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 UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2008

FINANCIAL HIGHLIGHTS

- Turnover increased by approximately 31.8% to RMB683.4 million.
- Gross profit rose by approximately 32.1% to RMB172.7 million.
- Gross profit margin increased from 25.2% to 25.3%.
- Profit attributable to shareholders increased by approximately 76.2% to RMB190.1 million.
- Earnings per share increased by approximately 28.6% from RMB14 cents to RMB18 cents.
- Interim dividend of HK4.16 cents (equivalent to approximately RMB3.66 cents) per share.

INTERIM RESULTS

The board of directors (the "Board") of Qunxing Paper Holdings Company Limited (the "Company" or "QX Paper") is pleased to announce the unaudited condensed interim results of the Company and its subsidiaries (the "Group" or "QX Group") for the six months ended 30 June 2008 together with the comparative figures for the six months ended 30 June 2007 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
		2008	2007
	Note	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Turnover	*3*	**683,415**	518,644
Cost of sales		**(510,680)**	(387,926)
Gross profit		**172,735**	130,718
Other revenue	*4*	**50,139**	306
Other net loss	*4*	**(473)**	(11)
Selling expenses		**(7,234)**	(3,565)
Administrative expenses		**(15,105)**	(8,650)
Profit from operations		**200,062**	118,798
Finance costs	*5(a)*	**(7,688)**	(10,862)
Profit before taxation	*5*	**192,374**	107,936
Income tax expense	*6*	**(2,285)**	—
Profit for the period		**190,089**	107,936
Dividends:	*7*		
— Final dividend paid		**105,172**	—
— Interim dividend proposed		**38,018**	—
Earnings per share (RMB cents)	*8*		
Basic		**18**	14

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	As at 30 June 2008 *RMB'000* (Unaudited)	As at 31 December 2007 *RMB'000* (Audited)
Non-current assets			
Property, plant and equipment	*9*	**597,290**	461,021
Construction in progress	*9*	**97,305**	167,098
Lease prepayments	*9*	**15,321**	11,255
		709,916	639,374
Current assets			
Inventories	*10*	**37,799**	35,487
Trade and other receivables	*11*	**91,632**	50,903
Cash and cash equivalents		**1,490,762**	1,792,158
		1,620,193	1,878,548
Current liabilities			
Bank loans	*12*	**124,000**	30,000
Trade and other payables	*13*	**108,766**	229,404
Current taxation		**12,153**	9,868
		244,919	269,272
Net current assets		**1,375,274**	1,609,276
Total assets less current liabilities		**2,085,190**	2,248,650
Non-current liabilities			
Bank loans	*12*	**—**	207,000
NET ASSETS		**2,085,190**	2,041,650
Capital and reserves			
Share capital	*14*	**100,771**	101,359
Reserves		**1,984,419**	1,940,291
TOTAL EQUITY		**2,085,190**	2,041,650

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 June	
	2008	2007
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	**157,458**	139,527
Net cash used in investing activities	**(196,301)**	(28,900)
Net cash used in financing activities	**(244,331)**	(98,268)
Net (decrease)/increase in cash and cash equivalents	**(283,174)**	12,359
Cash and cash equivalents at beginning of the period	**1,792,158**	67,265
Effect of foreign exchange rate changes	**(18,222)**	—
Cash and cash equivalents at end of the period	**1,490,762**	79,624

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 of the Group (the "Reorganisation"), the Company acquired the equity interests of entities 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 are 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.

The Group is regarded as a continuing entity resulting from the Reorganisation under common control. Accordingly, the condensed consolidated financial statements of the Group for the six months ended 30 June 2007 have been prepared as if the current group structure had been in existence throughout the period presented.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The condensed consolidated financial statements for the six months ended 30 June 2008 have been prepared in accordance with the applicable disclosure requirements set out in Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange and with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board ("IASB").

The condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual report for the year ended 31 December 2007 (the "2007 Annual Report").

The accounting policies adopted in the condensed consolidated financial statements for the six months ended 30 June 2008 are consistent with those in the preparation of the 2007 Annual Report.

