

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

(Mark One)

FORM 10-K

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

For the fiscal year ended December 31, 2010

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
State or other jurisdiction of
Incorporation or organization

20-4158835
(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
Common Stock

Name of each exchange on which registered
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 ☒ 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 ☒

☐ No

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.

☒ 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).
☐ 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 ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Accelerated filer ☐

Smaller reporting company ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). ☐ Yes ☒ 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, 2010 was approximately \$88,250,878 (13,211,209 shares of common stock held by non-affiliates) based upon a closing price of the common stock of \$6.68 as quoted by the American Stock Exchange on June 30, 2010.

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 December 31, 2010, there are presently 18,344,811 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 owned 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” and 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 “Carlatelateral, 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 rata 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 agreements, 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.

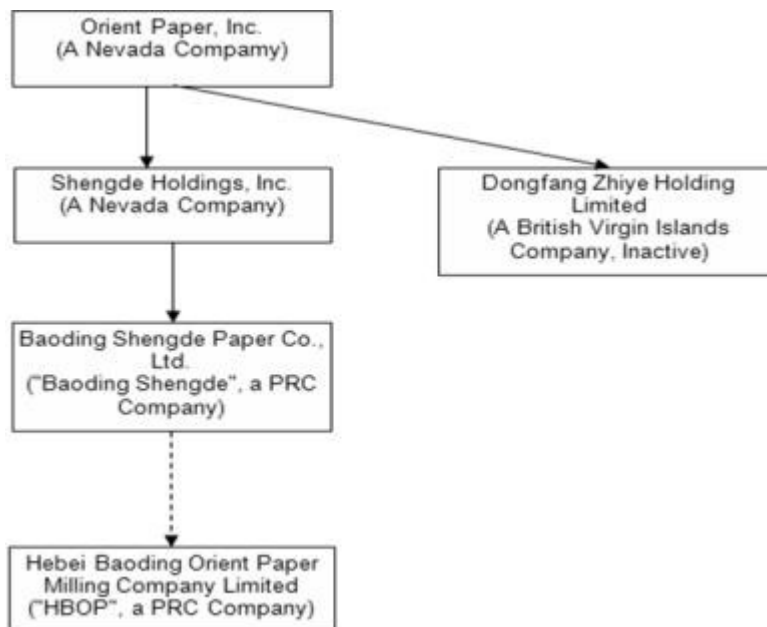
On June 24, 2009, Zhao Tianqing, the sole shareholder of Shengde Holdings Inc., assigned to Orient Paper, for good and valuable consideration, 100 shares representing 100% of the issued and outstanding shares of Shengde Holdings Inc. As a result of this assignment and the restructuring transactions described 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 began 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.

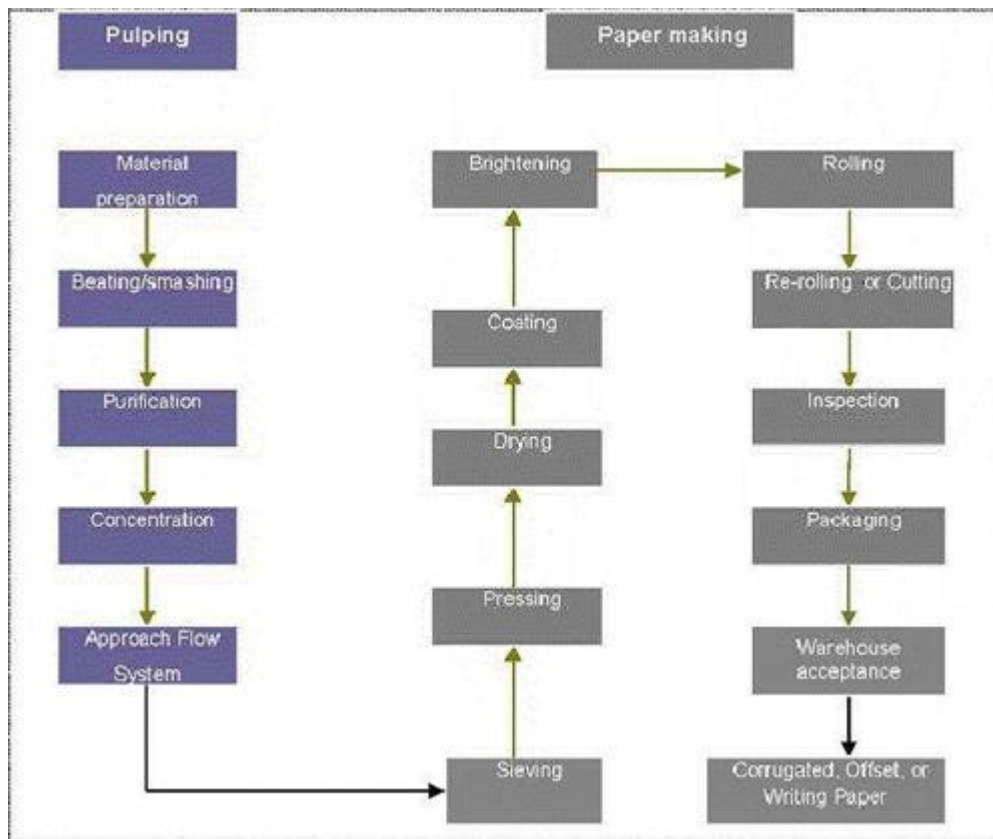
Pulping

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.

Products

Corrugating medium paper

Corrugating medium paper is used in the manufacturing of cardboards and comprises approximately 48% of our total paper production quantities and roughly 28% of our total revenue for the year ended December 31, 2010. 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 51% of our total paper production quantities and approximately 68% of our total sales revenue for the year ended December 31, 2010. 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

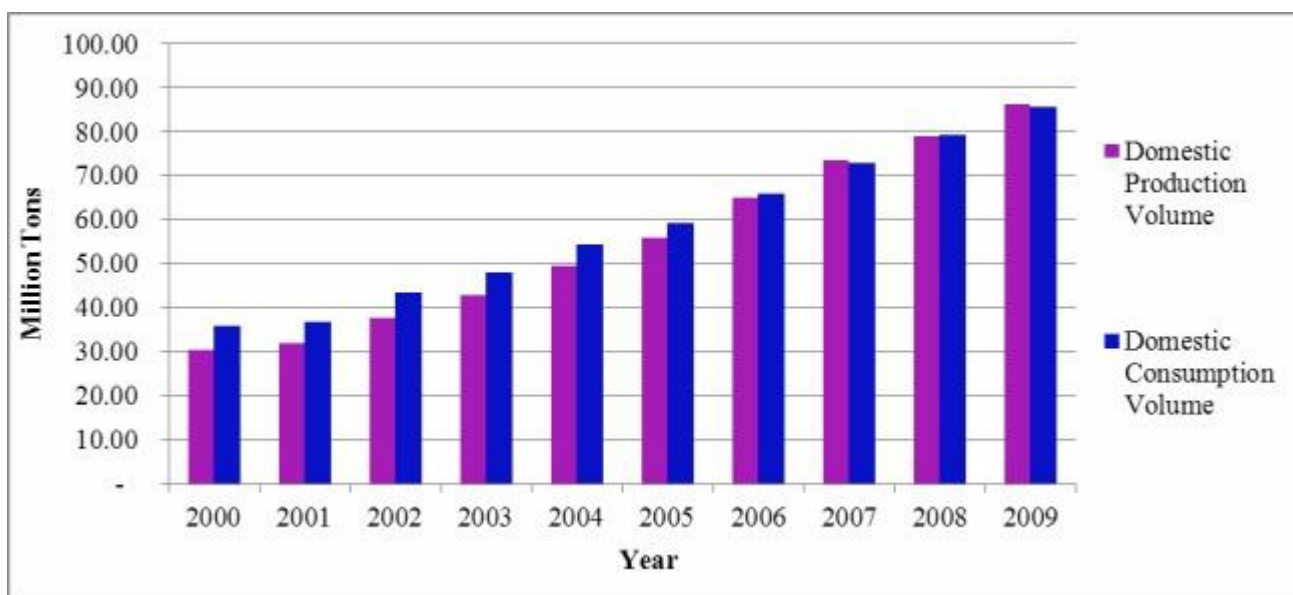
Starting in March 2010, Baoding Shengde began producing digital photo papers that are cast-coating, and water-proof. These digital photo papers are sold to printing companies and paper distributors, who eventually sell to advertising companies and printing companies which use photo-quality paper for multiple-color printing or local photo studios for production of special event printouts or personal home printing use. Beginning in January 2011, we also started testing the foreign markets by generating small amounts of export sales from digital photo paper.

Market for our Products

The PRC Paper Making Industry

According to the most recent general survey by the China Paper Association, in 2009, there were approximately 3,700 paper and paper board manufacturers in the People's Republic of China, with a total output of 86.40 million tons, up 8.27% from 79.80 million tons in 2008. Total domestic consumption was 85.69 million tons in 2009, up 7.99% from 79.35 million tons a year before.

Compared with year 2000, output in 2009 had increased by approximately 183.28% and consumption grew by approximately 139.69%. The output of paper and paper board maintained an average growth rate of approximately 12.27% during the ten-year period of 2000-2009, while consumption increased at an annual rate of 12.27%, both higher than the GDP growth rate of the same period. The growth rate is expected to continue. According to the China Paper Association, the People's Republic of China is currently ranked second in the world in terms of output and consumption of paper and paper board products. It is also estimated that China's paper production capacity may reach 92 million tons in year 2010, thus becoming the world's largest paper producer (news article: "China may become world's No. 1 Paper Producer," ND Daily, January 3, 2011).



Data source: 2009 Annual Report of the Paper Making Industry, China Paper Association

Domestic corrugating medium paper production in 2009 totaled 17.15 million tons, a 12.83% increase from year 2008. Domestic consumption of coated printed offset printing paper amounted to 17.58 million tons, an increase of 13.27% as compared to year 2008.

Domestic coated offset printing paper production in 2009 totaled 5.9 million tons, a 7.27% increase from year 2008. Domestic consumption of coated printed offset printing paper amounted to 4.63 million tons, a slight decrease of 0.86% as compared to year 2008.

