hebei Baoding Orient Paper Milling Company Limited (HBOP), a position he has held since 1996. HBOP is a Variable Interest Entity (VIE) that has entered into certain contractual agreements with Baoding Shengde. From 1990 to 1996, he served as Plant Director of Xinxin Paper Milling Factory. Mr. Liu served as General Manager of Xushui Town Huandong electronic appliances procurement station from 1986 to 1990 and as Vice Plant Director of Liuzhuang Casting Factory from 1982 to 1986.

Winston C. Yen. Mr. Yen was appointed as our Chief Financial Officer on May 1, 2009. Mr. Yen is a partner at ACCellence, LLP, a Los Angeles, California public accounting firm that he founded in December 2005. Previously, he served as a partner of the accounting firm of Harry C. Lin, CPA, APC in City of Industry, California from 2001 to 2005. Mr. Yen served as a manager at Moss Adams, LLP from 2000 to 2001 and was an audit/tax supervising senior at CBIZ from 1997 to 1999. He received a Bachelor’s degree in Accounting from the National Chengchi University in Taiwan in 1990 and a Master’s degree in Accounting Science from the University of Illinois at Urbana-Champaign in 1994.

Dahong Zhou. Dahong Zhou was appointed as our Secretary on November 16, 2007. Mr. Zhou also serves as Executive Manager of Hebei Baoding Orient Paper Milling Company Limited, a position she has held since 2006.

Drew Bernstein. Mr. Bernstein was appointed as our director on October 28, 2009. Mr. Bernstein is co-founder and managing partner of Marcum Bernstein &Pinchuk LLP, an accounting firm headquartered in New York, a position he has held since 1983. Mr. Bernstein, a certified public accountant, received his BS degree from the University of Maryland Business School. He is a member of the American Institute of Certified Public Accounts (AICPA), The New York State Society of Certified Public Accounts (NYSSCPA) and The National Society of Accountants (NSA). Mr. Bernstein currently serves as a director of China Wind Systems, Inc. (OTCBB: CHWY) and Neostem, Inc. (AMEX: NBS)

Wenbing Christopher Wang. Mr. Wenbing Christopher Wang was appointed as our director on October 28, 2009. Mr. Wang has been President and director of Fushi Copperweld, Inc. (NASDAQ: FSIN) ("Fushi") since January 21, 2008. Mr. Wang also served as Fushi's Chief Financial Officer from December 13, 2005 to August 31, 2009. Prior to Fushi, Mr. Wang worked for Redwood Capital, Inc., China Century Investment Corporation, Credit Suisse First Boston and VCChina in various capacities. Fluent in both English and Chinese, Mr. Wang holds an MBA in Finance and Corporate Accounting from Simon Business School of University of Rochester. Mr. Wang was named one of the top ten CFO's of 2007 in China by CFO magazine. Mr. Wang also serves as a director of General Steel Holdings (NYSE: GSI).

Zhaofang Wang. Ms. Zhaofang Wang was appointed as our director on October 28, 2009. Ms. Wang has been Director of Research and Development at China National Pulp & Paper Research Institute, a national research and higher education institution in the PRC, since November 2005. From October 1999 to October 2005, Ms. Wang served as Director of the Department of Urban Development with the Ministry of Housing and Urban-Rural Development. Ms. Wang, a certified senior economist, received a bachelor's degree in economic management at Beijing University, Guanghua School of Management.

Fuzeng Liu . On November 30, 2007, Fuzeng Liu became a member of the Board of Directors. Mr. Liu also serves as Vice General Manager of Hebei Baoding Orient Paper Milling Company Limited, a position he has held since 2002. Previously, he was Deputy Secretary of Xushui Town Traffic Bureau from 1992 to 2002, Party Secretary of Xushui Town Dayin Village from 1988 to 1992, and Head of the Xushui Town Cuizhuang Village from 1984 to 1984. From 1977 to 1984, Mr. Liu served in committee office of Xushui Town. From 1970 to 1977, Mr. Liu served in the Pharmaceutical Company of Xushui Town.

