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 2009

FINANCIAL HIGHLIGHTS

- Turnover increased by approximately 2.3% to RMB1,530.3 million.
- Gross profit rose by approximately 4.8% to RMB424.8 million.
- Profit attributable to shareholders decreased by approximately 15.5% to RMB324.1 million.
- Earnings per share of RMB31 cents achieved.
- Final dividend of HK7.403 cents per share (in scrip form).

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 2009 together with the comparative figures for the corresponding period in 2008 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2009

	Note	**2009**	2008
		RMB'000	*RMB'000*
Turnover	*3*	**1,530,321**	1,496,360
Cost of sales		**(1,105,517)**	(1,090,844)
Gross profit		**424,804**	405,516
Other revenue	*4*	**4,371**	41,503
Other net loss	*4*	**(62)**	(2,441)
Selling expenses		**(19,233)**	(15,896)
Administrative expenses		**(34,018)**	(32,001)
Profit from operations		**375,862**	396,681
Finance costs	*5(a)*	**(4,168)**	(13,320)
Profit before taxation	*5*	**371,694**	383,361
Income tax	*6*	**(47,607)**	—
Profit for the year		**324,087**	383,361
Earnings per share (RMB cents)	*8*		
Basic		**31**	37

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	2009 *RMB'000*	2008 *RMB'000*
Profit for the year	**324,087**	383,361
Other comprehensive income for the year		
Exchange differences on translation of financial statements of operations outside the People's Republic of China (the "PRC")	**(153)**	(21,940)
Total comprehensive income for the year	**323,934**	361,421
Attributable to:		
Equity shareholders of the Company	**323,934**	361,421

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

	Note	2009 RMB'000	2008 RMB'000
Non-current assets			
Property, plant and equipment	9	**1,365,520**	561,146
Construction in progress	9	**296,911**	316,060
Lease prepayments	9	**14,809**	15,150
Prepayment for the acquisition of plant and equipment	9	**60,780**	110,880
		1,738,020	1,003,236
Current assets			
Trading securities		**—**	64,753
Inventories	10	**37,334**	43,622
Trade and other receivables	11	**72,407**	38,844
Cash and cash equivalents		**682,764**	1,539,373
		792,505	1,686,592
Current liabilities			
Bank loans	12	**—**	124,000
Trade and other payables	13	**58,000**	320,753
Current taxation		**20,216**	9,868
		78,216	454,621
Net current assets		**714,289**	1,231,971
NET ASSETS		**2,452,309**	2,235,207
Capital and reserves			
Share capital	14	**100,258**	100,258
Reserves		**2,352,051**	2,134,949
TOTAL EQUITY		**2,452,309**	2,235,207

Notes:

1. GENERAL INFORMATION AND BASIS OF PREPARATION

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. The shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 2 October 2007.

The consolidated results set out in this announcement do not constitute the Group's financial statements for the year ended 31 December 2009 but are extracted from those financial statements.

The financial statements have been prepared in accordance with all applicable 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 and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Saved as described in Note 2, the adoption of these new and revised IFRSs did not result in significant changes to the Group's accounting policies applied in the consolidated financial statements for the current and prior accounting periods presented.

2. CHANGES IN ACCOUNTING POLICIES

The IASB has issued one new IFRS, a number of amendments to IFRSs and new Interpretations that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements,

– IFRS 8, *Operating segments*

– IAS 1 (revised 2007), *Presentation of financial statements*

– Improvements to IFRSs (2008)

– Amendments to IFRS7, *Financial instruments: Disclosures – improving disclosures about financial instruments*

– IAS 23 (revised 2007), *Borrowing costs*

The Improvements to IFRSs (2008) have had no material impact on the Group's financial statements as the amendments were consistent with policies already adopted by the Group. In addition, the amendments to IFRS 7 do not contain any additional disclosure requirements specifically applicable to the Group's financial statements. The impact of the remainder of these developments on the Group's financial statements is as follows:

– IFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. The adoption of IFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's most senior executive management.

  The Group operates in a single business segment, the manufacturing and trading of decorative base paper products and printing paper products in the PRC. Accordingly, no segmental analysis is presented. The Group's chief operating decision maker regards and manages the Group based on the information of this single business segment, for the purposes of assessing performance and making decisions about operating matters.