The paper making industry in China is concentrated in eastern, coastal provinces. The largest paper production capacities by province during the years of 2008 and 2009 are summarized as follows:

Province	2008 Capacity (‘000 tons)	2009 Capacity (‘000 tons)	Change (‘000 tons)	% Change
Shandong	13,500	14,300	800	5.93%
Zhejiang	12,830	13,720	890	6.94%
Guangdong	11,540	13,160	1,620	14.04%
Jiangsu	9,300	10,260	960	10.32%
Henan	8,060	8,640	580	7.20%
Hebei	3,790	3,670	(120)	-3.17%
Fujian	2,970	3,130	160	5.39%
Hunan	2,800	3,000	200	7.14%
Sichuan	2,110	2,270	160	7.58%

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 shut down of a total of 4.6 million tons by September 2010. The capacities in the following jurisdictions were most affected by the order:

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

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 150 customers in year 2010. We had 25 customers buying digital photo paper from us during year 2010. Six of our top 10 customers in year 2010 are printing companies, with the largest customer being a paper distributor in Beijing. 83% of our total corrugating medium and offset printing paper revenue in 2010 was derived from customers in Beijing, Tianjin or Hebei Province.

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%

None of the 2010 major customers individually comprised more than 5% of our consolidated revenue. Out of the 10 largest customers of year 2010, six of them (representing 65.9% of the 2010 top-10 customer sales) were in the same list for the year ended December 31, 2009.

For the year ended December 31, 2009, major customers individually accounting for more than 3% of our total sales revenue were as follows:

	2009 Sales Amount (\$USD, net of applicable VAT)	% of Total Revenue
Company B (Baoding)	5,333,532	5.22%
Company C (Baoding)	4,920,583	4.82%
Company A (Beijing)	4,516,621	4.42%
Company D (Baoding)	4,284,054	4.19%
Company E (Hebei)	3,435,540	3.36%
Company F (Baoding)	3,112,362	3.05%
Total Major Customers	25,602,692	25.06%

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 fiscal year ended December 31, 2010, HBOP had a production capacity of approximately 280,000 tons. In late June 2010, we demolished a smaller corrugating medium paper production line with capacity of approximately 34,000 tons for the preparation of installation of a new corrugating medium paper production line. As of December 31, 2010, estimated production capacity on the two offset printing paper and one corrugating medium paper 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 are installing a brand new corrugating medium paper production line with the estimated capacity of 360,000 tons per year. The installation of the new production line is expected to be completed in the second quarter of 2011. With the additional new capacity, we will 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, 2010, we have paid a \$6,957,258 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. We intend to build additional paper production facilities on the land to be acquired, including a 100,000 ton printing paper line and a 100,000 ton household paper production line, as well as corrugating medium paper production lines. 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 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, 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, 2010, we had three large suppliers which primarily accounted for 51%, 13% and 8% of total major purchases. For the year ended December 31, 2009, we had three large suppliers which primarily accounted for 37%, 32%, and 13% of total major purchases.

For the years ended December 31, 2010 and 2009, our top 3 suppliers were as follows:

	2010 Purchase Amount (\$USD, including applicable VAT)	2009 Purchase Amount (\$USD, including applicable VAT)
Company A	49,190,698	30,735,933
Company B	12,194,668	26,957,033
Company C	7,916,398	11,235,281

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 4 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 2.0 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 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 their 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 \$18,233 and \$30,546 in R&D expenses for the years ended December 31, 2010 and 2009, 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. For 2011, we anticipate that our actual digital photo paper production output will reach or even exceed the estimated full production capacity of 2,500 tons.

In addition to the three operating production lines, HBOP owns two other productions lines that are under renovation. During the fourth quarter of year 2010, we spent approximately \$1.36 million in machine parts and new components to renovate one production line, which we expect will be able to produce certain 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.

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 on March 12, 2010, and will be effective until March 11, 2011. Renewal application has been submitted and new permit is expected to be issued by the provincial government before the end of March 2011.

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, 2010, we have approximately 600 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 through HBOP. Our chairman, CEO and 27.89% 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 waiver 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, Zhao Fang 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 72% 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, 2010. 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 on March 12, 2010. Our latest permit is effective from March 12, 2010 through March 11, 2011. An application to renew has been filed with the local environment protection agency and the new license is expected to be issued shortly after March 11, 2011.

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.

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 fms.treas.gov/intn.html, as of December 31, 2010, \$1 = 6.6700 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 RMB5,669,500 as opposed to RMB 6,670,000 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 \$130,370 as opposed to \$149,925 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 19.44% appreciation of the Renminbi against the U.S. dollar as of December 31, 2010. 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.

The relative lack of public company experience of our management team may put us at a competitive disadvantage.

Our management team lacks public company experience, which could impair our ability to comply with legal and regulatory requirements such as those imposed by Sarbanes-Oxley Act of 2002. The individuals who now constitute our senior management have never had responsibility for managing a publicly traded company. Such responsibilities include complying with federal securities laws and making required disclosures on a timely basis. Our senior management may not be able to implement programs and policies in an effective and timely manner that adequately responds to such increased legal, regulatory compliance and reporting requirements. Our failure to comply with all applicable requirements could lead to the imposition of fines and penalties and distract our management from attending to the growth of our business.

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, 2010, there were 18,344,811 shares of our common stock issued and outstanding. Our officers and directors beneficially own approximately 27.98% of our common stock. Mr. Zhenyong Liu, our Chief Executive Officer, beneficially owns approximately 27.89% 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 27.98% 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 in the foreseeable future.

We intend to retain any future earnings for use in the operation and expansion of our business. We do not expect to pay any cash dividends in the foreseeable future 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, 2010, 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 \$18,149 (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 \$2,189,328 (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, 2010 our facilities include a total of 7 production lines, 3 warehouses, 2 office buildings, 2 cafeterias, and 1 dormitory. Major equipment includes 5 papermaking machines (3 currently operating and 2 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, which is still under construction, all costs of our facilities have been paid in full.

Item 3. Legal Proceedings

On August 20, 2010, the Company was served notice of a stockholder class action lawsuit filed on August 6, 2010 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). One group of three shareholders, including Mr. Henning, with a total alleged loss of approximately \$150,000 has filed a motion to be appointed as lead plaintiff and has been so appointed by the court. The Company and the defendant officers and directors have retained the law firm DLA Piper US LLP to represent them in connection with the lawsuit. The Company believes that the lawsuit has no merit and intends to mount a vigorous defense. 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. 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 date of this statement.

Item 4. (Removed and Reserved)

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, 2009 through December 31, 2010 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
2009 First Quarter	0.56	0.20
2009 Second Quarter	2.80	0.48
2009 Third Quarter	5.60	1.80
2009 Fourth Quarter	10.76	4.64
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

As of December 31, 2010, we had approximately 7,000 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 years and we do not anticipate the payments of dividends in the near future as we intend to reinvest our profits to grow operations.

Equity Compensation Plan Information

None.

Recent Sales of Unregistered Securities

On October 29, 2007, the Company issued 7,450,497 aggregate shares of its common stock to the shareholders of Dongfang Holding in a merger transaction. The 7,450,497 shares were issued without registration under Section 5 of the Securities Act of 1933, as amended (the "Securities Act"), in reliance on the exemptions from registration contained (i) in Section 4(2) of the Securities Act and (ii) under Regulation S of the Securities Act afforded generally to offshore transactions involving non-U.S. persons.

The Company did not sell any unregistered securities during the fiscal year ended December 31, 2008.

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.

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, 2010 and 2009 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,” “would,” and similar 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

For simplicity of the following analysis, when referring to “offset printing paper,” we include any sales revenue and cost of sales of high-grade offset printing paper, writing paper, white card paper, Diazo paper and copy paper into the category of offset printing paper.

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	
	Qty.(Ton)	Amount	Qty.(Ton)	Amount	Qty.(Ton)	Amount	Qty.(Ton)	Amount
Sales Revenue								
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	<u>220,124</u>	<u>\$ 118,858,497</u>	<u>238,882</u>	<u>\$ 102,142,828</u>	(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.

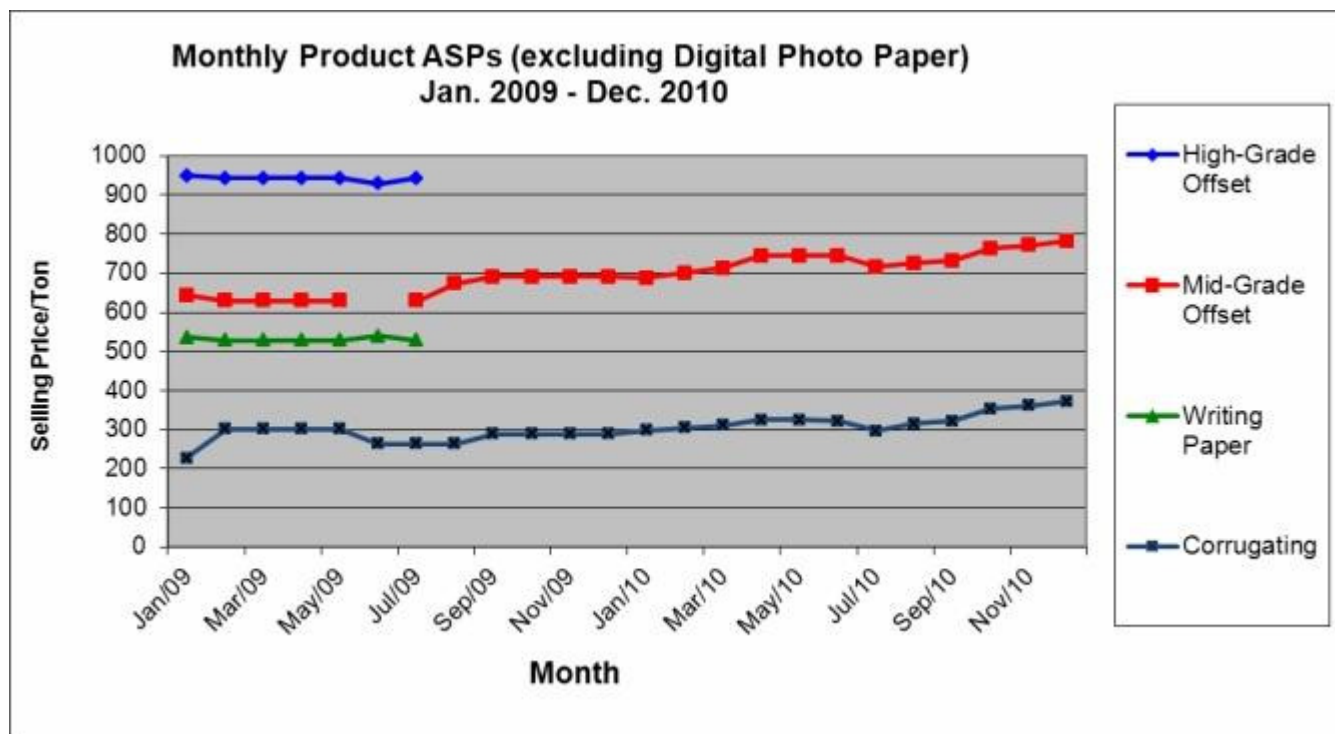
Beginning in late June 2010, we shut down and later demolished one of our two corrugating medium paper production lines. We had originally planned to build a new 360,000 ton/year new corrugating medium paper production line and other facilities on some 667,000 square meters of land across the street 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 is expected to begin production in the second quarter of 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.