The Board believes that each of the Company's directors is highly qualified to serve as a member of the Board. Each of the directors has contributed to the mix of skills, core competencies and qualifications of the Board. When evaluating candidates for election to the Board, the Nominating Committee seeks candidates with certain qualities that it believes are important, including integrity, an objective perspective, good judgment, and leadership skills. Our directors are highly educated and have diverse backgrounds and talents and extensive track records of success in what we believe are highly relevant positions. Some of our directors have served in our operating entity, Hebei Baoding Orient Paper Milling Company Limited, for many years and benefit from an intimate knowledge of our operations and corporate philosophy.

Committees

Our business, property and affairs are managed by or under the direction of the board of directors. Members of the board are kept informed of our business through discussion with the chief executive and financial officers and other officers, by reviewing materials provided to them and by participating at meetings of the board and its committees.

Our board of directors has three committees - the audit committee, the compensation committee and the corporate governance/nominating committee. The audit committee is comprised of Drew Bernstein, Wenbing Christopher Wang and Zhaofang Wang, with Mr. Bernstein serving as chairman. The compensation committee is comprised of Drew Bernstein, Wenbing Christopher Wang and Zhaofang Wang, with Ms. Zhaofang Wang as chairman. The nominating committee is comprised of Drew Bernstein, Wenbing Christopher Wang and Zhaofang Wang, with Mr. Wenbing Christopher Wang as chairman.

Our audit committee is involved in discussions with our independent auditor with respect to the scope and results of our year-end audit, our quarterly results of operations, our internal accounting controls and the professional services furnished by the independent auditor. Our board of directors has determined that both Mr. Drew Bernstein and Mr. Wenbing Christopher Wang qualify as audit committee financial experts and as having the accounting or financial management expertise as required under NYSE Rule 303A.07(a). Our board of directors has also adopted a written charter for the audit committee which the audit committee reviews and reassesses for adequacy on an annual basis. A copy of the audit committee's current charter is available on the Orient Paper Inc.'s corporate website at http://www.orientpaperinc.com/images/Audit%20Committee%20Charter.pdf

The compensation committee oversees the compensation of our chief executive officer and our other executive officers and reviews our overall compensation policies for employees generally. If so authorized by the board of directors, the committee may also serve as the granting and administrative committee under any option or other equity-based compensation plans which we may adopt. The compensation committee does not delegate its authority to fix compensation; however, as to officers who report to the chief executive officer, the compensation committee consults with the chief executive officer, who may make recommendations to the compensation committee. Any recommendations by the chief executive officer are accompanied by an analysis of the basis for the recommendations. The committee will also discuss compensation policies for employees who are not officers with the chief executive officer and other responsible officers. A PDF copy of the compensation committee's current charter is available for download at Orient Paper Inc.'s corporate website at http://www.orientpaperinc.com/images/Compensation%20Committee%20Charter.pdf

The nominating committee is involved in evaluating the desirability of and recommending to the board any changes in the size and composition of the board, evaluation of and successor planning for the chief executive officer and other executive officers. The qualifications of any candidate for director will be subject to the same extensive general and specific criteria applicable to director candidates generally. A copy of the nominating committee's current charter is available at Orient Paper Inc.'s corporate website at http://www.orientpaperinc.com/images/Nominating%20Committee%20Charter.pdf

Code of Ethics

We have adopted a code of ethics to apply to our principal executive officer, principal financial officer, principal accounting officer and controller, or persons performing similar functions. The Code of Ethics is currently available on our website at www.orientpaperinc.com ..

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Board Meetings

The board and its committees held the following number of meetings during 2011:

Board of Directors	7
Audit Committee	6
Compensation Committee	2
Nominating Committee	1

The meetings include meetings that were held by means of a conference telephone call, but do not include actions taken by unanimous written consent.