  All of the Group's revenues are generated in the PRC and substantially all of the Group's assets are located in the PRC and, therefore, no geographical segment information has been disclosed.

– As a result of the adoption of IAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

– IAS 23 (revised 2007) eliminates the option in IAS 23 (2004 version) of recognising all borrowing costs immediately as an expense. Consequently the Group is required to adopt a policy of capitalising borrowing costs which are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. As a result, borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred. Capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any borrowing cost relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009.

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:

	2009	2008
	RMB'000	*RMB'000*
Decorative base paper products	**1,307,243**	1,225,220
Printing paper product	**223,078**	271,140
	1,530,321	1,496,360

4. OTHER REVENUE AND NET LOSS

	2009 *RMB'000*	2008 *RMB'000*
Other revenue		
Interest income on financial assets not at fair value through profit or loss		
— Interest income from banks	**3,977**	12,970
— Other interest income	**—**	27,176
	3,977	40,146
Dividend income from listed securities	**394**	1,357
	4,371	41,503
Other net loss		
Loss/(gain) on disposal of property, plant and equipment	**6**	(8)
Net foreign exchange loss	**14**	452
Net realised and unrealised losses on financial assets at fair value through profit or loss	**42**	1,997
	62	2,441

5. PROFIT BEFORE TAXATION

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

	2009 *RMB'000*	2008 *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	**4,168**	13,320
(b) Staff costs:		
Contributions to defined contribution retirement plans	**2,831**	2,050
Salaries, wages and other benefits	**37,923**	29,898
	40,754	31,948
(c) Other items:		
Amortisation of lease prepayments	**341**	310
Auditors' remuneration		
— Audit services	**881**	999
— Tax services	**50**	129
Depreciation	**93,393**	70,519
Loss/(gain) on disposal of property, plant and equipment	**6**	(8)
Operating lease charges in respect of:		
— leasehold land and properties	**3,967**	1,918
— others	**150**	150
Sewage disposal expenses	**132**	132
Research and development costs	**156**	169

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 the BVI.

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

Shandong Qunxing Paper Limited ("Shandong QX") is a foreign investment enterprise and 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 the PRC income tax rate for the following three years from 1 January 2009 to 31 December 2011. The applicable tax rate for Shandong QX for the year ended 31 December 2009 is 12.5%.

7. DIVIDENDS

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

	2009	2008
	RMB'000	*RMB'000*
Interim dividend declared and paid of HK3.277 cents (equivalent to approximately RMB2.889 cents) per ordinary share (2008: HK4.16 cents per ordinary share, equivalent to approximately RMB3.66 cents per ordinary share)	**29,842**	38,018
Final dividend proposed after the balance sheet date of HK7.403 cents (equivalent to approximately RMB6.525 cents) per ordinary share (2008: HK8.45 cents per ordinary share, equivalent to approximately RMB7.45 cents per ordinary share)	**67,385**	76,990
	97,227	115,008

The Board has resolved to recommend the payment of a final dividend for the year ended 31 December 2009 wholly in scrip form equivalent to HK7.403 cents (2008: HK8.45 cents in cash form) per ordinary share to shareholders whose names appear on the register of members of the company on 5 May 2010.

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

	2009	2008
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year of HK8.45 cents (equivalent to approximately RMB7.45 cents) per ordinary share (2008: HK11.28 cents per ordinary share, equivalent to approximately RMB10.126 cents per ordinary share)	**76,990**	105,172

8. EARNINGS PER SHARE

(a) The calculation of basic earnings per share for the year ended 31 December 2009 is based on the profit attributable to ordinary equity shareholders of the Company of RMB324,087,000 (2008: RMB383,361,000) and the weighted average number of 1,032,800,000 (2008: 1,038,273,000) 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 and prepayments for the acquisition of plant and equipment. During the year ended 31 December 2009, the Group incurred aggregate capital expenditure of RMB939,406,000 (2008: RMB434,793,000).

