Qunxing Paper Holdings Company Limited
群星紙業控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3868)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2008

FINANCIAL HIGHLIGHTS

- Turnover increased by approximately 33.0% to RMB1,496.4 million.
- Gross profit rose by approximately 43.0% to RMB405.5 million.
- Profit attributable to shareholders increased by approximately 9.4% to RMB383.4 million.
- Earnings per share achieved RMB37 cents.
- Final dividend of HK8.45 cents per share.

ANNUAL RESULTS

The board of directors (the "Board") of Qunxing Paper Holdings Company Limited (the "Company" or "QX Paper") is pleased to announce the consolidated results of the Company and its subsidiaries (the "Group" or "QX Group") for the year ended 31 December 2008 together with the comparative figures for the corresponding period in 2007 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	Note	**2008** **RMB'000**	2007 RMB'000
Turnover	3	**1,496,360**	1,125,524
Cost of sales		**(1,090,844)**	(842,055)
Gross profit		**405,516**	283,469
Other revenue	4	**41,503**	121,952
Other net loss	4	**(2,441)**	(627)
Selling expenses		**(15,896)**	(9,459)
Administrative expenses		**(32,001)**	(23,698)
Profit from operations		**396,681**	371,637
Finance costs	5(a)	**(13,320)**	(21,065)
Profit before taxation	5	**383,361**	350,572
Income tax	6	**—**	—
Profit for the year		**383,361**	350,572
Dividends payable to equity shareholders of the Company attributable to the year:	7		
Interim dividend declared and paid during the year		**38,018**	—
Final dividend proposed after the balance sheet date		**76,990**	105,172
		115,008	105,172
Earnings per share (RMB)	8		
Basic		**0.37**	0.42

CONSOLIDATED BALANCE SHEET

As at 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
Non-current assets			
Property, plant and equipment	9	**561,146**	461,021
Construction in progress	9	**316,060**	167,098
Lease prepayments	9	**15,150**	11,255
Prepayment for the acquisition of plant and equipment	9	**110,880**	—
		1,003,236	639,374
Current assets			
Trading securities		**64,753**	—
Inventories	10	**43,622**	35,487
Trade and other receivables	11	**38,844**	50,903
Cash and cash equivalents		**1,539,373**	1,792,158
		1,686,592	1,878,548
Current liabilities			
Bank loans	12	**124,000**	30,000
Trade and other payables	13	**320,753**	229,404
Current taxation		**9,868**	9,868
		454,621	269,272
Net current assets		**1,231,971**	1,609,276
Total assets less current liabilities		**2,235,207**	2,248,650
Non-current liabilities			
Bank loans	12	**—**	207,000
NET ASSETS		**2,235,207**	2,041,650
Capital and reserves			
Share capital	14	**100,258**	101,359
Reserves		**2,134,949**	1,940,291
TOTAL EQUITY		**2,235,207**	2,041,650

Notes:

1. GENERAL INFORMATION AND BASIS OF PRESENTATION

The Company was incorporated in the Cayman Islands on 5 September 2006 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Group is principally engaged in manufacturing and trading of decorative base paper products and printing paper product.

Pursuant to a reorganisation ("the Reorganisation") of the Group, the Company acquired the respective equity interests of entities previously under common control and became the holding company of the subsidiaries now comprising the Group in preparing for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited ("the Stock Exchange"). Details of the Reorganisation were set out in the prospectus of the Company dated 17 September 2007 ("the Prospectus").

The shares of the Company were listed on the Stock Exchange on 2 October 2007.

2. STATEMENT OF COMPLIANCE

The consolidated results set out in this announcement do not constitute the Group's financial statements for the year ended 31 December 2008 but are extracted from those financial statements.

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual IFRSs, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB").

The financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange.

The IASB has issued certain new Interpretations and an amendment to IFRSs that are first effective for the current accounting period of the Group. However, none of these developments are relevant to the Group's operations. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. TURNOVER

Turnover represents the sales value of goods sold less returns, discounts, value added taxes and other sales taxes, which may be analysed as follows:

	2008	2007
	RMB'000	*RMB'000*
Decorative base paper products	**1,225,220**	868,267
Printing paper product	**271,140**	257,257
	1,496,360	1,125,524

4. OTHER REVENUE AND NET LOSS

	2008 *RMB'000*	2007 *RMB'000*
Other revenue		
Interest income on financial assets not at fair value through profit or loss		
— Interest income from banks	**12,970**	15,006
— Interest income from subscription monies upon public offering	**—**	106,946
— Other interest income	**27,176**	—
	40,146	121,952
Dividend income from listed securities	**1,357**	—
	41,503	121,952
Other net loss		
(Gain)/loss on disposal of property, plant and equipment	**(8)**	103
Net foreign exchange loss	**452**	524
Net realised and unrealised losses on financial assets at fair value through profit or loss	**1,997**	—
	2,441	627