With the exception of two directors, each director attended at least 75% of the total number of meetings of the board and those committees on which he served during the year.

Directors or Executive Officers involved in Bankruptcy or Criminal Proceedings

To our knowledge, during the last ten years, none of our directors and executive officers (including those of our subsidiaries) has:

- had a bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
- been convicted in a criminal proceeding or been subject to a pending criminal proceeding, excluding traffic violations and other minor offenses;
- been subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities;
- been found by a court of competent jurisdiction (in a civil action), the SEC, or the Commodities Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended or vacated; or
- been the subject to, or a party to, any sanction or order, not subsequently reverse, suspended or vacated, of any self-regulatory organization, any registered entity, or any equivalent exchange, association, entity or organization that has disciplinary authority over its members or persons associated with a member.

Board Leadership Structure and Role in Risk Oversight

Mr. Zhenyong Liu is our chairman and chief executive officer. At the advice of other members of the management or the Board, Mr. Liu calls meetings of the Board of Directors when necessary. We have three independent directors, led by the Chairman of the audit committee Mr. Drew Bernstein. Our Board has three standing committees, each of which is comprised solely of independent directors with a committee chair. The Board believes that the Company's chief executive officer is best situated to serve as chairman of the Board because he is the director most familiar with our business and industry and the director most capable of identifying strategic priorities and executing our business strategy. In addition, having a single leader eliminates the potential for confusion and provides clear leadership for the Company. We believe that this leadership structure has served the Company well. Our Board of Directors has overall responsibility for risk oversight. The Board has delegated responsibility for the oversight of specific risks to Board committees as follows:

- The Audit Committee oversees the Company's risk policies and processes relating to the financial statements and financial reporting processes, as well as key credit risks, liquidity risks, market risks and compliance, and the guidelines, policies and processes for monitoring and mitigating those risks.

- The Nominating Committee oversees risks related to the company's governance structure and processes.

Our Board of Directors is responsible to approve all related party transactions according to our Code of Ethics. We have not adopted written policies and procedures specifically for related person transactions.

Compliance with Section 16(a) of the Securities Exchange Act of 1934

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our executive officers and directors and persons who own more than 10% of a registered class of our equity securities to file with the Securities and Exchange Commission initial statements of beneficial ownership, reports of changes in ownership and annual reports concerning their ownership of our common stock and other equity securities, on Form 3, 4 and 5 respectively. Executive officers, directors and greater than 10% shareholders are required by the Securities and Exchange Commission regulations to furnish our company with copies of all Section 16(a) reports they file.

Based solely on our review of the copies of such reports received by us, and on written representations by our officers and directors regarding their compliance with the applicable reporting requirements under Section 16(a) of the Exchange Act, we believe that, with respect to the fiscal year ended December 31, 2011, our officers and directors, and all of the persons known to us to own more than 10% of our common stock, filed all required reports on a timely basis.

Item 11. Executive Compensation

The following summary compensation table indicates the cash and non-cash compensation earned during the years ended December 31, 2011, 2010 and 2009 by each person who served as principal executive officer, principal financial officer, and secretary during 2011.

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation **($)**	Total ($)
Zhenyong Liu, Chairman, CEO	2011	$37,184	-	-	-	-	$37,184
	2010	$35,405	-	-	-	-	$35,405
	2009	$35,083	-	-	-	-	$35,083
Winston C. Yen CFO	2011	$120,000	-	$16,250	-	-	$136,250
	2010	$120,000	-	$37,425	-	-	$157,425
	2009	$38,000	-	$25,375	-	-	$63,375
Dahong Zhou, Secretary	2011	$4,090	-	-	-	-	$4,090
	2010	$3,895	-	-	-	-	$3,895