10. INVENTORIES

	2009 ***RMB'000***	2008 *RMB'000*
Raw materials and consumables	**23,336**	26,932
Finished goods	**13,998**	16,690
	37,334	43,622

11. TRADE AND OTHER RECEIVABLES

	2009 ***RMB'000***	2008 *RMB'000*
Trade receivables	**29,520**	37,795
Prepayments, deposits and other receivables	**2,737**	1,049
Other tax recoverable	**40,150**	—
Less: allowance for doubtful debts	**—**	—
	72,407	38,844

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:

	2009 ***RMB'000***	2008 *RMB'000*
Current	**27,630**	36,543
Less than one month past due	**1,890**	1,252
	29,520	37,795

12. BANK LOANS

At 31 December 2008, the bank loans of RMB124,000,000 were repayable within one year and were secured by property, plant and equipment with a net book value of RMB225,194,000.

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

13. TRADE AND OTHER PAYABLES

	2009	2008
	RMB'000	*RMB'000*
Trade payables	**45,529**	89,255
Other payables and accruals	**12,471**	231,498
	58,000	320,753

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.

	2009	2008
	RMB'000	*RMB'000*
Due within 30 days	**45,529**	89,255

14. SHARE CAPITAL

	Note	**2009** Number of shares ('000)	**2009** RMB'000	2008 Number of shares ('000)	2008 RMB'000
At 1 January		**1,032,800**	**100,258**	1,045,000	101,359
Shares repurchased	*(a)*	**—**	**—**	(12,200)	(1,101)
At 31 December		**1,032,800**	**100,258**	1,032,800	100,258

(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 resolved to recommend the payment of a final dividend for the year ended 31 December 2009 wholly in scrip form equivalent to HK7.403 cents (2008: HK8.45 cents) per share to shareholders whose names appear on the register of members of the Company on Wednesday, 5 May 2010 (the "Scrip Dividend Scheme"). Together with the interim dividend of HK3.277 cents (2008: HK4.16 cents) per share paid on 18 September 2009, the total dividends per share for the year ended 31 December 2009 will thus be HK10.68 cents per share (2008: HK12.61 cents).

The number of new shares ("Scrip Shares") to be allotted and issued under the Scrip Dividend Scheme will be calculated on the basis of the average closing prices per share of the Company on the Stock Exchange for the 5 consecutive trading days from Thursday, 29 April 2010 to Wednesday, 5 May 2010, less a discount of 5%.

Subject to (i) the approval of the Company's shareholders at the forthcoming annual general meeting to be held on Wednesday, 5 May 2010; and (ii) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in Scrip Shares, the relevant share certificates for Scrip Shares will be despatched to shareholders on or about Tuesday, 8 June 2010.

A circular containing, inter alia, full details of the Scrip Dividend Scheme will be sent to shareholders on or about Wednesday, 31 March 2010.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 29 April 2010 to Wednesday, 5 May 2010, both days inclusive. In order to qualify for the 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, 28 April 2010.

BUSINESS REVIEW

In the face of financial tsunami triggered by the U.S. subprime mortgage crisis, authorities across the globe responded quickly and took various remedial measures to shore up international financial system so as to stabilise the macro economy. The global economy has experienced a gradual recovery since the trough in March 2009. Given swift policy actions taken by the PRC government, including the introduction of a RMB4 trillion fiscal stimulus package, the fundamentals of the PRC's economy remained intact throughout the global financial crisis. According to the National Bureau of Statistics, China's gross domestic product (GDP) in 2009 grew by 8.7% to RMB335,353 billion from 2008, reflecting the continuing urbanisation and improvement in people's living standards in the PRC.

The decorative base paper industry in the PRC is less affected by the global financial crisis without a sharp decline in market demand. During the year, urbanisation has been accelerating in second- and third-tiered cities in the PRC and the PRC government gave strong backing for the construction of economically affordable housing, which in turn fueled demand for laminated boards, the economic and environmental friendly substitutes for logs. Such development provided sustained driving forces for growth of the Group's decorative base paper business.

Despite facing the challenging market environment, the overall business performance of the Group remained stable boosted by improvements in operating efficiency and margins. For the year ended 31 December 2009, the Group recorded a turnover of RMB1,530.3 million, representing an increase of 2.3% as compared with the corresponding period in 2008. The overall gross profit margin increased from 27.1% in 2008 to 27.8% in 2009. Profit for the year amounted to RMB324.1 million, representing a decrease of 15.5% as compared with the corresponding period in 2008. Basic earnings per share were RMB31 cents (2008: RMB37 cents).