3. TURNOVER

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

	For the six months ended 30 June	
	2008	2007
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Decorative base paper products	**551,780**	397,947
Printing paper product	**131,635**	120,697
	683,415	518,644

4. OTHER REVENUE AND NET LOSS

	For the six months ended 30 June	
	2008	2007
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Other revenue		
Interest income on financial assets not at fair value through profit or loss		
— interest income from bank deposits	**21,075**	306
Net realised gain on financial assets at fair value through profit or loss	**29,064**	—
	50,139	306
Other net loss		
Loss on disposal of property, plant and equipment	**(9)**	(6)
Net foreign exchange loss	**(464)**	(5)
	(473)	(11)

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	For the six months ended 30 June	
	2008	2007
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
(a) Finance costs:		
Interest on financial liabilities not at fair value through profit or loss		
— interest on bank borrowings wholly repayable within five years	**7,688**	10,862
(b) Staff costs:		
Contributions to defined contribution retirement plans	**997**	1,358
Salaries, wages and other benefits	**15,191**	10,991
	16,188	12,349
(c) Other items:		
Amortisation of lease prepayments	**139**	61
Depreciation	**33,988**	28,667
Loss on disposal of property, plant and equipment	**9**	6
Operating lease charges in respect of leasehold land and properties	**787**	527
Sewage disposal expenses	**66**	41
Research and development costs	**109**	476

6. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2008	2007
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current tax		
— PRC income tax	**—**	—
— Hong Kong Profits Tax	**2,285**	—
	2,285	—

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

The provision for Hong Kong Profits Tax for 2008 is calculated at 16.5% (2007: 17.5%) of the estimated assessable profits for the period.

The Group is not liable to pay any income tax in the People's Republic of China (the "PRC") during the six months ended 30 June 2007 and 2008 as Shandong Qunxing Paper Limited* ("Shandong QX") became a foreign investment enterprise since 16 August 2006, it has been granted certain tax relief whereby it is fully exempted from PRC income tax for the two years started from 1 January 2007 to 31 December 2008, followed by a 50% reduction in PRC income tax rate for the following 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 (the "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, Shandong QX, which has not fully utilised its five-year tax holiday upon implementation of the New Tax Law, will be allowed to continue to receive such a tax holiday during the five-year grandfathering period. Accordingly, Shandong QX is 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 following three years from 1 January 2009 to 31 December 2011.

The enactment of the New Tax Law is not expected to have any financial effect on the amounts accrued in the balance sheet in respect of current tax payable.

7. DIVIDENDS

	For the six months ended 30 June	
	2008	2007
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Final dividend paid for the year ended 31 December 2007 of RMB10.126 cents per ordinary share (for the year ended 31 December 2006: Nil)	**105,172**	—
Interim dividend proposed for the six months ended 30 June 2008 of HK4.16 cents (equivalent to approximately RMB3.66 cents) per ordinary share (for the six months ended 30 June 2007: Nil)	**38,018**	—
	143,190	—

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

8. EARNINGS PER SHARE

(a) The calculation of basic earnings per share for the six months ended 30 June 2008 is based on the unaudited profit attributable to equity shareholders of the Company of RMB190,089,000 and the weighted average number of 1,039,714,000 ordinary shares in issue during the period.

The calculation of basic earnings per share for the six months ended 30 June 2007 is based on the unaudited profit attributable to equity shareholders of the Company of RMB107,936,000 and the 750,000,000 shares (100,000,000 shares in issue as at the date of the Prospectus and 650,000,000 shares issued pursuant to capitalisation issue upon listing), as if the shares had been outstanding throughout the period.

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

9. CAPITAL EXPENDITURE

Capital expenditure comprises additions to property, plant and equipment, increase in construction in progress and acquisition of land use rights. During the six months ended 30 June 2008, the Group has aggregate capital expenditure of RMB104,677,000 (during the six months ended 30 June 2007: RMB12,628,000).