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	2008 *RMB'000*	2007 *RMB'000*
(a) Finance costs:		
Interest on financial liabilities not at fair value through profit or loss		
— Interest on bank borrowings wholly repayable within five years	**13,320**	21,065
(b) Staff costs:		
Contributions to defined contribution retirement plans	**2,050**	1,798
Salaries, wages and other benefits	**29,898**	25,645
	31,948	27,443
(c) Other items:		
Amortisation of lease prepayments	**310**	186
Auditors' remuneration	**1,128**	1,212
Depreciation	**70,519**	57,075
(Gain)/loss on disposal of property, plant and equipment	**(8)**	103
Operating lease charges in respect of:		
— leasehold land and properties	**1,918**	960
— others	**150**	121
Sewage disposal expenses	**132**	107
Research and development costs	**169**	797

6. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands and BVI.

No provision has been made for Hong Kong Profits Tax as the Group did not have assessable profits subject to Hong Kong Profits Tax during the year.

Pursuant to the income tax rules and regulations of the People's Republic of China ("PRC"), Shandong Qunxing Paper Limited ("Shandong QX"), a foreign investment enterprise, has been granted certain tax relief whereby it is fully exempted from PRC income tax for the two years starting from 1 January 2007 to 31 December 2008, followed by a 50% reduction in PRC income tax rate for the three years from 1 January 2009 to 31 December 2011.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("New Tax Law") which took effect on 1 January 2008. The PRC income tax rate is unified to 25% for all enterprises, except for small-scale enterprises earning small profit, where the tax rate is reduced to 20%.

Under the grandfathering treatments of the New Tax Law ("Grandfathering Treatments"), Shandong QX which has not fully utilised its five-year tax holiday upon implementation of the New Tax Law is allowed to continue to receive a tax holiday during the five-year grandfathering period. Accordingly, Shandong QX has been exempted from PRC income tax for the two years started from 1 January 2007 to 31 December 2008, followed by a reduced PRC income tax rate at 12.5% for the remaining three years from 1 January 2009 to 31 December 2011.

Under the New Tax Law, dividends received by foreign investors from their investment in foreign-invested enterprises are subject to withholding tax at a rate of 10% unless reduced by treaty. Under the tax treaty between Hong Kong and the PRC, the withholding tax rate for dividends received by a Hong Kong resident from investments in PRC enterprises is reduced from 10% to 5%, provided that the Hong Kong investor holds at least 25% of the capital of the PRC enterprise. Pursuant to the Grandfathering Treatments, dividends receivable by the Group from Shandong QX in respect of its undistributed profits prior to 31 December 2007 are exempted from the withholding tax. Dividends receivable by the Group from Shandong QX in respect of its profits earned since 1 January 2008 will be subject to the withholding tax.

7. DIVIDENDS

(a) Dividends payable to equity shareholders of the Company attributable to the year

	2008	2007
	RMB'000	*RMB'000*
Interim dividend declared and paid of HK4.16 cents (equivalent to approximately RMB3.66 cents) per ordinary share (2007: Nil)	**38,018**	—
Final dividend proposed after the balance sheet date of HK8.45 cents (equivalent to approximately RMB7.45 cents) per ordinary share (2007: HK11.28 cents per ordinary share)	**76,990**	105,172
	115,008	105,172

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2008	2007
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of HK11.28 cents per share (2007: Nil)	**105,172**	—

8. EARNINGS PER SHARE

(a) The calculation of basic earnings per share for the year ended 31 December 2008 is based on the profit attributable to equity shareholders of the Company of RMB383,361,000 (2007: RMB350,572,000) and the weighted average number of 1,038,273,000 (2007: 826,562,000) ordinary shares in issue during the year.

(b) There were no dilutive potential ordinary shares during the years presented and, therefore, diluted earnings per share is not presented.

9. CAPITAL EXPENDITURE

Capital expenditure comprises additions to property, plant and equipment and construction in progress, acquisition of land use rights and prepayments for the acquisition of plant and equipment. During the year ended 31 December 2008, the Group has aggregate capital expenditure of RMB434,793,000 (2007: RMB181,074,000)

10. INVENTORIES

	2008	2007
	RMB'000	*RMB'000*
Raw materials and consumables	**26,932**	19,316
Finished goods	**16,690**	16,171
	43,622	35,487

11. TRADE AND OTHER RECEIVABLES

	2008	2007
	RMB'000	*RMB'000*
Trade receivables	**37,795**	50,297
Prepayments, deposits and other receivables	**1,049**	606
Less: allowance for doubtful debts	**—**	—
	38,844	50,903

All of the trade receivables are expected to be recovered within one year.