Expansion of production capacity

As at 31 December 2009, the Group has invested in and is currently operating 11 highly automated Production lines nos. 1 to 11 with an aggregate designed annual production capacity of approximately 320,000 tonnes, comprising approximately 270,000 tonnes of decorative base paper products and approximately 50,000 tonnes of printing paper product. Construction of Production lines nos. 12 and 13, each of which has a designed annual production capacity of approximately 30,000 tonnes, is currently underway and is scheduled to be completed by mid 2010. Commercial production of these Production lines is expected to commence in late 2010. By then, the Group's aggregate designed annual production capacity will reach approximately 380,000 tonnes.

We will also input resources to refine existing production lines in order to increase production efficiency and to further enhance the Group's competitiveness.

Comprehensive distribution channels

During the year under review, the Group continued to focus on developing business in its 6 designated sales regions in the PRC, namely, Shandong, Sichuan, Guangdong, Beijing, Jiangsu and Zhejiang. The Group maintained a comprehensive distribution channel with over 110 customers covering 13 provinces, autonomous regions and municipalities in the PRC. The Group will strive to maintain and consolidate long-term relationships with existing customers.

Research and development of products

The Group has marketed more than 80 types of decorative base paper products that can be used in a diversified spectrum of areas, including furniture and flooring of home and office, interior decoration of large scale infrastructure facilities and vehicles. In the face of growing market demand, the QX Group will continue to optimize product mix and enlarge the weighting of premium decorative base paper products so as to capture a larger market share and to increase profitability.

In our on-going efforts to enhance research and development capabilities, the Group continued our strategic partnership with Research and Design Institute of Papermaking Industry of Shandong Province* (山東省造紙工業研究設計院) so as to conduct research and develop new products and technology.

Environmental protection

Environmental protection always plays an important part on the Group's agenda. Being the Group's core product, decorative base paper products are indeed a cost-effective alternative to wood products. Moreover, the premium wood pulp used for producing decorative base paper causes almost no pollution and conforms to the national policies of the PRC for environmental protection.

We have also endeavoured to alleviate the impact of our operation on the environment. The Group has currently a waste water treatment system with an annual processing capacity of approximately 1,700,000 cubic meters. To cope with the expansion of our production capacity, construction of another waste water treatment system with an annual processing capacity of approximately 3,650,000 cubic meters was completed in December 2009. Waste water after treatment is reused for irrigation at the Group's production base in Shandong.

Awards and recognition

The Group continued to receive a number of accreditations for its management excellence and remarkable business performance during the year. QX Paper was conferred "The Credible Enterprise of China Accreditation in 2009" jointly by China Enterprise Reputation and Credibility Association (Overseas) Ltd. and Reputation Institute China. The Group was also named as one of "Top 500 Overseas Chinese Merchants in China's Market (Mainland)*" by *Ta Kung Pao* (大公報) and *Hai Wai Wen Zhai* (海外文摘). Besides, Shandong Qunxing Paper Limited* ("Shandong QX"), a wholly-owned subsidiary of the Company, was granted "2008 Chinese Enterprise with Excellent Integrity" award by the China Enterprise Confederation and the China Entrepreneur Association. Moreover, Shandong QX was named as one of "Top 30 Papermaking Enterprises in China*" while Dr. Zhu Yu Guo, chairman of the Board, was named as one of "Outstanding Entrepreneur of Papermaking Industry in China*" by China Paper Association.

FINANCIAL REVIEW

Turnover

For the year ended 31 December 2009, the average selling prices of the decorative base paper products and printing paper product decreased by approximately 8.3% from RMB13,236 per tonne in 2008 to RMB12,142 per tonne in 2009 and approximately 13.9% from RMB6,670 per tonne in 2008 to RMB5,744 per tonne in 2009, respectively. Despite of this, the overall sales volumes increased by approximately 10.0% from 133,213 tonnes in 2008 to 146,506 tonnes in 2009, out of which sales volumes of the decorative base paper products increased by approximately 16.3% from 92,564 tonnes for the year ended 31 December 2008 to 107,667 tonnes for the year ended 31 December 2009. As a result, our turnover increased by approximately 2.3% from RMB1,496.4 million in the year ended 31 December 2008 to RMB1,530.3 million in the year ended 31 December 2009.