2009	$3,508	-	-	-	-	$3,508

Employment Agreements

On May 1, 2009, the Company entered into a Loanout Agreement with Winston C. Yen, CPA, a Professional Accountancy Corporation ("Lender"), for the services of Lender's employee, Winston C. Yen, as Chief Financial Officer, for a term of one year. Pursuant to the agreement, Mr. Yen shall receive an annual salary of $36,000 for up to 80 hours of work per month, subject to adjustment for additional compensation of $2,000 per month during any calendar month when certain road show services are performed. Mr. Yen shall also receive up to an aggregate of 5,000 shares of common stock of the Company during the term of the agreement as follows. The shares shall vest, and be issued, on a quarterly basis at the rate of 1,250 shares every three calendar months, with the first installment to vest on May 10, 2009. The shares shall be subject to an 18 month lock-up period from the date of issuance.

On April 21, 2010, the Company renewed the Loanout Agreement for a period of one year from the date of renewal and amended the Agreement to include the followings: (i) Mr. Yen's workload extends from 80 hours per month to 40 hours per week, (ii) effective January 1, 2010, his annual cash compensation was increased to $120,000, and (iii) shares compensation remains 5,000 shares per year, vested quarterly, and is subject to a lock-up period of one year. The Loanout Agreement expired without any written renewal, but the Company and the Lender agreed to continue the terms of the Loanout Agreement until either party terminates the relationship.

Compensation of Directors

The following table sets forth a summary of compensation paid or entitled to our directors during the fiscal years ended December 31, 2011, December 31, 2010 and December 31, 2009:

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compen-sation($)	Total ($)
Fuzheng Liu Director	2011	$5,949	-	-	-	-	$5,949
	2010	$5,665	-	-	-	-	$5,665
	2009	$4,912	-	-	-	-	$4,912
Drew Bernstein Director	2011	$20,000		$24,375	-	-	$44,375
	2010	$20,000	-	$47,700	-	-	$67,700
	2009	$3,333	-	$37,500	-	-	$40,833
Wenbing Christopher Wang Director	2011	$20,000	-	$13,000	-	-	$33,000
	2010	$20,000	-	$25,440	-	-	$25,440
	2009	$3,333	-	$20,000	-	-	$23,333
Zhaofang Wang Director	2011	$7,747	-	-	-	-	$7,747
	2010	$7,376	-	-	-	-	$7,376
	2009	$1,218	-	-	-	-	$1,218
Xiaodong Lin Former Director	2011	$-	-	-	-	-	$-
	2010	$-	-	-	-	-	$-
	2009	$29,236	-	-	-	-	$29,236
Chen Li Former Director	2011	$-	-	-	-	-	$-
	2010	$-	-	-	-	-	$-
	2009	$4,093	-	-	-	-	$4,093

Effective October 28, 2009, the Company entered into an appointment letter with Drew Bernstein. Pursuant to the agreement, Mr. Bernstein was appointed our director and shall receive an annual salary of $20,000, payable on a monthly basis. Mr. Bernstein shall also receive 7,500 shares of common stock with piggyback registration rights subordinate to any investors in any past or present private placement of securities.

Effective October 28, 2009, the Company entered into an appointment letter with Wenbing Christopher Wang. Pursuant to the agreement, Mr. Wang was appointed our director and shall receive an annual salary of $20,000, payable on a monthly basis. Mr. Wang shall also receive 4,000 shares of common stock, which represents $20,000 divided by the closing price of the common stock on October 28, 2009, with piggyback registration rights subordinate to any investors in any past or present private placement of securities.

Effective October 28, 2009, the Company entered into an appointment letter with Zhaofang Wang. Pursuant to the agreement, Ms. Wang was appointed our director and shall receive an annual salary of RMB 50,000, payable on a monthly basis.