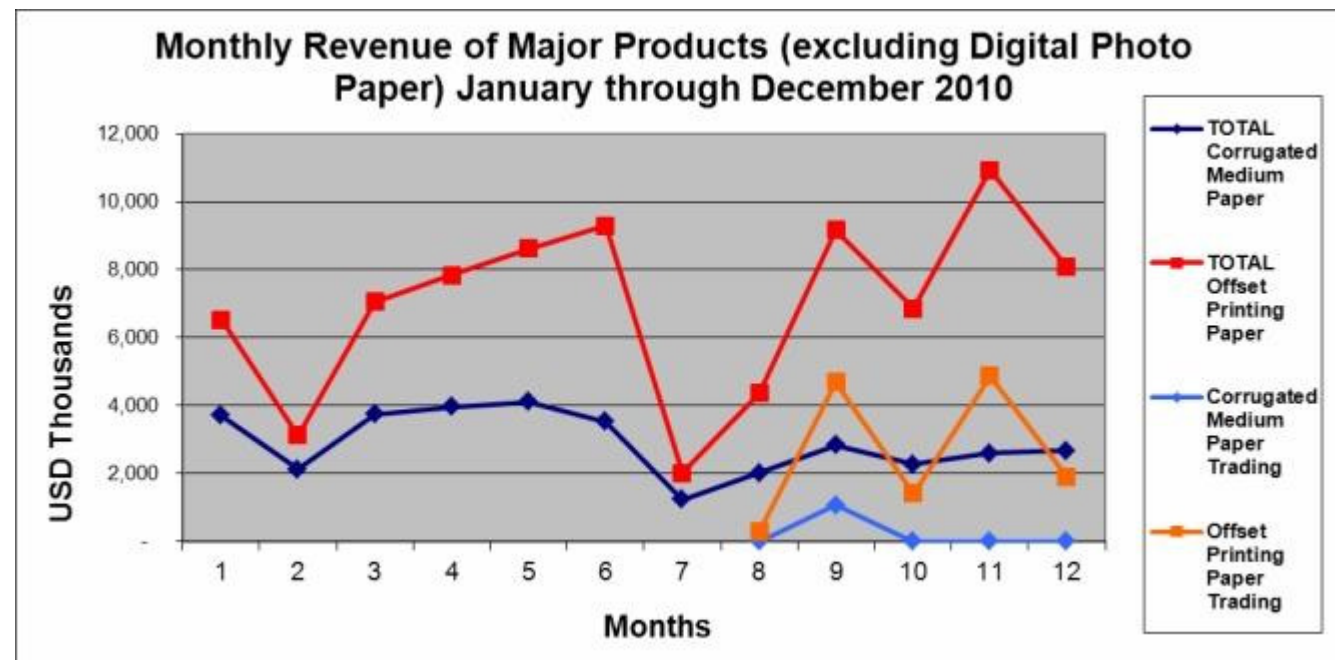
As a partial remedy for the lost production, starting in August 2010 the Company entered into four offset printing paper supply agreements and one corrugating medium paper supply agreement with paper manufacturers in Hebei Province and the neighboring Shandong province (the "Supply Agreements"). These 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:



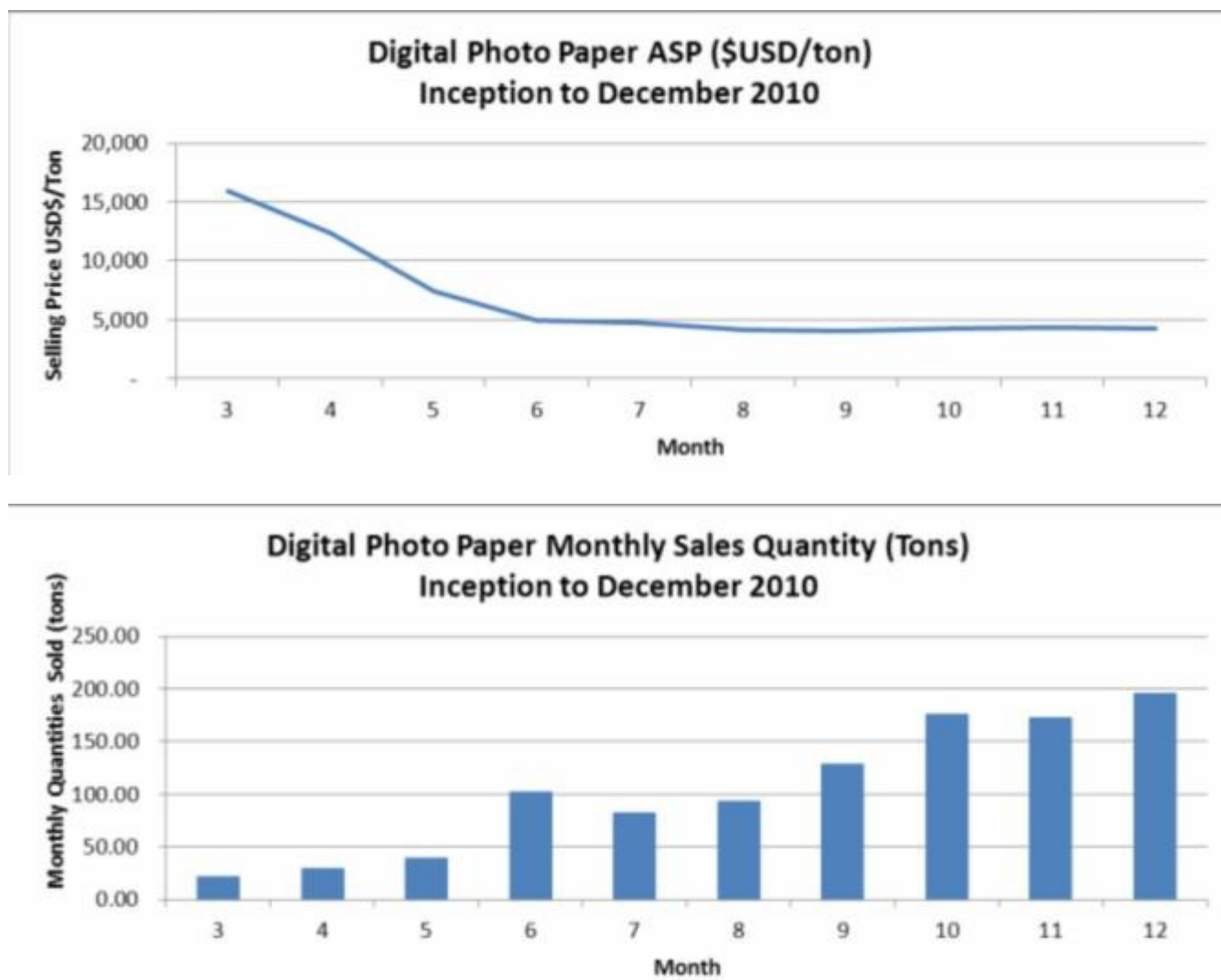
Revenue of Digital Photo Paper

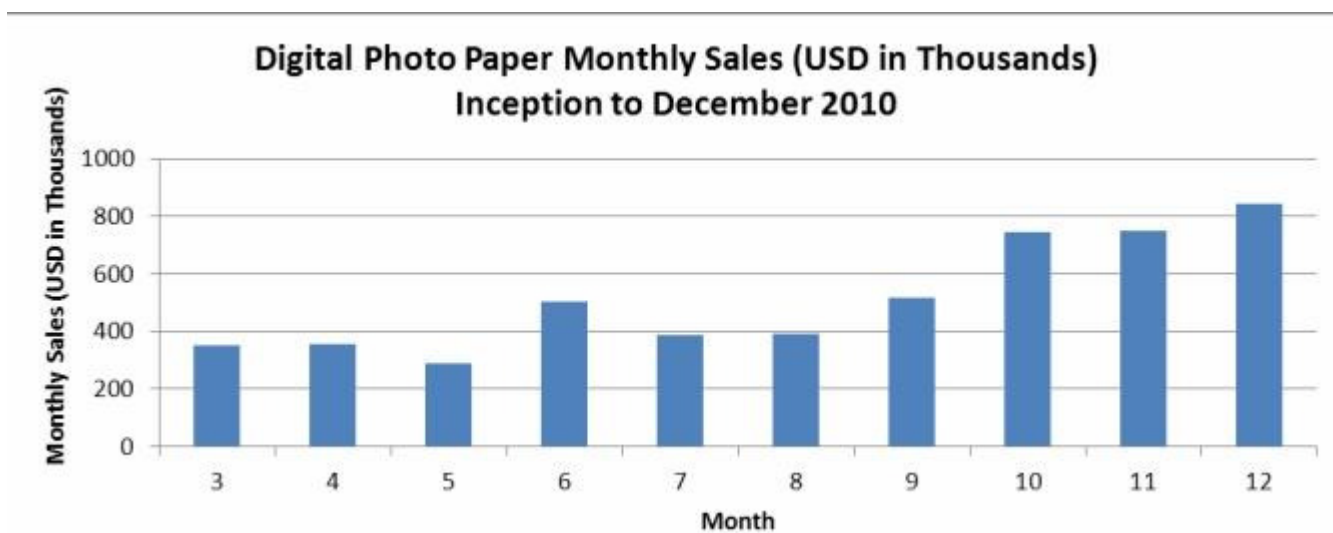
Since March 2010, we have started producing and selling digital photo paper. Revenue generated from selling digital photo paper was \$5,131,420 (or 4.14% of total revenue) for the period from inception to December 31, 2010:

Sales Revenue	Ten Months Ended December 31, 2010		Year Ended December 31, 2009		Change in		Percentage Change	
	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/m² to 260g/m²). 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:

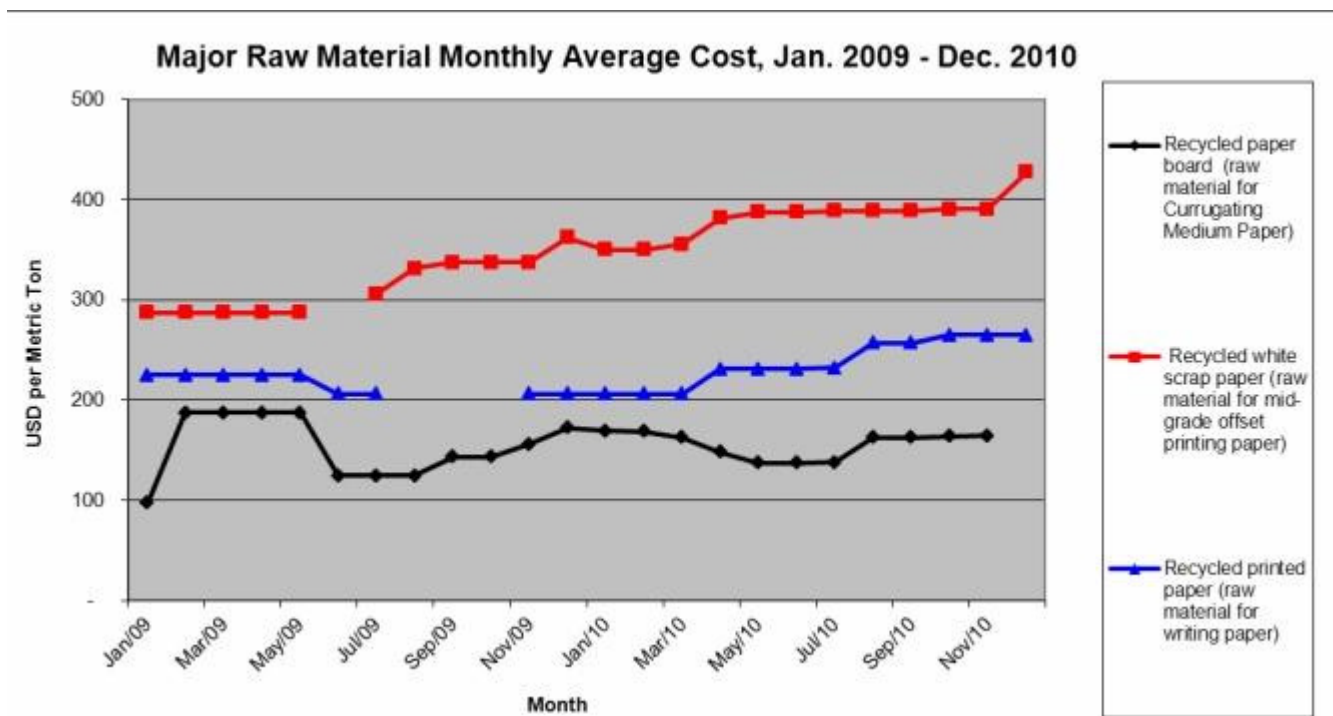




Cost of Sales

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.

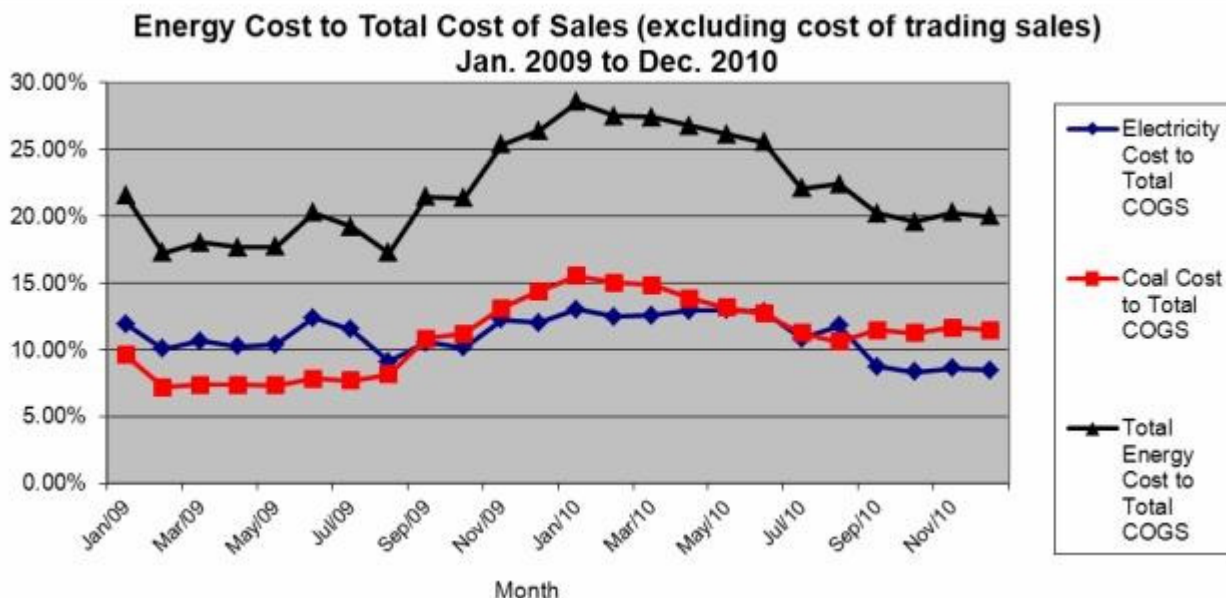
Monthly average purchase costs of our major raw materials for the period of January 2009 through December 2010 are as follows:



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	<u>\$ 7,422,518</u>	<u>\$ 6,926,392</u>	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 one year ago. 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

We had net working capital of \$9,347,926 at December 31, 2010, an increase of \$2,323,673 over a net working capital of \$7,024,253 at December 31, 2009.

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 year 2009 and 2010 are financed by cash flows generated from business operations and by proceeds of equity financing transactions. As of December 31, 2010 we had approximately \$7,600,000 in capital expenditure commitments that were related to the construction of a new corrugating medium paper production line and will be satisfied by payment of cash within the next 12 months. We also intend to complete the acquisition of some 667,000 square meters of land within the next 12 months. The land acquisition is expected to consume an additional \$14,500,000 in cash to pay for the financial compensation to current land owners and for the land use rights to the government. We expect to finance the above capital expenditures and land acquisition with the net working capital of \$9,347,926, the net cash inflows generated from year 2011 business operations, which is estimated to be at least \$19,000,000, and if necessary, new loans from local Chinese banks. We do not have any firm commitment from the local banks with respect to new credit facilities in addition to the current bank borrowings, which aggregated to approximately \$4,900,000 as of December 31, 2010. However, based on the present loan to equity ratio (which is less than 14% as of December 31, 2010), we do not believe the Company will have any problem securing additional bank loans as needed.

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

Cash and Cash Equivalents

Our cash and cash equivalents at the end of the year ended December 31, 2010 was \$11,348,108, an increase of \$4,398,155 from \$6,949,953 as of December 31, 2009. The increase over the year 2009 balance 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 \$20,359,738 for the year ended December 31, 2010, representing an increase of \$5,321,068 or 35.38% from \$15,038,670 for the comparable period in 2009. The net income for the year ended December 31, 2010 in the amount of \$15,551,536 represented an increase of \$2,831,328 or 22.26% from \$12,720,208 for the comparable period in 2009. In addition to the net income, there are certain non-cash charges (including depreciation in the amount of \$4,147,777 and a one-time charge of \$1,115,362 for the loss on disposition of a smaller corrugating medium paper production line and two industrial buildings that were demolished for the purpose of constructing a new plant in late June 2010) that reduced the net income but did not have the effect of reducing the balance of cash and cash equivalents. In addition to the non-cash charges, net cash flow from operating activities was also affected by a decrease in accounts payable of \$1,431,851, as well as increases in other accrued expenses and income tax payable for a total amount of \$954,723 during the year of 2010.

ii. Net cash used in investing activities

The Company incurred \$41,560,741 in cash expenditures for investing activities, including \$34,774,829 in purchases of new equipment and progress payments for the construction of a new corrugating medium paper production line and ancillary facilities and \$6,785,912 for the first phase of the acquisition of a parcel of roughly 667,000 square meters of land across the street from our current main manufacturing facilities. The total contract price for the new corrugating medium paper production equipment, which will have an annual capacity of 360,000 tons, is \$29,507,850 and represents an unpaid purchase commitment in the next twelve months in the amount of \$4,401,222. In addition, cost of contracts that we entered into to build other ancillary facilities for the new corrugating medium paper production line, including a new pulping station and water treatment plant, amounted to \$10,210,154, of which \$3,090,989 was unpaid as of December 31, 2010. Total unpaid capital expenditure commitment as of December 31, 2010 was in the amount of \$7,628,331, which we expect to pay for with (1) current cash and cash equivalent balance of approximately \$11.4 million, (2) additional bank loans, and/or (3) cash flows from operating activities in the next twelve months.

The Company made a land acquisition deposit payment in June 2010 in the amount of \$11,494,601 to the local residents council, which is in charge of the reimbursement and relocation of the residents who occupied the parcel of subject land that is a vital part of any future expansion of our facilities. As of September 30, 2010, 56 families of local residents on the subject land have contracted to surrender their land use rights (representing roughly 85% of the total land to be acquired) and have been reimbursed. The land acquisition process will continue throughout the rest of the year for us to obtain the title through the local government. 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 total amount of \$4,537,341. In addition to the remaining deposit, to complete the land acquisition we estimate that the entire land acquisition process will require an additional \$14,500,000 (based on an estimated total average cost of approximately \$31.78 per square meter) of cash payment in the next six to twelve months, which is expected to be paid for by future cash flows generated by our operating activities. If, however, the relocation and financial restoration phase progress continue to stall for more than six to twelve months, we may demand the full refund of whatever deposit already made from the local resident village council.

iii. Net cash provided by financing activities

Net cash provided by financing activities was \$25,091,542 during the year ended December 31, 2010, as compared to \$2,306,853 for the comparable period in 2009. In April 2010 the Company closed a public offering of 3,450,000 shares of its common stock and received net proceeds in the amount of \$26,570,161. \$25 million of the net proceeds were wired to the PRC bank account of Baoding Shengde on June 11, 2010 for future installment payments for the construction of the new corrugating medium paper production line.