Cost of sales

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

Cost of sales increased by approximately 1.3% from RMB1,090.8 million for the year ended 31 December 2008 to RMB1,105.5 million for the year ended 31 December 2009. The increase in cost of sales was primarily due to the combined effects of (i) an increase in the aggregate raw material costs, which are the major component of our cost of sales, as a result of the increased sales volume, (ii) a decrease in purchasing costs of wood pulp and titanium dioxide powder, our principal raw materials for production during the year ended 31 December 2009 (as discussed below), (iii) an increase in production overheads, such as electricity and steam expenses, in line with the increase in production volume; and (iv) an increase in depreciation expenses due to the commercial production of Production lines nos. 8 to 11 during the year.

Principal raw materials

Our results of operations are subject to price fluctuations of raw materials used in the production process. The principal raw materials for our production are wood pulp and titanium dioxide powder.

For each of the two years ended 31 December 2008 and 2009, the purchase of wood pulp amounted to approximately RMB472.7 million and RMB405.9 million, respectively, representing approximately 43.3% and 36.7% of the total cost of sales for the respective years. The decrease is due to the combined effect of (i) an increase in usage of wood pulp, in line with the increased sales volume; and (ii) a decrease in the average purchase price (value added tax inclusive) of wood pulp by approximately 22.0% from approximately RMB6,540 per tonne in 2008 to RMB5,104 per tonne in 2009.

For each of the two years ended 31 December 2008 and 2009, the purchase of titanium dioxide powder amounted to approximately RMB303.8 million and RMB314.3 million, respectively, representing approximately 27.9% and 28.4% of the total cost of sales for the respective years. The slight increase is mainly due to the combined effect of (i) an increase in the usage of titanium dioxide as a result of the increased sales volume in decorative base paper products; and (ii) a decrease in the average purchase price (value added tax inclusive) of titanium dioxide by approximately 7.2% from approximately RMB13,741 per tonne in 2008 to RMB12,747 per tonne in 2009.

Utilities and steam expenses

During the years ended 31 December 2008 and 2009, our electricity and steam expenses increased by approximately 11.9% from RMB124.6 million in 2008 to RMB139.4 million in 2009, which was mainly due to the increase in production volume as a result of the commercial operation of Production lines nos. 8 to 11 during the year. The electricity and steam expenses accounted for approximately 11.4% and 12.6% of the total cost of sales for the respective years.

Depreciation charges

During the years ended 31 December 2008 and 2009, our depreciation charges included in cost of sales increased by approximately 31.9% from RMB69.6 million in 2008 to RMB91.7 million in 2009, mainly due to the commercial operation of Production lines nos. 8 to 11 in 2009.

Gross profit and gross profit margin

The gross profit of our Group increased by approximately 4.8% from RMB405.5 million for the year ended 31 December 2008 to RMB424.8 million for the year ended 31 December 2009, while the gross profit margin improved from approximately 27.1% for the year ended 31 December 2008 to approximately 27.8% for the year ended 31 December 2009.

The following table sets forth the gross profit margin of each category of the products for the two years ended 31 December 2008 and 2009:

Products	Year ended 31 December 2009	2008
Decorative base paper products		
— Premium coloured decorative base paper	**37.7%**	36.7%
— Premium white decorative base paper	**26.4%**	27.2%
— Ordinary coloured decorative base paper	**26.4%**	22.2%
Sub-total	**29.6%**	29.1%
Printing paper product	**17.3%**	17.8%

The increase in overall gross profit margin of our decorative base paper products in 2009 was mainly attributable to the increase in sales of our premium decorative base paper products, which have higher gross profit margin.

Other revenue and other net loss

Other revenue, which represented mainly 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 by approximately 89.4% from RMB41.5 million for the year ended 31 December 2008 to RMB4.4 million for the year ended 31 December 2009. The decrease was mainly due to the consequence of less cash held on hand upon the payment of construction costs for production lines and the persistently low interest rate environment in the wake of the financial tsunami such that interest income from deposits decreased by approximately 90.0% from RMB40.1 million in 2008 to RMB4.0 million in 2009.