Other than the appointment letters described above, there are no understandings or arrangements between Mr. Bernstein, Mr. Wang, or Ms. Wang and any other person pursuant to which Mr. Bernstein, Mr. Wang, or Ms. Wang was appointed as a director. Mr. Bernstein, Mr. Wang, and Ms. Wang do not have any family relationship with any director, executive officer or person nominated or chosen by us to become a director or executive officer.

Outstanding Equity Awards at Fiscal Year-End

There were no option exercises in fiscal year of 2011 or options outstanding as of December 31, 2011.

Pension and Retirement Plans

Currently, except for contributions to the PRC government-mandated social security retirement endowment fund for those employees who have not waived their coverage, we do not offer any annuity, pension or retirement benefits to be paid to any of our officers, directors or employees. There are also no compensatory plans or arrangements with respect to any individual named above which results or will result from the resignation, retirement or any other termination of employment with our company, or from a change in our control.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth certain information with respect to the beneficial ownership of our voting securities by (i) any person or group owning more than 5% of any class of voting securities, (ii) each director, (iii) our Chief Executive Officer and President and (iv) all executive officers and directors as a group as of December 31, 2011.

Amount and Nature of Beneficial Ownership

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percentage of Common Stock	
Directors and Executive Officers				
Common Stock	Zhenyong Liu CEO and Director	5,114,841	27.71	%
Common Stock	Winston C. Yen CFO (1)	8,750	*	
Common Stock	Dahong Zhou Secretary	0	0	%
Common Stock	Drew Bernstein Director (2)	9,375	*	
Common Stock	Fuzeng Liu Director	0	0	%
Common Stock	Wenbing Christopher Wang Director (3)	5,000	*	
Common Stock	Zhaofang Wang Director	0	0	%
All Directors and Executive Officers as a Group (7 persons)		5,137,966	27.83	%

*less than 1% of the Company's issued and outstanding common shares.

(1) On April 21, 2010, the Company renewed the Loanout Agreement with Winston C. Yen, CPA, a Professional Accountancy Corporation ("Lender") for the services of Lender's employee, Winston C. Yen, as Chief Financial Officer, for a period of one year from the date of renewal and amended the Agreement to include the followings: (i) Mr. Yen's workload extends from 80 hours per month to 40 hours per week, (ii) effective January 1, 2010, his annual cash compensation was increased to $120,000, and (iii) shares compensation remains 5,000 shares per year, vested quarterly, and is subject to a lock-up period of one year.

(2) Effective October 28, 2009, the Company entered into an appointment letter with Drew Bernstein. Pursuant to the agreement, Mr. Bernstein was appointed our director and shall receive an annual salary of $20,000, payable on a monthly basis. Mr. Bernstein shall also receive 7,500 shares of common stock with piggyback registration rights subordinate to any investors in any past or present private placement of securities.

(3) Effective October 28, 2009, the Company entered into an appointment letter with Wenbing Christopher Wang. Pursuant to the agreement, Mr. Wang was appointed our director and shall receive an annual salary of $20,000, payable on a monthly basis. Mr. Wang shall also receive 4,000 shares of common stock, which represents $20,000 divided by the closing price of the common stock on October 28, 2009, with piggyback registration rights subordinate to any investors in any past or present private placement of securities.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Mr. Zhenyong Liu is the director, principal stockholder and chief executive officer of the Company. He loaned money to HBOP for working capital purposes over a period of time. On July 24, 2008, the term of the loan changed from payable on demand to a period of three years, maturing on July 23, 2011, with no interest bearing. On August 31, 2009, Orient Paper, HBOP, and Mr. Liu entered into a tri-party Debt Assignment and Assumption Agreement, under which Orient Paper agreed to assume the loan of $4,000,000 due from HBOP to Mr. Liu. Concurrently, Orient Paper issued 1,204,341 shares of restricted common stock to Mr. Liu at the market price of $3.32132 per share. As of December 31, 2011 and 2010, net amount due to Mr. Liu were $2,299,311 and $2,209,068, respectively.