10. INVENTORIES

	As at 30 June 2008 *RMB'000* **(Unaudited)**	As at 31 December 2007 *RMB'000* (Audited)
Raw materials and consumables	**21,931**	19,316
Finished goods	**15,868**	16,171
	37,799	35,487

11. TRADE AND OTHER RECEIVABLES

	As at 30 June 2008 *RMB'000* **(Unaudited)**	As at 31 December 2007 *RMB'000* (Audited)
Trade receivables	**61,244**	50,297
Prepayments, deposits and other receivables	**30,388**	606
Less: allowance for doubtful debts	**—**	—
	91,632	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 debtors with the following ageing analysis as of the balance sheet date:

	As at 30 June 2008 *RMB'000* **(Unaudited)**	As at 31 December 2007 *RMB'000* (Audited)
Current	**61,244**	50,297

12. BANK LOANS

At 30 June 2008, the bank loans were repayable as follows:

	As at 30 June 2008 *RMB'000* (Unaudited)	As at 31 December 2007 *RMB'000* (Audited)
Within one year	**124,000**	30,000
After one year but within two years	**—**	207,000
	124,000	237,000

At 30 June 2008, the bank loans were secured as follows:

	As at 30 June 2008 *RMB'000* (Unaudited)	As at 31 December 2007 *RMB'000* (Audited)
Secured bank loans:		
— secured by property, plant and equipment	**124,000**	237,000

The bank loans as at 30 June 2008 were interest bearing at rates ranging from 7.23% to 8.54% per annum (31 December 2007: 7.23% to 8.95% per annum).

13. TRADE AND OTHER PAYABLES

	As at 30 June 2008 *RMB'000* (Unaudited)	As at 31 December 2007 *RMB'000* (Audited)
Trade payables	**85,217**	61,120
Other payables and accruals	**23,549**	168,284
	108,766	229,404

All of the trade and other payables are expected to be settled within one year.

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

	As at 30 June 2008 *RMB'000* (Unaudited)	As at 31 December 2007 *RMB'000* (Audited)
Due within 30 days	**85,217**	61,120

14. SHARE CAPITAL

		2008		2007	
		Number of shares		Number of shares	
	Notes	***('000)***	***RMB'000***	*('000)*	*RMB'000*
		(Unaudited)		(Unaudited)	
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
Share repurchase	*(a)*	**(6,381)**	**(588)**	—	—
At 30 June		**1,038,619**	**100,771**	100,000	9,894

(a) During 1 January to 28 February 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 on the repurchase of the shares of HK$18,820,000 (equivalent to RMB17,419,000) was charged to the share premium account.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK4.16 cents (equivalent to approximately RMB3.66 cents) per ordinary share for the six months ended 30 June 2008 which shall be payable on or about Monday, 8 September 2008 to shareholders whose names appear on the register of members of the Company on Friday, 29 August 2008.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 27 August 2008 to Friday, 29 August 2008, both days inclusive. In order to qualify for the aforesaid interim 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 not later than 4:30 p.m. on Tuesday, 26 August 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The PRC economy saw steady growth during the first half of 2008, with its gross domestic product (GDP) increasing 10.4% from the same period last year to RMB13.06 trillion. Given the sustainable increase in the general level of disposable income and the proportion of middle to upper-middle income earners, the desire for better living standard and hence the demand for quality housing continued to grow. Meanwhile, the PRC government implemented stringent environmental protection policies and discouraged consumption of wood and wooden products. These policies drove up demand for laminated board, a substitute of wooden material with diversified applications. The surge in such demand in return fuelled the demand for decorative base paper which is the core product of QX Group and is an intermediate product commonly used as a decorative layer to furnish the surface of laminated board.

Existing domestic supplying of premium decorative base paper products in the PRC significantly falls short of the rising market demand. Currently, approximately two-third of decorative base papers in the PRC is imported. A promising market prospect is thus created and this is favourable to local manufacturers who are capable of supplying quality products at competitive prices. Capitalising on our capability to deliver quality products with international standards while producing at a cost significantly lower than overseas rivals, QX Group has successfully maintained its leading position in the PRC's decorative base paper market and captured a greater market share in the premium market during the six months ended 30 June 2008.

QX Group's business continued to achieve encouraging growth in the first half of 2008. For the six months ended 30 June 2008, turnover increased by 31.8% to approximately RMB683.4 million as compared with approximately RMB518.6 million for the corresponding period last year. In spite of the upsurge in the costs of raw materials during the period under review, the Group was able to maintain its gross profit margin at 25.3% (six months ended 30 June 2007: 25.2%). Profit for the period increased by 76.2% to approximately RMB190.1 million as compared with approximately RMB107.9 million for the corresponding period last year.