Ageing analysis

Included in trade and other receivables are trade receivables with the following ageing analysis as of the balance sheet date:

	2008	2007
	RMB'000	*RMB'000*
Current	**36,543**	50,297
Less than one month past due	**1,252**	—
	37,795	50,297

12. BANK LOANS

At 31 December 2008, the bank loans were repayable as follows:

	2008	2007
	RMB'000	*RMB'000*
Within one year	**124,000**	30,000
After one year but within two years	**–**	207,000
	124,000	237,000

At 31 December 2008, the bank loans were secured as follows:

	2008	2007
	RMB'000	*RMB'000*
Secured bank loans:		
— secured by property, plant and equipment	**124,000**	237,000

The bank loans as at 31 December 2008 were interest bearing at rates ranging from 8.54% to 8.95% per annum (2007: 7.23% to 8.95% per annum).

13. TRADE AND OTHER PAYABLES

	2008	2007
	RMB'000	*RMB'000*
Trade payables	**89,255**	61,120
Other payables and accruals	**231,498**	168,284
	320,753	229,404

Included in trade and other payables are trade payables with the following ageing analysis as of the balance sheet date. The credit period granted by suppliers generally is not more than 30 days.

	2008	2007
	RMB'000	*RMB'000*
Due within 30 days	**89,255**	61,120

All of the trade and other payables are expected to be settled within one year, except for retention monies payable in respect of the construction of production lines of RMB8,339,000 as at 31 December 2007 which was expected to be settled after one year.

14. SHARE CAPITAL

		2008		2007	
	Note	**Number of shares *('000)***	***RMB'000***	Number of shares *('000)*	*RMB'000*
At 1 January		**1,045,000**	**101,359**	1,000	102
Shares issued on Reorganisation		**–**	**–**	9,000	897
Capitalisation issue in April 2007		**–**	**–**	90,000	8,895
Capitalisation issue upon listing		**–**	**–**	650,000	62,900
Shares issued under placing and public offering		**–**	**–**	295,000	28,565
Shares repurchased	*(a)*	**(12,200)**	**(1,101)**	—	—
At 31 December		**1,032,800**	**100,258**	1,045,000	101,359

(a) During the year ended 31 December 2008, the Company repurchased its own shares on the Stock Exchange. The repurchased shares were cancelled and, accordingly, the issued share capital of the Company was reduced by the nominal value of these shares. The premium paid, before expenses, on the repurchase of the shares of HK$25,750,000 (equivalent to approximately RMB23,456,000) was charged to the share premium account.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of HK8.45 cents (2007: HK11.28 cents) per share which, together with the interim dividend of HK4.16 cents (2007: Nil) per share, will result in total dividends of HK12.61 cents (2007: HK11.28 cents) per share for the year ended 31 December 2008.

Subject to the approval of the shareholders at the annual general meeting of the Company to be held on Wednesday, 6 May 2009, the proposed final dividend will be paid on or about Wednesday, 13 May 2009 to shareholders whose names appear on the register of members of the Company on Tuesday, 5 May 2009.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 23 April 2009 to Tuesday, 5 May 2009, both days inclusive. In order to qualify for the above mentioned proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Wednesday, 22 April 2009.

BUSINESS REVIEW

2008 was an extraordinary and challenging year for global economy. The unprecedented financial tsunami triggered by the U.S. subprime mortgage crisis swept across the world. The PRC economy was not immune from the crisis either, but the damage has been relatively less severe. According to a preliminary forecast made by the National Bureau of Statistics of China, the gross domestic product (GDP) of the PRC increased by 9% during the year to reach RMB30,067 billion. The growth rate was at its slowest in five years. Nonetheless, in absolute term, the PRC's pace of growth remained fast and steady.

During the year under review, the PRC government introduced new measures to encourage construction of economic residential properties. Development prompted by these measures will form one of the major growth drivers of the Group in the future. Moreover, urbanisation of 2nd and 3rd tier cities and the emergence of new housing demand from lower income group in the PRC continued to prop up demand for laminated board, a cost-effective substitute of wooden material with diversified applications. Such rising demand in turn fuelled the demand for decorative base paper products.

Despite the challenging market environment and growing cost pressure, QX Group continued to achieve satisfactory results in 2008. For the year ended 31 December 2008, turnover increased by approximately 33.0% to RMB1,496.4 million as compared with RMB1,125.5 million last year. With the commercial operation of Production line no. 7 commenced in early 2008, the Group further benefited from its economies of scale and enhancement of operational efficiency. Gross profit margin increased slightly from 25.2% in 2007 to 27.1% in 2008. Profit for the year amounted to RMB383.4 million, representing an increase of approximately 9.4% compared with last year. Basic earnings per share were RMB37 cents.

Domestic supply of premium decorative base paper products in the PRC is still significantly falling short of the rising market demand. Currently, approximately two-third of the products in the PRC is imported. During the year under review, the Group continued with the realignment of product mix by increasing the proportion of high margin premium decorative base paper products. As a result, the Group was able to raise the average selling price of its products so as to offset rising cost pressure. Capitalising on our capability to deliver quality products of international standard while producing at a cost significantly lower than overseas rivals, QX Group has successfully captured a greater market share and remained as the largest decorative base paper manufacturer in the PRC.