On December 31, 2009, a new loan agreement was entered into between Mr. Liu and HBOP to replace the prior loan agreement. Under the new agreement, the loan of Mr. Liu is interest bearing and the interest rate is determined by reference to the People's Bank of China, which was 5.85% per annum as of December 31, 2010. The term is for 3 years and starts from January 1, 2010.

On August 1 and August 5, 2008, two members of the Board of Directors of HBOP loaned money to the Company for working capital purposes. The amounts owed bear interest with reference to the borrowing rate offered by the People's Bank of China and are due on July 31 and August 4, 2011, respectively. As of December 31, 2010, the total loan amount payable was $2,041,804 to HBOP. The Company paid off the loan balance to both directors of HBOP by August 4, 2011. The interest rate for the year ended December 31, 2011 and 2010 was 5.85% and 5.85% per annum, respectively.

On February 5, 2010, the Company borrowed $200,000 from a shareholder to pay for various expenses incurred in the U.S. The amount was repayable on demand interest free, and Company repaid the entire balance on April 14, 2010.

On November 30, 2011, the Company borrowed $200,000 from a shareholder to pay for various expenses incurred in the U.S. The amount is repayable on demand with interest free. The Company repaid the entire balance on January 4, 2012.

Procedures for Approval of Related Party Transactions

Our Board of Directors is charged with reviewing and approving all potential related party transactions. All such related party transactions must then be reported under applicable SEC rules. We have not adopted other procedures for review, or standards for approval, of such transactions, but instead review them on a case-by-case basis.

Director Independence

The Company currently has three independent directors, Drew Bernstein, Wenbing Christopher Wang, and Zhaofang Wang, as that term is defined under the National Association of Securities Dealers Automated Quotation system.

Item 14. Principal Accountant Fees and Services

Audit Fees

We incurred approximately $247,893 for professional services rendered by our registered independent public accounting firm of BDO China for the integrated audit of the Company for 2011. Further, in 2011, we incurred approximately $254,104 for the quarterly reviews and re-audit of 2008 by BDO Limited. In 2010, we incurred approximately $263,674 for the quarterly reviews and the integrated audit of the Company by BDO Limited.

Audit-Related Fees

Orient Paper incurred a $22,000 fee payable to BDO Limited for their issuance of a comfort letter in connection with the public offering closed on March 31, 2010. No such fees incurred in 2011.

Tax Fees

Orient Paper incurred approximately nil in fees to ACCellence, LLP, which is controlled by the Company’s chief financial officer, for tax compliance or tax consulting services during the year ended December 31, 2011.

All Other Fees

Orient Paper did not incur any fees from its registered independent public accounting firm for services rendered to Orient Paper, other than the services covered in "Audit Fees" and “Audit-Related Fees” for the fiscal year ended December 31, 2011.

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Effective May 6, 2003, the Securities and Exchange Commission adopted rules that require that before our auditor is engaged by us to render any auditing or permitted non-audit related service, the engagement be:

- approved by our audit committee; or
- entered into pursuant to pre-approval policies and procedures established by the audit committee, provided the policies and procedures are detailed as to the particular service, the audit committee is informed of each service, and such policies and procedures do not include delegation of the audit committee's responsibilities to management.

With respect to the Company's auditing and other non-audit related services rendered by its registered independent public accounting firm for year 2011, all engagements were entered into pursuant to the audit committee's pre-approval policies and procedures.