Short term loans and current portion of long-term bank debt

On January 31, 2008, HBOP entered into a loan agreement with the Industrial & Commercial Bank of China, Xushui Branch, for a loan in the amount of RMB 13,000,000 (or \$1,966,182 at December 31, 2010). The loan is renewable at maturity and is secured by certain manufacturing equipment of the Company and payable on the maturity date of January 29, 2009. On January 21, 2009 the Company and the Bank renewed the loan agreement for another 12 months and extended the maturity date to January 20, 2010. The Company renewed the loan with the Industrial & Commercial Bank of China on January 28, 2010 for another one year period with the applicable interest rate adjusted to 5.841% per annum.

On September 5, 2008, HBOP entered into a loan agreement with the Industrial & Commercial Bank of China, Xushui Branch, for a credit facility in the amount of RMB 6,000,000 Yuan. The loan is renewable at maturity and subject to an 8.217% interest rate. The loan is due and payable on the maturity date of June 4, 2009. The Company renewed the loan with the bank for another 12-month period on June 1, 2009 and adjusted the interest rate to 5.841% per annum. The Company paid off the entire loan balance in May 2010 without renewing the loan.

On July 28, 2010, the Company obtained a new accounts receivable factoring facility with a maximum credit limit at \$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 expires on July 19, 2011.

On January 23, 2009, HBOP entered into a short term credit facility extension agreement with United Commercial Bank (China) Limited, for the extension of a revolving credit facility in the amount of \$2,000,000 and a non-revolving import loan of \$816,977. The original credit facility agreement was entered into on April 14, 2006 and extended on May 8, 2007. Under the terms of the extension agreement, the loan is collateralized by the Company's building, equipment and land use rights and personally guaranteed by Zhenyong Liu, our Chief Executive Officer. Interest payment is made monthly and is indexed to a floating interest rate, based upon 5% plus the three-month LIBOR, adjustable every three months. On August 20, 2009, the Company and the Bank entered into a Short-Term Loan Deferred Payment Agreement (the "Deferred Payment Agreement.") and began paying off the revolving credit line and the loan balances. As of December 31, 2010, total principal of such loan has been completely paid off.

On August 12, 2008, HBOP entered into a loan agreement with the Rural Credit Cooperative of Xushui Country, Dayin Branch, for a loan in the amount of RMB 13,280,000 Yuan (or \$2,008,530 as of December 31, 2010). The loan is guaranteed by an unrelated third party, Hebei Chenyang Industry and Trade Group Co., Ltd., and carries a 0.774% interest rate per month. The loan runs for three years, starting September 16, 2008, and is payable on the maturity date of September 16, 2011.

Shareholder loans

The Chief Executive Officer of Orient Paper loaned money (over a period of time) to HBOP for working capital purposes, which amounted to RMB 41,970,716 Yuan as of July 24, 2008, when the Chief Executive Officer of the Company agreed to change the term of the loan from payable on demand to a period of three years, maturing on July 23, 2011, and with no stated interest. On August 31, 2009, the Company, HBOP, and our Chief Executive Officer entered into a tri-party Debt Assignment and Assumption Agreement, under which the Company agreed to assume \$4,000,000, or RMB 27,364,800 Yuan, of HBOP's debt owed to our Chief Executive Officer. Concurrently with the assumption, the Company and our Chief Executive Officer agreed to convert the \$4,000,000 into equity of the Company at \$3.32132 (post reverse split) per share. Accordingly, the Company issued 1,204,341 shares of restricted common stock to our Chief Executive Officer on August 31, 2009. 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. As of December 31, 2010, HBOP's remaining loan balance payable to our Chief Executive Officer was \$2,209,068 with interest payable at 5.85% per annum.

On August 1, 2008, Shuangxi Zhao, a director of HBOP, loaned money to the Company for working capital purposes, which amounted to \$907,468 as of December 31, 2010. The amount owed bears interest at 5.85% per annum (equivalent to the interest rate determined by the People's Bank of China), and is due on July 31, 2011.

On August 5, 2008, Xiaodong Liu, a director of HBOP, loaned money to the Company for working capital purposes, which amounted to \$1,134,336 as of December 31, 2010. The amount owed bears interest at 5.85% per annum (equivalent to the interest rate determined by the People's Bank of China), and is due on August 4, 2011.

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 interest free and is repayable on demand. The Company repaid the entire balance on April 14, 2010.

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 shipped (delivery is generally deemed complete when the goods are shipped as the typical shipment terms are FOB shipping point), 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. Typical shipment term for all customers is FOB Shipping Point. Goods are considered shipped and delivered when customer's truck picks up goods at our finished goods inventory warehouse or when the goods are shipped to the customer from our 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, 2010 and 2009, 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, 2010 and 2009 to translate the Chinese RMB to the U.S. Dollars are 6.61180:1 and 6.8372:1, respectively. Revenues and expenses are translated using the average exchange rates prevailing throughout the respective years at 6.77875:1 and 6.84088:1 for the years ended December 31, 2010 and 2009, respectively. Translation adjustments are included in other comprehensive income (loss). 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 the transactions occurred. Transaction gains or losses are recognized in the consolidated statement of income.

Contractual Obligations and Off-Balance Sheet Arrangements

Contractual Obligations

We have certain fixed contractual obligations and commitments that include future estimated payments. 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

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 year	1 – 3 years	3 – 5 years	More than 5 years
Debt Obligations	\$ 4,882,180	\$ 4,882,180	\$ —	—	\$ —
Equipment and Construction Costs Commitment	7,628,331	7,628,331	—	—	—
Operating Lease Obligations	381,137	18,149	36,298	36,298	290,392
Total	\$ 12,891,648	\$ 12,528,660	\$ 36,298	\$ 36,298	\$ 290,392

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 (post reverse split) 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 to the Private Placement, the Company agreed to deposit \$300,000 of the proceeds in escrow to pay the expenses of a public relations and investor relations campaign of a design and type satisfactory to a representative of the Buyers. The Company also agreed to deposit \$2,000,000 of the proceeds in escrow on account of the Company appointing a Board of Director comprising a majority of independent Board of Directors acceptable to the Buyers. In addition, the Company agreed to reimburse Access America Investments, Inc. \$100,000 in transactional expenses from the proceeds of the Private Placement. As of November 9, 2009, the escrow agent has released the \$300,000 and \$2,000,000 hold-back to the Company according to related provisions of the escrow agreement.

In connection with the Private Placement and on October 7, 2009, the Company entered into a Make Good Securities Escrow Agreement with the Buyers and Mr. Zhenyong 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 (post reverse split) 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”):

- (a) If Net Income for 2009 shall be at least ten per cent (10%) less than the 2009 Performance Threshold, then (x) the 2009 Escrow Shares (defined below) shall be distributed on a pro rata basis to the Buyers based on the number of shares of common stock purchased by each Buyer pursuant to the Securities Purchase Agreement, and (y) within five (5) business days after March 31, 2010, the Company shall order the escrow agent to issue and deliver the 2009 Escrow Shares to each Buyer on a pro rata basis. “2009 Escrow Shares” shall be number of Escrow Shares equivalent to the percentage by which the Company missed the 2009 Performance Threshold. For example, if the Company were to miss the 2009 Performance Threshold by 15%, the 2009 Escrow Shares shall comprise 112,500 (post reverse split) shares of common stock.
- (b) If Net Income for 2010 shall be at least ten per cent (10%) less than the 2010 Performance Threshold, then (x) the 2010 Escrow Shares (defined below) shall be distributed on a pro rata basis to the Buyers based on the number of shares of common stock purchased by each Buyer pursuant to the Securities Purchase Agreement, and (y) within five (5) business days after March 31, 2011, the Company shall order the escrow agent to issue and deliver the 2010 Escrow Shares to each Buyer on a pro rata basis. “2010 Escrow Shares” shall be the number of Escrow Shares equivalent to the percentage by which the Company missed the 2010 Performance Threshold. For example, if the Company were to miss the 2010 Performance Threshold by 25%, the 2010 Escrow Shares shall comprise 187,500 (post reverse split) shares of Common Stock.

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 losses or expenses) 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.

As of December 31, 2009, the Company achieved the financial performance threshold for 2009. 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 fails 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 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 accounting 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.

Registration Rights Agreement

In connection with the Private Placement and on October 7, 2009, the Company entered into a Registration Rights Agreement with the Buyers. Pursuant to the Registration Rights Agreement, the Company agreed to file with the SEC a registration statement on Form S-1 covering the resale of all of the 2,083,333 (post reverse split) shares of common stock sold to the Buyers within 90 days of the closing of the Private Placement.

The Company shall use its commercially reasonable efforts to have the registration statement declared effective by the SEC as soon as practicable, but in no event later than the earlier of (i) 180 days after the closing (ii) 5 business days after the Company learns that no review of the registration statement will be made by the staff of the SEC or that the staff of the SEC has no further comments on the registration statement provided that in the event that the Company is unable to register for resale under Rule 415 all of the Buyers' shares of common stock due to limits imposed by the SEC's interpretation of Rule 415, then the Company shall be obligated to include in such registration statement only such limited portion of shares as the SEC shall permit. The Company is obligated to file one or more subsequent registration statements to register the rest of the shares until all the Buyers' shares of common stock are registered, pursuant to the provisions of the Registration Rights Agreement; provided that the Company's obligation to file subsequent registration statements shall cease on the first anniversary of the closing date of the Financing. Each Buyer's shares shall be registered in the subsequent registrations on a pro rata basis.

If a registration statement is (A) not filed with the SEC on or before the respective filing deadline (a "Filing Failure") or (B) not declared effective by the SEC as aforesaid, (an "Effectiveness Failure") or (ii) on any day after the respective dates of effectiveness sales of all the shares included on such registration statement cannot be made because of a failure to keep such registration statement effective, to disclose such information as is necessary for sales to be made pursuant to such registration statement, to register a sufficient number of shares of common stock or to maintain the listing of the common stock (a "Maintenance Failure") then, as partial relief for the damages to any holder by reason of any such delay in or reduction of its ability to sell the underlying shares of common stock (A) the Company shall pay to each holder of shares relating to such registration statement an amount in cash equal to two percent (2.0%) of the aggregate Purchase Price (as such term is defined in the Securities Purchase Agreement) of such Buyer's shares included in such Registration Statement on each of the following dates: (i) the day of a Filing Failure; (ii) the day of an Effectiveness Failure; and (iii) the initial day of a Maintenance Failure; and (B) the Company shall pay to each holder of shares relating to such Registration Statement an amount in cash equal to one percent (1.0%) of the aggregate Purchase Price of such Buyer's shares included in such Registration Statement on each of the following dates: (i) on the thirtieth day after the date of a Filing Failure and every thirtieth day thereafter (pro rated for periods totaling less than thirty days) until such Filing Failure is cured; (ii) on the thirtieth day after the date of an Effectiveness Failure and every thirtieth day thereafter (pro rated for periods totaling less than thirty days) until such Effectiveness Failure is cured; and (iii) on the thirtieth day after the date of a Maintenance Failure and every thirtieth day thereafter (pro rated for periods totaling less than thirty days) until such Maintenance Failure is cured. Defaults in the said payments shall bear interest at the rate of one and one-half percent (1.5%) per month (prorated for partial months) until paid in full.