Expansion of production capacity

To date, the Group has invested and is operating nine highly automated Production lines nos. 1 to 9 with an aggregate designed annual production capacity of approximately 260,000 tonnes, comprising approximately 210,000 tonnes of decorative base paper products and approximately 50,000 tonnes of printing paper product. Construction of Production line nos. 8 and 9 was completed in late 2008 and commercial production was commenced in early March 2009. Meanwhile, Production lines nos. 10 and 11 are currently under construction and are expected to be completed by mid 2009. Besides, construction of Production lines nos. 12 and 13 is expected to be commenced in the second half of 2009 and to be completed by early 2010. The designed annual production capacity of each of the four Production lines nos. 10 to 13 is 30,000 tonnes. These new production facilities will further expand the Group's total production capacity in order to cater for the growing market demand for decorative base paper products.

Consolidation of distribution channels

During the year, the Group consolidated its distribution channels as we sought to increase the sales of products with a higher profit margin. Currently, the Group has six designated sales regions in the PRC, namely, Shandong, Sichuan, Guangdong, Beijing, Jiangsu and Zhejiang. The Group has over 96 customers covering 13 provinces, autonomous regions and municipalities in the PRC. The consolidation of customer base not only improves our overall scale and quality of clientele, but also enables us to further improve client relationship.

Diversification of product applications

Over the years, QX Group has been developing quality decorative base paper products with wide application. To date, the Group has marketed more than 80 types of decorative base paper products to meet the ever changing market demand. Our products are used in a broad spectrum of areas, from furniture and home flooring to large scale infrastructure facilities like sports stadiums, community halls and the interior decoration of motor vehicles and air-crafts.

Awards

Our business and management excellence as well as a strong commitment to corporate social responsibility were exemplified in the awards and recognitions we won during the year. QX Paper was conferred the honourary title of the "Growing China Corporate Citizen in 2008", a campaign co-organised by Committee of Corporate Citizenship of China Association of Social Workers, CCTV Economic Channel and Tencent Charity Foundation. The title was a recognition of QX Group's efforts in fulfilling its corporate social responsibility and its involvement in community services. Besides, the Group has been included as one of the "Asia's 200 Best Under a Billion" companies in 2008 by *Forbes Asia*, a renowned international finance magazine.

Shandong QX, a wholly-owned subsidiary of the Group, was named one of the "Top 20 Papermaking Enterprises in China" in 2007 by *China Paper Industry**, the Journal of China Paper Association. In addition, Shandong QX was named "2008 Chinese Enterprise with Excellent Integrity" by the China Enterprise Confederation and the China Entrepreneur Association, in recognition of the Group's excellent business ethics. Shandong QX was also awarded the "Advanced Enterprise of Shandong Province's Paper Manufacturing Industry in 2007" and was appointed the standing council member by Shandong Province Paper Manufacturing Industry Association to commend its outstanding achievements in the PRC's paper industry.

FINANCIAL REVIEW

Turnover

Turnover increased by approximately 33.0% from RMB1,125.5 million in the year ended 31 December 2007 to RMB1,496.4 million in the year ended 31 December 2008. The increase in turnover during the year ended 31 December 2008 was mainly attributable to the combined effects of (i) the increase in overall sales volumes by approximately 18.2% from 112,681 tonnes to 133,213 tonnes, out of which sales volumes of the decorative base paper products increased by approximately 28.2% from 72,187 tonnes for the year ended 31 December 2007 to 92,564 tonnes for the year ended 31 December 2008; and (ii) the increase in the average selling prices of the decorative base paper products by approximately 10.0% from RMB12,028 per tonne in 2007 to RMB13,236 per tonne in 2008, as well as the printing paper product by approximately 5.0% from RMB6,353 per tonne in 2007 to RMB6,670 per tonne in 2008.

Cost of sales

Cost of sales represents the production costs of goods sold during the year. Our production costs comprise cost of raw materials, direct labour costs and manufacturing overheads, which include depreciation charges, utility expenses, consumables, repairs and maintenance and other overhead related expenses.

* *for identification purpose only*

The cost of sales increased by approximately 29.5% from RMB842.1 million in the year ended 31 December 2007 to RMB1,090.8 million in the year ended 31 December 2008. The increase in the cost of sales was primarily due to the increase in the raw material costs, which were the major component of our cost of sales, as a result of the increased sales volume. Moreover, production overheads such as electricity and steam expenses also increased in line with the increase in production volume. Depreciation expenses also increased due to the commercial production of Production line no. 7 since March 2008.