In compliance with the financial management and treasury policies, certain investments were made using uncommitted funds. During the years ended 31 December 2008 and 2009, we recorded a net realised and unrealised loss on financial assets at fair value through profit or loss of RMB2.0 million and RMB0.1 million, respectively.

Selling expenses

As disclosed in the Prospectus, we planned to strengthen our marketing activities. During the year ended 31 December 2009, our Group increased its sales and marketing staff to 46 and had 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 21.0% from RMB15.9 million for the year ended 31 December 2008 to RMB19.2 million for the year ended 31 December 2009. As a percentage of turnover, our selling expenses were maintained at approximately 1.1% to 1.3% for each of the two years ended 31 December 2009. This was in line with the existing policy of our Group to allocate approximately 1.0% of the revenue from 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 costs, and pension contributions.

Administrative expenses increased by approximately 6.3% from RMB32.0 million for the year ended 31 December 2008 to RMB34.0 million for the year ended 31 December 2009. The increase was mainly due to the expansion of operations during the year where additional supportive staff were employed such that the administrative staff costs, employee benefits and pension expenses increased by approximately 6.2% from RMB8.1 million in the year ended 31 December 2008 to RMB8.6 million in the year ended 31 December 2009.

Finance costs

Finance costs consist primarily of interest expenses on the bank borrowings. The amount decreased by approximately 68.4% from RMB13.3 million for the year ended 31 December 2008 to RMB4.2 million for the year ended 31 December 2009 due to the repayment of bank borrowings during the year.

Income tax

Members of the Group are incorporated in different jurisdictions, with different taxation requirements.

Shandong QX, our principal operating subsidiary in the PRC, had been exempted from PRC income tax for the two years 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. As such, our Group is not liable to pay any income tax in the PRC for the year ended 31 December 2008, while Shandong QX is subject to an income tax rate of 12.5% for the year ended 31 December 2009.

No provision has been made for Hong Kong Profits Tax for 2008 and 2009 as the Group did not earn assessable profits subject to Hong Kong Profits Tax for either year.

The effective tax rates of our Group for the years ended 31 December 2008 and 2009 were 0.0% and 12.8% respectively, The reconciliation between income tax expenses and accounting profit at the applicable tax rates was set out as follows:

	Year ended 31 December	
	2009	2008
	RMB'000	*RMB'000*
Profit before taxation	**371,694**	383,361
Income tax on profit before taxation, calculated at the tax rates applicable in the respective tax jurisdictions concerned	**93,706**	96,882
Tax effect of tax concession period	**(49,040)**	(100,001)
Tax effect of non-deductible expenses	**1,981**	3,739
Tax effect of non-taxable income	**(103)**	(620)
Tax effect of unused tax loss not recognised for deferred tax purposes	**1,063**	—
Income tax expenses for the year	**47,607**	—

Liquidity and financial resources

Current and quick ratio

The current ratio of the Group increased from 3.7 as at 31 December 2008 to 10.1 as at 31 December 2009 and the quick ratio of the Group increased from 3.6 as at 31 December 2008 to 9.7 as at 31 December 2009, respectively, which was mainly due to the combined effect of (i) the repayment of short-term bank loans of RMB124.0 million during the year; and (ii) the settlement of construction costs for Production lines nos. 8 to 11 during the year ended 31 December 2009.

Gearing ratio

As at 31 December 2009, the Group did not have any outstanding bank borrowings (31 December 2008: RMB124.0 million). The gearing ratio decreased from approximately 4.6% as at 31 December 2008 to 0.0% as at 31 December 2009 mainly due to the full repayment of bank borrowings of RMB124.0 million during the year.

Financial resources

The financial resources of the Group continued to be strong. As at 31 December 2009, shareholders' fund of the Group totalled RMB2,452.3 million, representing an increase of approximately 9.7% from RMB2,235.2 million at 31 December 2008. The Group had cash and cash equivalents of approximately RMB682.8 million as at 31 December 2009 (31 December 2008: RMB1,539.4 million), after the payment of final dividend for the year ended 31 December 2008 and interim dividend for the six months ended 30 June 2009 of RMB77.0 million and RMB29.8 million, respectively, during the year.