As of January 6, 2010, the Company has been in breach of certain obligations under the October 7, 2009 Registration Rights Agreement and was subject to the liquidated damages provisions under the same agreement. Under the Registration Rights Agreement, which was entered into by the Company and the Buyers of the October 7, 2009 private placement, the Company is obligated to file a registration statement to register the Buyers' shares within 90 days of October 7, 2009. Nevertheless, the Company has decided to postpone the registration of the Buyers' shares until after the closing of the next financing transaction. On March 15, 2010, the Company and the Buyers entered into a Waiver Agreement for the Buyers to waive their registration rights and the liquidated damages under the Registration Rights Agreement.

Off Balance Sheet Arrangements

None.

Recent Accounting Pronouncements

In January 2010, the FASB issued ASU 2010-06, Improving Disclosures about Fair Value Measurements. ASU 2010-06 amends ASC Topic 820 to require additional disclosures regarding fair value measurements. One of the areas concerned is related to the inclusion of information about purchases, sales, issuances and settlements in the reconciliation of recurring Level 3 measurements. Such disclosure requirements will be effective for annual reporting periods beginning after December 15, 2010 and for interim periods within those fiscal years. The Company is currently evaluating the effect of ASC 2010-06 on its financial statements and believes that this ASU is only related to disclosures and would have no impact on the Company's results of operations.

In April 2010, the FASB issued ASU 2010-13, Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades. It addresses the classification of a share-based payment

award with an exercise price denominated in the currency of a market in which the underlying equity security trades. FASB ASC Topic 718, Compensation—Stock Compensation, was amended to clarify that a share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trade shall not be considered to contain a market, performance or service condition. Therefore, such an award is not to be classified as a liability if it otherwise qualifies for equity classification. The amendments will be effective for fiscal years, and interim reporting periods within those fiscal years, beginning on or after December 15, 2010, with early application permitted. The Company currently evaluating the effect of ASU 2010-13 on its financial statements and would have no impact on the Company's results of operations.

In July 2010, the FASB issued ASU 2010-20, “Receivables – Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses” (ASU 2010-20). ASU 2010-20 amends Topic 310 to improve the disclosures that an entity provides about the credit quality of its financing receivables and the related allowance for credit losses. As a result of these amendments, an entity is required to disaggregate by portfolio segment or class certain existing disclosures and provide new disclosures about its financing receivables and related allowance for credit losses. These provisions are effective for interim and annual reporting periods ending on or after December 15, 2010. In January 2011, ASU 2011-06, “Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20” is issued to temporarily delay the effective date of the disclosures about troubled debt restructurings for public entities. The delay is intended to allow the Board time to complete its deliberations on what constitutes a troubled debt restructuring. Accordingly, ASU 2010-20 are changed to be effective for interim and annual periods ending after June 15, 2011. Management assessed that ASU 2010-20 concerns disclosures only and will not have a material impact on our financial position or results of operations.

In August 2010, the FASB issued ASU 2010-22, “Accounting for Various Topics - Technical Corrections to SEC Paragraphs”. It amends various SEC paragraphs based on external comments received and the issuance of SEC Staff Accounting Bulletin (SAB) No. 112, which amends or rescinds portions of certain SAB topics. The topics affected include reporting of inventories in financial statements for Form 10-Q, debt issue costs in conjunction with a business combination, sales of stock by subsidiary, gain recognition on sales of business, business combinations prior to an initial public offering, loss contingent and liability assumed in business combination, divestitures, and oil and gas exchange offers. The Company is currently evaluating the effect of ASU 2010-22 on its financial statements and believes it would have no impact on the Company's results of operations.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Not Applicable.

Item 8. Financial Statements and Supplementary Data

Our audited financial statements for the fiscal years ended December 31, 2010 and 2009, together with the report of the independent certified public accounting firm 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 sheets of Orient Paper, Inc. (“the Company”) as of December 31, 2010 and 2009 and the related consolidated statements of income and comprehensive income, stockholders’ equity, and cash flows for each of the two years in the period ended December 31, 2010. 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 2009, and the result of its operations and its cash flows for each of the two years in the period ended December 31, 2010, 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, 2010, 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, 2011 expressed an unqualified opinion thereon.

/s/ BDO Limited
Hong Kong, March 15, 2011

ORIENT PAPER, INC.
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2010 AND 2009

	<u>December 31,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
<u>ASSETS</u>		-
Current Assets		
Cash and cash equivalents	\$ 11,348,108	\$ 6,949,953
Restricted cash	-	29,105
Notes receivable	308,539	-
Accounts receivable (net of allowance for doubtful accounts of \$37,535 and \$41,977 as of December 31, 2010 and 2009, respectively)	1,839,235	2,056,858
Inventories	7,422,518	6,926,392
Prepayments and other current assets	<u>184,723</u>	<u>434,093</u>
Total current assets	<u>21,103,123</u>	<u>16,396,401</u>
Prepayment on property, plant and equipment	6,957,258	-
Property, plant and equipment, net	<u>87,445,960</u>	<u>55,303,753</u>
Total Assets	<u><u>\$ 115,506,341</u></u>	<u><u>\$ 71,700,154</u></u>
		-
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current Liabilities		
Short-term bank loans	\$ 2,873,650	\$ 4,273,750
Current portion of long-term debt	2,008,530	-
Loan from related parties	2,041,804	-
Accounts payable	413,468	1,819,448
Accrued payroll and employee benefits	336,932	271,208
Other payables and accrued liabilities	2,363,686	1,662,673
Income taxes payable	<u>1,717,127</u>	<u>1,345,069</u>
Total current liabilities	<u>11,755,197</u>	<u>9,372,148</u>
Loan from credit union	-	1,942,315
Loan from related parties	<u>2,209,068</u>	<u>4,110,735</u>
Total liabilities	<u>13,964,265</u>	<u>15,425,198</u>
Commitments and Contingencies		
Stockholders' Equity		
Common stock, 500,000,000 shares authorized, \$0.001 par value per share, 18,344,811 and 14,875,714 shares issued and outstanding as of December 31, 2010 and 2009, respectively	18,345	14,876
Additional paid-in capital	45,727,656	19,169,469
Statutory earnings reserve	5,661,587	4,442,450
Accumulated other comprehensive income	7,138,233	3,984,305
Retained earnings	<u>42,996,255</u>	<u>28,663,856</u>
Total stockholders' equity	<u>101,542,076</u>	<u>56,274,956</u>
Total Liabilities and Stockholders' Equity	<u><u>\$ 115,506,341</u></u>	<u><u>\$ 71,700,154</u></u>

See accompanying notes to consolidated financial statements.

ORIENT PAPER, INC.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	Year Ended December 31,	
	2010	2009
Revenues	\$123,989,917	\$102,142,828
Cost of Sales	<u>(97,814,315)</u>	<u>(82,107,531)</u>
Gross Profit	26,175,602	20,035,297
Selling, General and Administrative Expenses	(3,074,256)	(2,029,201)
Loss from Disposal of Property, Plant and Equipment	<u>(1,115,362)</u>	<u>-</u>
Income from Operations	21,985,984	18,006,096
Other Income (Expense):		
Interest income	163,183	108,610
Interest expense	<u>(633,010)</u>	<u>(728,429)</u>
Income before Income Taxes	21,516,157	17,386,277
Provision for Income Taxes	<u>(5,964,621)</u>	<u>(4,666,069)</u>
Net Income	15,551,536	12,720,208
Other Comprehensive Income:		
Foreign currency translation adjustment	<u>3,159,472</u>	<u>(108,534)</u>
Total Comprehensive Income	<u>\$ 18,711,008</u>	<u>\$ 12,611,674</u>
Earnings Per Share:		
Basic Earnings per Share	<u>\$ 0.89</u>	<u>\$ 1.04</u>
Fully Diluted Earnings per Share	<u>\$ 0.89</u>	<u>\$ 1.04</u>
Weighted Average Number of Shares		
Outstanding - Basic	<u>17,435,218</u>	<u>12,221,782</u>
Outstanding - Fully Diluted	<u>17,436,246</u>	<u>12,232,878</u>

See accompanying notes to consolidated financial statements.

ORIENT PAPER, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>Common Stock Shares</u>	<u>Common Stock Amount</u>	<u>Additional Paid-in Capital</u>	<u>Statutory Earnings Reserve</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance at December 31, 2008	11,275,497	\$ 11,275	\$ 9,598,944	\$ 3,079,063	\$ 3,592,839	\$ 17,807,035	\$ 34,089,156
Reserve reclassification adjustment	-	-	-	-	500,000	(500,000)	-
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	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,720,208</u>	<u>12,720,208</u>
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	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,551,536</u>	<u>15,551,536</u>
Balance at December 31, 2010	<u>18,344,811</u>	<u>\$ 18,345</u>	<u>\$ 45,727,656</u>	<u>\$ 5,661,587</u>	<u>\$ 7,138,233</u>	<u>\$ 42,996,255</u>	<u>\$ 101,542,076</u>

See accompanying notes to consolidated financial statements.