PART IV

Item 15. Exhibits , Financial Statements Schedules

Exhibit **No.**	**Description of Exhibit**
3.1	Articles of Incorporation.(1)
3.2	Certificate of Amendment to Articles of Incorporation.(2)
3.3	Bylaws.(1)
3.4	Specimen of Common Stock certificate.(1)
10.1	Land Lease Agreement, dated January 2, 2002, by and between the Company and Xushui County Dayin Township Wuji Village Committee and Party Branch. (3)
10.2	Land Use Rights Certificate, dated March 10, 2003. (3)
10.3	Loan Agreement, dated January 21, 2009, by and between Industrial & Commercial Bank of China, Xushui Sub-branch and Hebei Baoding Orient Paper Milling Company Limited. (4)
10.4	Short Term Credit Facility Extension Agreement, dated January 23, 2009, by and between United Commercial Bank (China) Limited and Hebei Baoding Orient Paper Milling Company Limited.(4)
10.5	Short-Term Loan Deferred Payment Agreement dated August 20, 2009, by and between United Commercial Bank (China) Limited and Orient Paper, Inc.(5)
10.6	Purchase and Sale Agreement, dated June 24, 2009, by and among Orient Paper, Inc., XushuiDongfang District Trading Limited Company, Barron Partners, LP, Fernando Liu and Golden1177 LP.(6)
10.7	Escrow Agreement, dated June 24, 2009, by and among Orient Paper, Inc., XushuiDongfang District Trading Limited Company, Barron Partners, LP, Fernando Liu and Golden1177 LP, and Sichenzia Ross Friedman

	Ference LLP, as escrow agent (6)
10.8	Exclusive Technical Service and Business Consulting Agreement, dated June 24, 2009, by and between HBOP and Baoding Shengde.(6)
10.9	Proxy Agreement, dated June 24, 2009, by and between HBOP, Baoding Shengde, and the shareholders of HBOP.(6)
10.10	Loan Agreement, dated June 24, 2009, by and between HBOP, Baoding Shengde, and the shareholders of HBOP.(6)
10.11	Call Option Agreement, dated June 24, 2009, by and between HBOP, Baoding Shengde, and the shareholders of HBOP.(6)
10.12	Share Pledge Agreement, dated June 24, 2009, by and between HBOP, Baoding Shengde, and the shareholders of HBOP.(6)
10.13	Termination of Loan Agreement, dated February 10, 2010, by and between HBOP, Baoding Shengde, and the shareholders of HBOP.(7)
10.14	Call Option Agreement Amendment, dated February 10, 2010, by and between HBOP, Baoding Shengde, and the shareholders of HBOP.(7)
10.15	Share Pledge Agreement Amendment, dated February 10, 2010, by and between HBOP, Baoding Shengde, and the shareholders of HBOP.(7)
10.16	Securities Purchase Agreement dated October 7, 2009 between the Company and the Access America Fund, LP, Renaissance US Growth Investment Trust Plc, RENN Global Entrepreneurs Funds, Inc., Premier RENN Entrepreneurial Fund Limited, Pope Investments II, LLC and Steve Mazur (collectively, the “Buyers”).(8)
10.17	Make Good Securities Escrow Agreement dated October 7, 2009 between the Company, the Buyers, Zhenyong Liu and the Sichenzia Ross Friedman Ference LLP (the “Escrow Agent”).(8)
10.18	Escrow Agreement dated October 7, 2009 between the Company, the Buyers, Zhenyong Liu and the Escrow Agent.(8)
10.19	Registration Rights Agreement between the Company and the Buyers dated October 7, 2009.(8)
10.20	Lock-Up Agreement between Company and Zhenyong Liu dated October 7, 2009.(8)
10.21	Asset Purchase Agreement, dated November 25, 2009, by and between Baoding Shengde Paper Co., Ltd. and HebeiShuangxing Paper Co., Ltd.(9)
10.22	Debt Assignment and Assumption Agreement, dated August 31, 2009, by and among the Company, Zhenyong Liu and the HBOP.