The Group continues to enjoy a stable and strong net cash inflow from operations. During the years ended 31 December 2008 and 2009, the net cash generated from operations was RMB460.6 million and RMB432.0 million, respectively.

Financial management and treasury policies

The Group adopts a conservative approach for cash management and investment of 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 aim 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 approximately fixed. As at 31 December 2009, the Group did not have any bank borrowings.

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's principal operating subsidiary 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 years did not have significant impact on the results of the Group.

Capital expenditure

During the year ended 31 December 2009, the Group recorded aggregate additions to property, plant and equipment and construction in progress and prepayments for the acquisition of plant and equipment of approximately RMB939.4 million (2008: RMB434.8 million).

Capital commitments, contingencies and charge on assets

The Group will further invest RMB181.8 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".

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 2009.

As at 31 December 2009, the Group did not have any property, plant and equipment secured for any borrowings (2008: RMB225.2 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 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 2009, part of the net proceeds had been applied as follows:

	Planned amount *RMB'000*	**Amount utilised up to 31 December 2009** *RMB'000*	**Balance as at 31 December 2009** *RMB'000*
Settlement of the remaining balance of the construction costs of Production line no. 7	163,300	163,300	—
Construction of new Production lines nos. 8 to 11	720,000	720,000	—
Construction of new Production lines nos. 12 to 13 *(Note 2)*	360,000	218,200	141,800
Re-engineering and modification of the existing Production lines nos. 1 and 3	40,000	—	40,000
	1,283,300	1,101,500	181,800

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 is exercised, our Group planned to apply part of the additional net proceeds of RMB360.0 million for doubling the production capacity of the planned new 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.

HUMAN RESOURCES

As at 31 December 2009, our Group employed approximately 1,400 employees in the PRC and Hong Kong. Key components of the Group's remuneration packages include basic salary, medical insurance, discretionary cash bonus and retirement benefit scheme. Promotion and salary increments are assessed based on a performance related basis.

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

OUTLOOK

While market data and various indicators suggest that the PRC's domestic market will continue to grow and experience a growth in export-driven demand following the gradual recovery of the global economy, the PRC's economy is likely to remain its upward trend in 2010. The Group will nevertheless adopt a prudent approach and closely monitor any market changes. With the PRC government's strong support for industries related to environmental protection, the uniqueness of our decorative base paper products and the solid foundation of the Group, the management is confident that the Group will be able to achieve stable growth in 2010.

Looking ahead, the Group will uphold its competitiveness and strengthen its leading market position through various initiatives, such as enhancing product quality, optimising product portfolio, improving research and development capability and strengthening both cost and quality control. Taking advantage of our strong financial position, the Group is well-positioned to explore and capture suitable and relevant development opportunities with an aim to maximising our shareholders' value in the long run.

PURCHASE, REDEMPTION OR SALE OF SHARES OF THE COMPANY

During the year, 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 2009, 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 2009 will be set out in the Corporate Governance Report contained in the Company's 2009 Annual Report.

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

As at 31 December 2009, 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 a 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 a general manager of the Company. Mr. Zhu Mo Qun (the son of Dr. Zhu), an executive Director and a general manager of the Company as well as a vice-chairman of the Board, is responsible for the overall management of the Group's business operation 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 2009.

Audit Committee

The Audit Committee of the Board currently comprises all three independent non-executive Directors ("INEDs"). The Audit Committee has reviewed with our management, the consolidated financial statements of the Group for the year ended 31 December 2009 and the accounting principles and practices adopted by the Group during the year.

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 2009 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 2009 ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement has been published on the website of the Company at www.qxpaper.com and HKEX news website of the Stock Exchange at www.hkex.com.hk respectively. The Company's 2009 Annual Report will be available at both websites and despatched to the Company's shareholders as soon as practicable.

APPRECIATION

The achievements of the Group are attributable to the concrete 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 and contributions, and our shareholders, business associates and investors for their support during the year.

By Order of the Board
ZHU Yu Guo
Chairman

Shandong, the PRC, 17 March 2010

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.

* *for identification purposes only*