The results of operations are subject to price fluctuations of raw materials used in the production process. The principal raw materials for the production are wood pulp and titanium dioxide powder. For each of the two years ended 31 December 2007 and 2008, the purchase of wood pulp amounted to approximately RMB363.1 million and RMB472.7 million respectively, representing approximately 43.1% and 43.3% of the total cost of sales for the respective years and the purchase of titanium dioxide powder amounted to approximately RMB208.9 million and RMB303.8 million respectively, representing approximately 24.8% and 27.9% of the total cost of sales for the respective years. For each of the two years ended 31 December 2007 and 2008, the Group purchased wood pulp at the average price per tonne (value added tax inclusive) of approximately RMB6,100 and RMB6,540 respectively, and titanium dioxide powder at the average price per tonne (value added tax inclusive) of approximately RMB13,079 and RMB13,741 respectively. The prices of both wood pulp and titanium dioxide powder had increased steadily and moderately during the two years. Nevertheless, the increase in the prices of both wood pulp and titanium dioxide powder during the two years had not posed material impact on the Group's financial results because of the increase in the average selling prices of the Group's products and enhancement of the economies of scale through the expansion of the Group's production scale.

During the two years ended 31 December 2007 and 2008, our electricity and steam expenses increased by approximately 24.6% from RMB100.0 million in 2007 to RMB124.6 million in 2008, which was mainly due to the increase in production volume as a result of the commencement of commercial operation of Production line no. 7 in March 2008, the increase in sales volume and the realignment of our product mix. The electricity and steam expenses accounted for approximately 11.9% and 11.4% of the total cost of sales for the respective years.

Gross profit and gross profit margin

The gross profit of the Group increased by approximately 43.0% from RMB283.5 million for the year ended 31 December 2007 to RMB405.5 million for the year ended 31 December 2008, while the gross profit margin improved from approximately 25.2% for the year ended 31 December 2007 to approximately 27.1% for the year ended 31 December 2008.

The following table sets forth the gross profit margin of each category of products of the Group for the two years ended 31 December 2007 and 2008:

	Year ended 31 December	
By product	**2008**	2007
Decorative base paper products		
— Premium coloured decorative base paper	**36.7%**	35.1%
— Premium white decorative base paper	**27.2%**	26.4%
— Ordinary coloured decorative base paper	**22.2%**	25.9%
— Ordinary white decorative base paper	**N/A** *(Note)*	18.4%
Sub-total	**29.1%**	27.2%
Printing paper product	**17.8%**	18.3%

Note:

Our Group ceased to sell ordinary white decorative base paper since March 2007 as a result of product mix realignment.

The increase in overall gross profit margin of the decorative base paper products during the year ended 31 December 2008 was mainly attributable to (i) the increase in sales of decorative base paper products, which have higher gross profit margins; (ii) the realignment of the product mix; and (iii) the increase in the average selling prices of the decorative base paper products in 2008 as mentioned above.

Other revenue and other net loss

Other revenue, which represented mainly the interest income earned from the bank deposits and financial assets not at fair value through profit or loss and dividend income from listed securities, decreased from RMB122.0 million for the year ended 31 December 2007 to RMB41.5 million for the year ended 31 December 2008. The decrease in other revenue by approximately 66.0% was mainly due to the combined effect of (i) one-off interest income of RMB106.9 million earned during the initial public offering of the Company in October 2007 where no such interest income earned in 2008; (ii) other interest income earned from financial assets not at fair value through profit or loss of RMB27.2 million during the year ended 31 December 2008; and (iii) dividend income earned from listed securities amounted to RMB1.4 million during the year ended 31 December 2008.

In compliance with the financial management and treasury policies, certain investments were made on uncommitted funds during the year. During the year ended 31 December 2008, we recorded a net realised and unrealised loss on financial assets at fair value through profit or loss of RMB2.0 million.

Selling expenses

As disclosed in the Prospectus, our Group planned to strengthen our marketing activities. During the year ended 31 December 2008, the Group increased its sales and marketing staff to 40 and carried out various promotional activities in an attempt to solicit new customers in the six designated sales regions in the PRC. As a result, the selling expenses increased by approximately 67.4% from RMB9.5 million for the year ended 31 December 2007 to RMB15.9 million for the year ended 31 December 2008. As a percentage of turnover, our selling expenses were maintained at approximately 1.0% for each of the two years ended 31 December 2007 and 2008. It was in line with the existing policy of the Group to allocate approximately 1.0% of the sales as the annual budget for the marketing activities.

Administrative expenses

The administrative expenses consist primarily of administrative and management staff salaries and benefits, depreciation of non-production related fixed assets, research and development cost, and pension contributions.