During the period under review, capitalising on the realignment of product mix by increasing the proportion of high margin premium decorative base paper products, we were able to overcome cost pressure brought about by rising energy prices and domestic inflation and maintained our gross profit margin at almost the same level as in the corresponding period last year. Moreover, strong research and development ("R&D") capabilities meant that we were able to raise its average selling price by launching new products every year and transfer the impact of rising cost to customers to maintain our profit margin. We also benefited from the appreciation of Renminbi as it sourced wood pulp, our major raw material, from overseas.

Expansion of production capacity

To date, QX Group has invested and operated seven highly automated Production lines nos. 1 to 7 with an aggregate designed annual production capacity of approximately 200,000 tonnes, comprising approximately 150,000 tonnes of decorative base paper products and approximately 50,000 tonnes of printing paper product.

To cater for the rapid growth of market demand for decorative base paper products, commercial production of Production line no. 7 with a designed annual production capacity of 30,000 tonnes has commenced in early March 2008, two months ahead of the original schedule and has reached full capacity in June 2008. Meanwhile, Production lines nos. 8 and 9 are currently under construction and are expected to be completed by late 2008. Besides, construction of Production lines nos. 10 and 11 is expected to commence by August 2008 and to be completed by early 2009. The designed annual capacity of each of the four Production lines nos. 8 to 11 is 30,000 tonnes.

Furthermore, the Group also planned to construct another two new Production lines nos. 12 and 13. Construction of these production lines is scheduled to commence in early 2009 and to be completed by late 2009. The designed annual production capacity of each of the two new production lines is 30,000 tonnes. These new production facilities will further expand the Group's total production capacity and contribute to the growth of our turnover, thus strengthening our leading position in the PRC's decorative base paper market.

Consolidation of distribution channels

During the period under review, our distribution channels were consolidated by realigning our product mix. To date, the Group has designated and marketed 6 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 consolidated customer base enables us to further improve client relationship, particularly in terms of providing customized products to our clients. In addition, the Group is committed to developing overseas markets in order to broaden our revenue streams so as to sustain long-term business growth.

Diversification of product applications

QX Group has developed and marketed more than 80 types of decorative base paper products to accommodate different market demands. Other than the applications in furniture and the flooring of households, sport stadiums and production factories, our products are developed with wider applications including the interior decoration of motor vehicles, air-crafts, etc.

Awards

During the period under review, Shandong QX, a wholly-owned subsidiary of QX Paper, was awarded the "Advanced Enterprise of Shandong Province's Paper Manufacturing Industry in 2007" by Shandong Province Paper Manufacturing Industry Association (the "Association"). This is an acknowledgement of the leading position of QX Group in the PRC's paper industry. Shandong QX was also appointed as the standing council member by the Association in recognition of its outstanding achievements in the PRC's paper industry. We endeavour to participate in the activities held by the Association and help set up the industry standard so as to contribute to the development of the PRC's paper industry.

FINANCIAL REVIEW

Turnover

Turnover increased by approximately 31.8% from RMB518.6 million for the six months ended 30 June 2007 to RMB683.4 million for the six months ended 30 June 2008. The increase in turnover for the six months ended 30 June 2008 was mainly attributable to the combined effects of (i) the increase in overall sales volumes by approximately 13.1% from 54,087 tonnes to 61,197 tonnes, out of which sales volumes of the decorative base paper products increased by approximately 18.8% from 34,897 tonnes for the six months ended 30 June 2007 to 41,474 tonnes for the six months ended 30 June 2008; and (ii) the increase in the average selling prices of the decorative base paper products and printing paper product by approximately 16.7% from RMB11,404 per tonne to RMB13,304 per tonne and approximately 6.1% from RMB6,289 per tonne to RMB6,674 per tonne, respectively.