ORIENT PAPER, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	Year Ended December 31,	
	2010	2009
Cash Flows from Operating Activities:		
Net income	\$ 15,551,536	\$ 12,720,208
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,147,777	3,510,082
Loss from Disposal of Property, Plant and Equipment	1,115,362	-
Impairment on accounts receivable	(5,728)	41,954
Stock-based expense for service received	101,046	560,182
Changes in operating assets and liabilities:		
Accounts and note receivable	(14,557)	(676,861)
Prepayments and other current assets	138,782	(318,765)
Inventories	(253,598)	(4,111,602)
Accounts payable	(1,431,851)	1,818,470
Accrued payroll and employee benefits	56,246	43,710
Other payables and accrued liabilities	636,553	849,028
Income taxes payable	318,170	602,264
Net Cash Provided by Operating Activities	20,359,738	15,038,670
Cash Flows from Investing Activities:		
Prepayment for property, plant and equipment	(6,785,912)	-
Purchases of property, plant and equipment	(34,774,829)	(13,604,113)
Net Cash Used in Investing Activities	(41,560,741)	(13,604,113)
Cash Flows from Financing Activities:		
Proceeds from related party loans	200,000	-
Repayment of related party loans	(200,000)	-
Proceeds from common stock issued in private placement, net	-	4,898,849
Proceeds from short term loans	885,119	-
Repayments of short term loans	(2,392,843)	(2,562,891)
Proceeds from public offering of common stock	26,570,161	-
Reclassification of restricted cash to cash and cash equivalents	29,105	(29,105)
Net Cash Provided by Financing Activities	25,091,542	2,306,853
Effect of Exchange Rate Changes on Cash and Cash Equivalents	507,616	(25,876)
Net Increase in Cash and Cash Equivalents	4,398,155	3,715,534
Cash and Cash Equivalents - Beginning of Period	6,949,953	3,234,419
Cash and Cash Equivalents - End of Period	\$ 11,348,108	\$ 6,949,953
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	\$ 390,458	\$ 728,428
Cash paid for income taxes	\$ 5,592,563	\$ 4,065,720
Supplemental Disclosure of significant non-cash transactions:		

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
Issuance of 1,204,340 shares of common stock to a director	<u>-</u>	<u>4,000,000</u>

See accompanying notes to consolidated financial statements.

ORIENT PAPER, INC.
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(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 Carlatel, Inc. Carlatel, 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 set up on March 10, 1996, under the laws of the People’s Republic of China (“PRC”). HBOP engages mainly 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), pursuant to a trust agreement executed as of the same date. Under the terms of the trust agreement, the original equity owners 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 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 their original 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 rata 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 subsidiary, 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 Carlatel, 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 recapitalisation of Orient Paper.

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 the original equity owners of HBOP via its 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 a registered capital of \$10,000,000. 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 the original equity owners of HBOP 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 the original equity owners of HBOP 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 for each of the owners’ equity interests; (iv) Share Pledge Agreement, which provides that the original equity owners of HBOP 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 the original equity owners of HBOP 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 the original equity owners of HBOP 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 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 original equity owners of HBOP continue to hold any equity interest in HBOP. HBOP shareholder 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.

ORIENT PAPER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On February 10, 2010, Baoding Shengde and HBOP's original equity owners entered into a Termination of Loan Agreement to terminate the above \$10,000,000 Loan Agreement. Because of 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 HBOP shareholders 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 its equity shareholders 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 on 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") (formerly FASB Interpretation No. (FIN) 46R, *Consolidation of Variable Interest Entities as amended by SFAS 167, an Amendment to FIN 46R*). The revenue of the Company generated from HBOP for the year ended December 31, 2010 and 2009 were 95.5% and 100%, respectively. HBOP also accounted for 79.6% and 81.0% of the total assets of the Company as at December 31, 2010 and 2009 respectively.

As of December 31, 2010 and 2009, 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
<i>Subsidiary:</i>				
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
<i>Variable interest entity:</i>				
HBOP	March 10, 1996	PRC	100%	Paper Production and distribution

(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.

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Foreign Currency Translation

The Company accounts for foreign currency translation pursuant to ASC Topic 830, *Foreign Currency Matters* (formerly SFAS No. 52, *Foreign Currency Translation*). 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, 2010 and 2009 to translate the Chinese RMB to the U.S. Dollars are 6.61180:1 and 6.83720:1, respectively. Revenues and expenses are translated using the average exchange rates prevailing throughout the respective years at 6.77875:1, and 6.84088:1 for the years ended December 31, 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, 2010, and 2009, and revenues and expenses for the years ended December 31, 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.

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, 2010, and 2009, the balance of allowance for doubtful accounts was \$37,535 and \$41,977, respectively. 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.

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.

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.

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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

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. For the years ended December 31, 2010 and 2009, no events or circumstances occurred for which an evaluation of the recoverability of long-lived assets was required.

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, 2010 and 2009, 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, 2010 and 2009, Orient Paper made transfers to this reserve fund in the amounts of \$1,219,137 and \$1,363,387, respectively. For the year ended December 31, 2010, \$1,047,284 of the appropriation for statutory reserve was transferred by 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 \$11,347,893) as of December 31, 2010.

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 and \$29,283 for the years ended December 31, 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.

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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 \$5,545, and \$439 of advertising and promotion costs for the years ended December 31, 2010 and 2009, respectively.

Research and development costs

Research and development costs are expensed as incurred and included in selling, general and administrative expenses. R&D expenses incurred \$18,233 and \$30,546 for the years ended December 31, 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 capitalised 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 capitalised. All other borrowing costs are recognised 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 (formerly SFAS No. 109 Accounting for 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*, (formerly FASB Interpretation No. 48 Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109), 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.

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Comprehensive Income (Loss)

The Company presents comprehensive income (loss) in accordance with ASC Topic 220, *Comprehensive Income* (formerly SFAS No.130, *Reporting 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.

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* (formerly named as SFAS 123(R)), 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* (formerly named as EITF 96-18) 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*, (formerly SFAS No.157, *Fair Value Measurements*) 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, 2010 and 2009:

	December 31, 2010	December 31, 2009
Raw Materials		
Recycled paper board	\$ 3,807,678	\$ 2,301,282
Pulp	13,180	12,744
Recycled printed paper	593,604	533,771
Recycled white scrap paper	801,783	1,731,170
Coal	1,441,082	1,704,905
Base paper and other raw materials	151,269	36,801
	<u>6,808,596</u>	<u>6,320,673</u>
Finished Goods	613,922	605,719
Totals	<u>\$ 7,422,518</u>	<u>\$ 6,926,392</u>

(4) Prepayment and other current assets

Prepayment and other current assets consisted of the following:

	December 31, 2010	December 31, 2009
Prepaid cash to service providers	\$ -	\$ 250,000
Prepaid stock warrant compensation to a service provider	-	115,095
Prepaid insurance	19,000	-
Prepayment for purchase of materials	158,848	-
Others	6,875	68,998
	<u>\$ 184,723</u>	<u>\$ 434,093</u>

(5) Prepayment on property, plant and equipment

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

(6) Property, plant and equipment

As of December 31, 2010 and 2009, property, plant and equipment consisted of the following:

	December 31, 2010	December 31, 2009
Property, Plant, and Equipment:		
Land use rights	\$ 2,266,282	\$ 2,191,570
Building and improvements	7,283,466	7,655,357
Machinery and equipment	64,913,451	61,348,498
Vehicles	224,063	10,650
Construction in progress	32,316,540	-
	<u>107,003,802</u>	<u>71,206,075</u>
Less accumulated depreciation and amortization	(19,557,842)	(15,902,322)
Property, Plant and Equipment, net	<u>\$ 87,445,960</u>	<u>\$ 55,303,753</u>

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 the new 5600 corrugating paper production line under construction, the staff dormitory and canteen under construction.

Property, plant and equipment with net values of \$4,928,033 and \$17,813,861 have been pledged for short-term bank loans of HBOP as of December 31, 2010 and 2009, respectively. Depreciation and amortization of property, plant and equipment was \$4,147,777 and \$3,510,082 during the years ended December 31, 2010 and 2009, respectively.

(7) Loans Payable

Short-term bank loans

		December 31, 2010	December 31, 2009
Industrial & Commercial Bank of China	(a)	\$ 1,966,182	\$ 2,778,915
United Commercial Bank (China) Limited	(b)	-	1,494,835
Industrial & Commercial Bank of China	(c)	907,468	-
Total short-term bank loans		<u>\$ 2,873,650</u>	<u>\$ 4,273,750</u>

(a) During year 2009 and up to May 2010, Industrial & Commercial Bank of China provided two loans, amounting \$1,901,363 and \$877,552 as of December 31, 2009, which are secured by certain manufacturing equipment of the Company. The Company paid off the principal amount of \$877,552 of the second loan 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 for year ended December 31, 2010, and 6.372% and 5.841% per annum for the two loans for the year ended December 31, 2009. The principal of the remaining loan is due and payable at maturity on January 11, 2011.

(b) As of December 31, 2010, all principal amount has been paid off.

(c) 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 expires at July 19, 2011 and carries an interest rate at 5.31% per annum.

As of December 31, 2010 and 2009, short-term borrowings were comprised of secured bank loans of \$2,873,650 and \$4,273,750 respectively, and no unsecured bank loans. The secured loans were secured by the Company's manufacturing equipment of \$4,928,033 and \$17,813,861, respectively. The factoring facility was secured by certain accounts receivable amounted to \$1,064,187 as of December 31, 2010.

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

Long-term loan from credit union

As of December 31, 2010 and 2009, loan payable to Rural Credit Cooperative of Xushui County, amounted to \$2,008,530 and \$1,942,315 respectively. The loan is guaranteed by an unrelated third party company. The entire principal is 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.

Total interest expenses for the short-term bank loans and long-term loan for the years ended December 31, 2010 and 2009 were \$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, 2010 and 2009, net amount due to Mr. Liu were \$2,209,068 and \$2,136,242, respectively.

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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 5.4% per annum as of December 31, 2010 and 2009. 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 and 2009, the total loan amount payable is \$2,041,804 and \$1,974,492, respectively, to HBOP. The interest rate for the year ended December 31, 2010 and 2009 was 5.85% and 5.4% per annum, respectively.

The interest expenses incurred for above related party loans are \$242,552 and \$106,565 for the years ended December 31, 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.

(9) Other payables and accrued liabilities

Other payables and accrued liabilities consist of the following:

	December 31, 2010	December 31, 2009
Accrued electricity	\$ 573,294	\$ 1,051,706
Accrued audit and professional fees	290,000	110,000
Value-added tax payable	884,779	442,307
Accrued interest	248,676	-
Payable for purchase of equipment	236,698	-
Others	130,239	58,660
Totals	<u>\$ 2,363,686</u>	<u>\$ 1,662,673</u>

(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 (formerly EITF 96-18). 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. For the year ended December 31, 2010, 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, 2010, there is no outstanding warrant.

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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).

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.