The administrative expenses increased by approximately 35.0% from RMB23.7 million for the year ended 31 December 2007 to RMB32.0 million for the year ended 31 December 2008. The increase in administrative expenses was mainly due to (i) the increase in administrative staff costs, employee benefits and pension expenses by approximately 65.3% from RMB4.9 million in the year ended 31 December 2007 to RMB8.1 million in the year ended 31 December 2008, which was resulted from the employment of additional staff, and the corresponding change in the employee composition after the listing in October 2007; (ii) additional professional fees incurred after the listing; and (iii) the donation to Sichuan Earthquake Relief of RMB1.0 million during the year ended 31 December 2008.

Finance costs

Finance costs consist primarily of interest expenses on the bank borrowings. The amount decreased by approximately 37.0% from RMB21.1 million for the year ended 31 December 2007 to RMB13.3 million for the year ended 31 December 2008. The decrease in interest expenses was mainly due to the repayment of certain bank borrowings during the year.

Income tax

Members of the Group are incorporated in different jurisdictions, with different taxation requirements. For the two years ended 31 December 2007 and 2008, our Group was not liable to pay any income tax in the PRC since Shandong QX, our principal operating subsidiary in the PRC, had been exempted from the PRC income tax for the two years started from 1 January 2007 to 31 December 2008, followed by a reduced PRC income tax rate at 12.5% for the remaining three years from 1 January 2009 to 31 December 2011 under the grandfathering treatments of the Corporate Income Tax Law of the PRC passed on 16 March 2007.

The effective tax rates of our Group for the two years ended 31 December 2007 and 2008 were 0% and the reconciliation between income tax expenses and accounting profit at the applicable tax rates was set out as follows:

	Year ended 31 December	
	2008	2007
	RMB'000	*RMB'000*
Profit before taxation	**383,361**	350,572
Income tax on profit before taxation, calculated at the tax rates applicable in the respective tax jurisdictions concerned	**96,882**	97,267
Tax effect of tax concession period	**(100,001)**	(78,021)
Tax effect of non-deductible expenses	**3,739**	1,866
Tax effect of non-taxable income	**(620)**	(21,112)
Income tax expenses for the year	**—**	—

Financial management and treasury policies

The Group adopts a conservative approach for cash management and investment on uncommitted funds with an objective of enhancing the practicable returns for shareholders and maintaining adequate liquidity and preservation of capital. The Group's financing and treasury activities are centrally managed and controlled at the corporate level and aims to ensure that adequate financial resources are available for refinancing and business growth. The Group reviews its liquidity and financing arrangements periodically.

The Group's policy is to manage its interest rate risk to ensure there are no undue exposures to significant interest rate movements and rates are appropriately fixed. As at 31 December 2008, all of the Group's bank borrowings were denominated in RMB, of which are fixed rate instruments and insensitive to any change in market interest rates.

The Group conducts its business transactions principally in the PRC. All of the Group's turnover and cost of sales and most of the Group's monetary assets and liabilities are denominated in RMB. RMB is the functional currency of the Group and used as the reporting currency in the preparation of the consolidated financial statements of the Group. As such, the fluctuation of RMB against foreign currencies during the period did not have significant impact on the result of the Group. The Group had neither been exposed nor anticipated itself to be exposed to material risks due to changes in exchange rates.

Capital expenditure

During the year ended 31 December 2008, the Group had aggregate additions to property, plant and equipment and construction in progress, acquisition of land use right and prepayment for the acquisition of plant and equipment of RMB434.8 million (2007: RMB181.1 million).

Capital commitments, contingencies and charge on assets

The Group will further invest approximately RMB909.6 million to expand the production capacity and re-engineering and modify the existing production facilities to enhance production efficiency. Such capital commitments will be financed by the net proceeds received from the initial public offering on 2 October 2007. For details, please refer to the paragraph "Use of proceeds from Initial Public Offering" below.

The Group has environmental contingencies under the increasingly stringent environmental protection laws and regulations in the PRC. However, as at the date hereof, the Group has not incurred any significant expenditure for environmental remediation and is currently not involved in any environmental remediation. In addition, the outcome of environmental liabilities under proposed or future environmental legislation cannot be reasonably estimated at present. As such, the Group has not accrued any amounts for environmental remediation relating to its operations.

Saved as disclosed above, the Group had no material contingent liabilities as at 31 December 2008.

As at 31 December 2008, all of the bank borrowings were secured by property, plant and equipment of the Group with net carrying amount of approximately RMB225.2 million (2007: RMB383.2 million).