10.23	Loan Agreement, dated January 21, 2009, for a loan of RMB13,000,000, by and between Industrial & Commercial Bank of China, Xushui Sub-branch and Hebei Baoding Orient Paper Milling Company Limited.(10)
10.24	Purchase Agreement, dated March 31, 2010, for the sale of 3,000,000 shares of Common Stock, by and between Orient Paper, Inc. and Roth Capital Partners, LLC.(11)
10.25	Purchase Agreement, dated April 9, 2010 by and between Henan Qinyang First Paper Machine Limited and Hebei Baoding Orient Paper Milling Company Limited for the purchase of a series of paper machineries and equipments.(12)
10.26	Amendment to Loanout Agreement by and between Orient Paper, Inc. and Winston C. Yen.(13)
16.1	Letter of Davis Accounting Group P.C. to the Securities and Exchange Commission pursuant to the requirements of Item 304(a)(3) of Regulation S-B.(14)
21.1	Lists of Subsidiaries (15)
23.1	Consent of Independent Registered Public Accounting Firm.
23.2	Consent of Independent Registered Public Accounting Firm.
23.3	Report of Independent Registered Public Accounting Firm.
31.1	Certification Required Under Section 302 of Sarbanes-Oxley Act of 2002.
31.2	Certification Required Under Section 302 of Sarbanes-Oxley Act of 2002.
32.1	Certification Required Under Section 906 of Sarbanes-Oxley Act of 2002.
32.2	Certification Required Under Section 302 of Sarbanes-Oxley Act of 2002.

(1) Incorporated by reference to the exhibit to our report on form SB-2 filed with the SEC on August 4, 2006.
(2) Incorporated by reference to the exhibit of the same number to our Current Report on form 8-K filed with the SEC on December 28, 2007.
(3) Incorporated by reference to the exhibit to our amended Annual Report on form 10-K/A filed with the SEC on February 1, 2010.
(4) Incorporated by reference to the exhibit to our amended Quarterly Report for the quarter ended March 30, 2009 on form 10-Q/A filed with the SEC on February 1, 2010.
(5) Incorporated by reference to the exhibit to our amended Quarterly Report for the quarter ended September 30, 2009 on form 10-Q/A filed with the SEC on February 1, 2010
(6) Incorporated by reference to the exhibit to our Current Report on form 8-K filed with the SEC on June 30, 2009.
(7) Incorporated by reference to the exhibit to our Current Report on form 8-K filed with the SEC on February 11, 2010.
(8) Incorporated by reference to the exhibit to our Current Report on form 8-K filed with the SEC on October 8, 2009.
(9) Incorporated by reference to the exhibit to our Current Report on form 8-K filed with the SEC on December 10, 2009.
(10) Incorporated by reference to the exhibit to our Quarterly Report on Form 10-Q/A filed with the SEC on February 1, 2010.
(11) Incorporated by reference to the exhibit to Current Report on form 8-K filed with the SEC on March 31, 2010.
(12) Incorporated by reference to the exhibit to our Current Report on form 8-K filed with the SEC on April 12, 2010.
(13) Incorporated by reference to the exhibit to our Current Report on form 8-K filed with the SEC on April 21, 2010.
(14) Incorporated by reference to the exhibit to our Current Report on form 8-K filed with the SEC on December 1, 2009.
(15) Incorporated by reference to the exhibit to our Annual Report on Form 10-K filed with the SEC on March 15, 2011.

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SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 15, 2012

ORIENT PAPER, INC.

By:/s/ Zhenyong Liu
Zhenyong Liu
Chief Executive Officer

In accordance with the Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ Zhenyong Liu Zhenyong Liu	Chief Executive Officer and Chairman of the Board (principal executive officer)	March 15, 2012
/s/ Winston C. Yen Winston C. Yen	Chief Financial Officer (principal financial and accounting officer)	March 15, 2012
/s/ Fuzeng Liu Fuzeng Liu	Director	March 15, 2012
/s/ Drew Bernstein Drew Bernstein	Director	March 15, 2012
/s/ Wenbing Christopher Wang Wenbing Christopher Wang	Director	March 15, 2012
/s/ Zhaofang Wang Zhaofang Wang	Director	March 15, 2012

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