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(11) Earnings Per Share

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

	Year Ended December 31,	
	2010	2009
Basic income per share		
Net Income for the year – numerator	\$ 15,551,536	\$ 12,720,208
Weighted average common stock outstanding – denominator	17,435,218	12,221,782
Net income per share	\$ 0.89	\$ 1.04
Diluted income per share		
Net Income for the year – numerator	\$ 15,551,536	\$ 12,720,208
Weighted average common stock outstanding - denominator	17,435,218	12,221,782
Effect of dilution		
Warrant	1,028	11,096
Weighted average common stock outstanding - denominator	17,436,246	12,232,878
Diluted income per share	\$ 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, 2010 and 2009 was as follows:

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

Orient Paper, Inc. was incorporated in the United States and has incurred aggregate net operating losses of approximately \$3,533,052 and \$1,235,962 for U.S. income tax purposes for the years ended December 31, 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 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:

ORIENT PAPER, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	December 31,	
	2010	2009
Deferred tax assets (liabilities) – current		
Allowance for doubtful accounts	\$ 9,384	\$ 10,509
Deferred tax assets - non current		
Net Operating Loss Carryover for U.S. income tax purposes	1,201,238	420,227
Total deferred tax assets	1,210,622	430,736
Less: Valuation allowance	(1,210,622)	(430,736)
Net Operating Loss Carryover for U.S. income tax purposes	<u>\$ -</u>	<u>\$ -</u>

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

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

For U.S. tax purposes, the Company has cumulative undistributed earnings of foreign subsidiaries of approximately \$46,529,307 and \$29,899,819 as of December 31, 2010 and 2009, 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* (former FIN 48, *Accounting for Uncertainty in 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, 2010, 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, 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.

(13) 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 \$18,149. This operating lease is renewable at the end of the 30-year term.

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Future minimum lease payments are as follows:

<u>December 31,</u>	<u>Amount</u>
2011	\$ 18,149
2012	18,149
2013	18,149
2014	18,149
2015	18,149
Thereafter	290,392
Total operating lease payments	<u>\$ 381,137</u>

Capital commitment

The Company has signed several contracts for constructing plants and purchase of equipment totally \$39,933,971 with outstanding commitments of \$7,628,331 as of December 31, 2010. The Company expected to pay off all the balances by the end of 2011.

Pending Litigation

On August 20, 2010, the Company was served notice of a stockholder class action lawsuit filed on August 6, 2010 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). One group of three shareholders with a total alleged loss of approximately \$150,000 has filed a motion to be appointed as lead plaintiff and has been so appointed by the court. The Company and the defendant officers and directors have retained the law firm DLA Piper US LLP to represent them in connection with the lawsuit. The Company believes that the lawsuit has no merit and intends to mount a vigorous defense. 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. 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 date of this statement.

(14) 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.

Summary financial information for the two reportable segments, is as follows:

	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

ORIENT PAPER, INC.
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(15) Concentration and Major Suppliers

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.

(16) 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, 2010.

(17) 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.

(18) Recent Accounting Pronouncements

In January 2010, the FASB issued ASU 2010-06, Improving Disclosures about Fair Value Measurements. ASU 2010-06 amends ASC Topic 820 to require additional disclosures regarding fair value measurements. One of the areas concerned is related to the inclusion of information about purchases, sales, issuances and settlements in the reconciliation of recurring Level 3 measurements. Such disclosure requirements will be effective for annual reporting periods beginning after December 15, 2010 and for interim periods within those fiscal years. The Company is currently evaluating the effect of ASC 2010-06 on its financial statements and believes that this ASU is only related to disclosures and would have no impact on the Company's results of operations.

In April 2010, the FASB issued ASU 2010-13, Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades. It addresses the classification of a share-based payment award with an exercise price denominated in the currency of a market in which the underlying equity security trades. FASB ASC Topic 718, Compensation—Stock Compensation, was amended to clarify that a share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trade shall not be considered to contain a market, performance or service condition. Therefore, such an award is not to be classified as a liability if it otherwise qualifies for equity classification. The amendments will be effective for fiscal years, and interim reporting periods within those fiscal years, beginning on or after December 15, 2010, with early application permitted. The Company evaluated the effect of ASU 2010-13 on its financial statements and has concluded that it would have no impact on the Company's results of operations.

In July 2010, the FASB issued ASU 2010-20, "Receivables – Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses" (ASU 2010-20). ASU 2010-20 amends Topic 310 to improve the disclosures that an entity provides about the credit quality of its financing receivables and the related allowance for credit losses. As a result of these amendments, an entity is required to disaggregate by portfolio segment or class certain existing disclosures and provide new disclosures about its financing receivables and related allowance for credit losses. These provisions are effective for interim and annual reporting periods ending on or after December 15, 2010. In January 2011, ASU 2011-06, "Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20" is issued to temporarily delay the effective date of the disclosures about troubled debt restructurings for public entities. The delay is intended to allow the Board time to complete its deliberations on what constitutes a troubled debt restructuring. Accordingly, ASU 2010-20 are changed to be effective for interim and annual periods ending after June 15, 2011. Management assessed that ASU 2010-20 concerns disclosures only and will not have a material impact on our financial position or results of operations.

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In August 2010, the FASB issued ASU 2010-22, "Accounting for Various Topics - Technical Corrections to SEC Paragraphs". It amends various SEC paragraphs based on external comments received and the issuance of SEC Staff Accounting Bulletin (SAB) No. 112, which amends or rescinds portions of certain SAB topics. The topics affected include reporting of inventories in financial statements for Form 10-Q, debt issue costs in conjunction with a business combination, sales of stock by subsidiary, gain recognition on sales of business, business combinations prior to an initial public offering, loss contingencies and liability assumed in business combination, divestitures, and oil and gas exchange offers. The Company is currently evaluating the effect of ASU 2010-22 on its financial statements and believes it would have no impact on the Company's results of operations.

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

None.

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, 2010. 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, 2010, the Company's internal control over financial reporting is effective.

The Company's internal control over financial reporting as of December 31, 2010 has been audited by BDO Limited, 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 23.2 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, 2010. 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, 2010 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	47	Chief Executive Officer and Chairman of the Board
Winston C. Yen	42	Chief Financial Officer
Dahong Zhou	31	Secretary
Drew Bernstein	54	Director
Wenbing Christopher Wang	39	Director
Fuzeng Liu	61	Director
Zhaofang Wang	55	Director

The Directors initially elected in Class I, Drew Bernstein and Wenbing Christopher Wang, will serve until the annual meeting of stockholders in 2011 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 currently serves as a director of General Steel Holdings (NYSE: GSI) and China Integrated Energy, Inc. (Nasdaq: CBEH).

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.

Board Meetings

The board and its committees held the following number of meetings during 2010:

Board of Directors	9
Audit Committee	5
Compensation Committee	1
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, 2010, 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 except for Winston C. Yen was late for one Form 3 filing.

Item 11. Executive Compensation

The following summary compensation table indicates the cash and non-cash compensation earned during the years ended December 31, 2010 and 2009 by each person who served as principal executive officer, principal financial officer, and secretary during 2010. No officer received compensation of \$100,000 or more during 2009.

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

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, 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	2010	\$ 5,665	-	-	-	-	\$ 5,665
	2009	\$ 4,912	-	-	-	-	\$ 4,912
Drew Bernstein Director	2010	\$ 20,000		\$ 47,700	-	-	\$ 67,700
	2009	\$ 3,333	-	\$ 37,500	-	-	\$ 40,833
Wenbing Christopher Wang Director	2010	\$ 20,000	-	\$ 25,440	-	-	\$ 45,440
	2009	\$ 3,333	-	\$ 20,000	-	-	\$ 23,333
Zhaofang Wang Director	2010	\$ 7,376	-	-	-	-	\$ 7,376
	2009	\$ 1,218					\$ 1,218
Xiaodong Liu, Former Director	2010	\$ -	-	-	-	-	\$ -
	2009	\$ 29,236	-	-	-	-	\$ 29,236
Chen Li, Former Director	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 2010 or options outstanding as of December 31, 2010.

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, 2010.

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	5,115,852	27.89%
Common Stock	Winston C. Yen CFO (1)	6,250	*
Common Stock	Dahong Zhou Secretary	0	0%
Common Stock	Drew Bernstein Director (2)	7,500	*
Common Stock	Fuzeng Liu Director	0	0%
Common Stock	Wenbing Christopher Wang Director (3)	4,000	*
Common Stock	Zhaofang Wang Director	0	0%
<u>All Directors and Executive Officers as a Group (7 persons)</u>		<u>5,133,602</u>	<u>27.98%</u>

*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, 2010 and 2009, net amount due to Mr. Liu were \$2,209,068 and \$2,136,242, 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 and 2009, the total loan amount payable is \$2,041,804 and \$1,974,492, respectively, to HBOP. The average interest rate for the years ended December 31, 2010 and 2009 was 5.85% and 5.4% 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.

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 Accounting Fees and Services

Audit Fees

We incurred, in the aggregate, approximately \$259,494 for professional services rendered by our registered independent public accounting firm of BDO Limited for the audit of Orient Paper's annual financial statements, the internal control for financial reporting, and the quarterly reviews of financial statements included in the Company's annual financial statements for the year ended December 31, 2010.

Audit-Related Fees

Orient Paper incurred approximately \$203,000 in fees payable to Deloitte & Touche Financial Advisory Services Limited for their services rendered for the special independent investigation conducted by the Audit Committee during the year ended December 31, 2010.

Orient Paper incurred a \$22,000 fee payable to our registered independent public accounting firm BDO Limited for their issuance of a comfort letter in connection with the public offering closed on March 31, 2010.

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, 2010.

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, 2010.

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 2010, 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
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3.1	Articles of Incorporation.(1)
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- 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., Xushui Dongfang 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., Xushui Dongfang 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 Hebei Shuangxing 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
- 23.1 Consent of Independent Registered Public Accounting Firm.
- 23.2 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.

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, 2011

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.

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Zhenyong Liu</u> Zhenyong Liu	Chief Executive Officer and Chairman of the Board (principal executive officer)	March 15, 2011
<u>/s/ Winston C. Yen</u> Winston C. Yen	Chief Financial Officer (principal financial and accounting officer)	March 15, 2011
<u>/s/ Fuzeng Liu</u> Fuzeng Liu	Director	March 15, 2011
<u>/s/</u> Drew Bernstein	Director	March 15, 2011
<u>/s/</u> Wenbing Christopher Wang	Director	March 15, 2011
<u>/s/ Zhaofang Wang</u> Zhaofang Wang	Director	March 15, 2011