Use of proceeds from the Initial Public Offering

Upon the initial public offering of the Company on 2 October 2007 (the "Listing Date"), the Group received net proceeds amounted to approximately HK$1,492.8 million (equivalent to approximately RMB1,445.5 million), after deduction of related expenses and the exercise of the Over-allotment Option *(Note 1)* on the Listing Date. As disclosed in the Prospectus, our Group planned to apply most of the net proceeds to expand our production capacity as well as to re-engineer and modify our existing production facilities to enhance production efficiency. As at 31 December 2008, part of the net proceeds had been applied as follows:

	Planned amount	**Amount utilised up to 31 December 2008**	**Balance as at 31 December 2008**
	RMB'000	*RMB'000*	*RMB'000*
Settlement of the remaining balance of the construction costs of Production line no. 7	163,300	154,961	8,339
Construction of Production lines nos. 8 to 11	720,000	218,745	501,255
Construction of Production lines nos. 12 to 13 *(Note 2)*	360,000	—	360,000
Re-engineering and modification of Production lines nos. 1 and 3	40,000	—	40,000
	1,283,300	373,706	909,594

Notes:

1. Pursuant to an international placing underwriting agreement dated 20 September 2007, the Company granted an option (the "Over-allotment Option") to ICEA Securities Limited ("ICEA"), the lead manager of the Company's share offer, whereby the Company was required to allot and issue up to an aggregate 45,000,000 additional shares to cover over allocations in the international placing. The exercise price per share for the Over-allotment Option was HK$5.35. On the Listing Date, the Over-allotment Option was fully exercised by ICEA and, as a result, the Company issued 45,000,000 additional shares on the same date.

2. As disclosed in the Prospectus, in the event that the Over-allotment Option was exercised, our Group planned to apply part of the additional net proceeds of RMB360.0 million for doubling the production capacity of the planned Production lines nos. 10 to 11 from 60,000 tonnes to 120,000 tonnes. The Over-allotment Option was exercised on the Listing Date and our Group decided to further increase our production capacity by 60,000 tonnes by way of constructing two more Production lines nos. 12 to 13.

Employees and Remuneration Policies

As at 31 December 2008, our Group employed a total of approximately 1,100 employees. Remuneration policies are reviewed regularly to ensure that our Group is offering competitive employment packages to the staff. Compensation of the employees includes salaries and contributions to retirement benefit schemes. Promotion and salary increments are assessed based on a performance related basis.

Our Group has neither experienced any significant problems with its employees or disruptions to its operations due to labour disputes, nor has experienced any difficulties in the recruitment and retention of experienced employees. The Group maintains a good working relationship with its employees.

OUTLOOK

In light of the impact of the global financial crisis, 2009 is destined to be a challenging year across all industries globally. The sluggish economic environment will continue to dampen the economic growth around the world. However, the PRC will probably remain as one of the fastest growing economies in the world, with urbanisation in the second to third tier cities underway.

In view of the changing economic environment and in order to satisfy the housing demand of mainland Chinese citizens in the suburbs, the PRC government implemented a new policy in 2008 to speed up construction of economic residential properties as well as renovation of old buildings over the country. In addition, the less positive economic prospect will drive middle class families to consider price-efficient alternatives while seeking to improve their living standards. This will create new demand for laminated boards and, hence, the demand for decorative base paper products.

In the face of these market opportunities, the Group will continue to expand production capacity, widen product applications, refine production technologies and enhance proprietary research and development capabilities, with a view to ensuring our products are unique with excellent quality. On the other hand, we will implement stringent cost control measures to improve operational efficiency. In addition, the Group will remain cautious about the changing market situation and will continue to pursue a stable expansion approach as part of its long-term growth strategy. Leveraging our quality products with wide applications, the high competence of our core technology as well as our strong cash position, the Group is well-positioned to tackle the challenges ahead and ultimately generates lucrative returns for our shareholders.

PURCHASE, REDEMPTION OR SALE OF SHARES OF THE COMPANY

During the year, the Company repurchased a total of 12,200,000 ordinary shares of the Company in total on the Stock Exchange at an aggregate price of HK$26,970,711 (before expenses).

Details of repurchases of such ordinary shares were as follows:

Month of repurchase	Number of ordinary shares repurchased	Repurchase price per ordinary share: Highest	Repurchase price per ordinary share: Lowest	Aggregate repurchase price (before expenses)
		HK$	*HK$*	*HK$*
January 2008	3,990,000	3.02	2.80	11,897,550
February 2008	2,391,000	3.41	2.99	7,560,780
September 2008	269,000	2.98	2.85	791,670
October 2008	2,492,000	1.37	1.00	2,849,920
November 2008	2,867,000	1.40	1.05	3,641,241
December 2008	191,000	1.25	1.18	229,550
Total	**12,200,000**			**26,970,711**

These repurchased shares were cancelled during the year and the issued share capital of the Company was reduced by the par value thereof. The above repurchases were effected by the directors (the "Director(s)") of the Company pursuant to the repurchase mandate granted to them for the benefit of the Company and its shareholders as a whole in enhancing the net assets and earnings per share of the Company.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the year.

MATERIAL ACQUISITIONS AND DISPOSALS

The Company did not engage in any material acquisitions or disposals during the year.

CONVERTIBLE BONDS, SHARE OPTIONS, WARRANTS OR OTHER SIMILAR RIGHTS

During the year ended 31 December 2008, the Company had not issued any convertible bonds, share options, warrants or similar rights.

CORPORATE GOVERNANCE

QX Paper is committed to maintaining high standards of corporate governance practices and business ethics. It is the belief of the Board that such commitment can enhance the performance of the Group and serve to enhance our shareholders' value.

The full details of corporate governance practices adopted by the Company throughout the year ended 31 December 2008 will be set out in the Corporate Governance Report contained in the Company's 2008 Annual Report.

Compliance with the Code on Corporate Governance Practices of the Listing Rules

As at 31 December 2008, the Company had complied with the applicable code provisions (the "Code Provision(s)") under the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules except the following deviation:

Under the Code Provision A.2.1, the roles of chairman and chief executive officer ("CEO") should be separated and should not be performed by the same individual. Currently, the Company does not have any person holding the title of CEO. Dr. Zhu Yu Guo, who apart from being the Company's substantial shareholder (within the meaning ascribed thereto in the Listing Rules), an executive Director and chairman of the Board, also assumed responsibilities which are comparable to those of a CEO. Dr. Zhu is responsible for overseeing and planning the business strategies of the Group as well as providing leadership and management to the Board. The role of the chairman is separated from that of the general manager of the Company. Mr. Zhu Mo Qun (the son of Dr. Zhu), an executive Director and general manager of the Company as well as vice-chairman of the Board, is responsible for the overall management of the Group's business operations and implementing the business strategies formulated by the Board. The Board considers that this management structure can provide the Group with consistent leadership and enables the Group to make and implement the Board's decisions promptly and efficiently. The Board will regularly review the effectiveness of this structure to ensure that such structure is appropriate in view of the Group's prevailing circumstances.

Model Code for Directors' Securities Transaction

The Company has adopted a securities dealing code (the "QX Securities Dealing Code") on no less exacting terms than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules. The QX Securities Dealing Code also applies to the relevant employees (the "Relevant Employees") who may be in possession of unpublished price sensitive information. Having made specific enquiry of all the Directors and the Relevant Employees, the Directors and the Relevant Employees confirm that they had complied with the required standard set out in both the QX Securities Dealing Code and the Model Code during the year ended 31 December 2008.

Board Committees

The Board has established a total of four board committees including executive committee (the "Executive Committee"), audit committee (the "Audit Committee"), remuneration committee (the "Remuneration Committee") and nomination committee (the "Nomination Committee") to oversee different aspects of the Group's affairs. Each of the said board committees has adopted specific terms of reference covering its duties, powers and functions which will be reviewed by the Board from time to time.

Audit Committee

The Audit Committee currently comprises all three independent non-executive Directors ("INEDs"). The Audit Committee had reviewed, with our management, the consolidated financial statements of the Group for the year ended 31 December 2008, and the accounting principles and practices adopted by the Group during the year.

Remuneration Committee

The Remuneration Committee currently comprises one executive Director and all three INEDs. The primary duties of the Remuneration Committee are to make recommendations to the Board on remuneration of our Directors and senior management and determine on behalf of the Board specific remuneration packages and conditions of employment for our Directors and senior management.

Nomination Committee

The Nomination Committee currently comprises one executive Director and all three INEDs. The primary function of the Nomination Committee is to make recommendations to the Board regarding candidates to fill vacancies on our Board and senior management.

Executive Committee

The Executive Committee currently comprises all three executive Directors. The Board delegates powers to the Executive Committee to conduct and supervise the business of the Group and its staff in order to enhance the efficiency of the Group's daily operation.

SCOPE OF WORK PERFORMED BY AUDITORS

The figures in respect of this announcement of the Group's annual results for the year ended 31 December 2008 have been compared by the Company's auditors, KPMG, Certified Public Accountants, to the amounts set out in the Group's draft consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect was limited and did not constitute an audit, review or other assurance engagement and consequently no assurance has been expressed by KPMG on this announcement.

PUBLICATION OF 2008 ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement has been published on the websites of the Company (www.qxpaper.com) and the Stock Exchange (www.hkex.com.hk) respectively. The Company's 2008 Annual Report will be despatched to the Company's shareholders and published on the above websites as soon as practicable.

APPRECIATION

The achievements of the Group are attributable to the concerted efforts of our management and staff. On behalf of the Board, I would like to take this opportunity to thank our management and staff for their hard work, loyal service and contributions and to our shareholders, business associates and investors for their valuable support during the year.

By Order of the Board
ZHU Yu Guo
Chairman

Shandong, the PRC, 18 March 2009

As at the date of this announcement, the executive Directors are Dr. ZHU Yu Guo (Chairman), Mr. ZHU Mo Qun (Vice-Chairman) and Mr. SUN Zhen Shui; the non-executive Director is Ms. SUN Rui Fang; the independent non-executive Directors are Messrs. ZHAO Wei, WANG Lu and KWONG Kwan Tong.

The English text of this announcement shall prevail over the Chinese text in case of any inconsistency.