Cost of sales

The cost of sales increased by approximately 31.7% from RMB387.9 million for the six months ended 30 June 2007 to RMB510.7 million for the six months ended 30 June 2008. The increase in the cost of sales was primarily due to the increase in the raw material costs, which are 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 establishment and 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 of both of the decorative base paper products and printing paper product are wood pulp and titanium dioxide powder. For the six months ended 30 June 2007 and 2008, the purchase of wood pulp amounted to approximately RMB169.1 million and RMB214.5 million, respectively, representing approximately 43.6% and 42.0% of the total cost of sales for the respective periods and the purchase of titanium dioxide powder amounted to approximately RMB84.1 million and RMB147.3 million, respectively, representing approximately 21.7% and 28.8% of the total cost of sales for the respective periods. For the six months ended 30 June 2007 and 2008, the Group purchased wood pulp at the average price per tonne (value added tax inclusive) of approximately RMB5,922 and RMB6,540, respectively, and titanium dioxide powder at the average price per tonne (value added tax inclusive) of approximately RMB12,362 and RMB14,023, respectively. The prices of both wood pulp and titanium dioxide powder had increased steadily and moderately during the two periods.

Gross profit and gross profit margin

The gross profit of the Group increased by approximately 32.1% from RMB130.7 million for the six months ended 30 June 2007 to RMB172.7 million for the six months ended 30 June 2008. The following table sets forth the gross profit margin of each category of the products for the six months ended 30 June 2007 and 2008:

	For the six months ended 30 June	
	2008	2007
Decorative base paper products	**27.0%**	27.2%
Printing paper product	**18.2%**	18.7%

The gross profit margins for decorative base paper products and printing paper product decreased slightly for the six months ended 30 June 2008 as compared to that for the six months ended 30 June 2007. The decrease was mainly due to (i) the increase in the prices of both wood pulp and titanium dioxide powder during the period; and (ii) the depreciation expenses for the six months ended 30 June 2008 included that of Production line no.7 which commenced commercial production in March 2008 and at when the economies of scale was not yet fully reflected.

However, the overall gross profit margin of the Group increased from approximately 25.2% to approximately 25.3% during the six months ended 30 June 2008 due to the increase in sales of decorative base paper products which have higher margin.

Other revenue

Other revenue, which included the interest income earned from the bank deposits, increased from RMB0.3 million for the six months ended 30 June 2007 to RMB21.1 million for the six months ended 30 June 2008. The increase was mainly due to the increase in average bank balances during the period.

In compliance with the financial management and treasury polices, certain investments were made on uncommitted funds during the period. During the six months ended 30 June 2008, we recorded a net realised gain on financial assets at fair value through profit or loss of RMB29.1 million.

Selling expenses

As disclosed in the Prospectus, our Group has planned to strengthen our marketing activities. During the six months ended 30 June 2008, the Group had increased its sales and marketing staff to 40 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 100.0% from RMB3.6 million for the six months ended 30 June 2007 to RMB7.2 million for the six months ended 30 June 2008. As a percentage of turnover, our selling expenses were maintained at approximately 1.0% for the six months ended 30 June 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 increased by approximately 73.6% from RMB8.7 million for the six months ended 30 June 2007 to RMB15.1 million for the six months ended 30 June 2008. As a percentage of turnover, our administrative expenses increased from approximately 1.7% for the six months ended 30 June 2007 to approximately 2.2% for the six months ended 30 June 2008. The increase in administrative expenses was mainly due to (i) the additional staff employed and corresponding change in employee composition after our listing in October 2007 which resulted an increase in personnel expenses; (ii) additional professional fees incurred after the listing; and (iii) the donation to Sichuan Earthquake Relief of RMB1.0 million during the six months ended 30 June 2008.

Finance costs

Finance costs consist primarily of interest expenses on the bank borrowings. The amount decreased by approximately 29.4% from RMB10.9 million for the six months ended 30 June 2007 to RMB7.7 million for the six months ended 30 June 2008. The decrease in interest expenses was mainly due to the repayments of certain bank borrowings of the Group during the period.

Income tax expense

The Company and the subsidiaries are incorporated in different jurisdictions, with different taxation requirements.

The Group continues to exempt from the income tax in the PRC since Shandong Qunxing, our principal operating subsidiary in the PRC, is still under the tax exemption period during the six months ended 30 June 2008. The provision for Hong Kong Profits Tax for 2008 is calculated at 16.5% of the estimated assessable profits for the period.

Liquidity and financial resources

Current and quick ratio

The current ratio of the Group decreased from 7.0 as at 31 December 2007 to 6.6 as at 30 June 2008 and the quick ratio of the Group decreased from 6.8 as at 31 December 2007 to 6.5 as at 30 June 2008, respectively, which were mainly due to the combined effect of (i) the repayment of short-term bank loans of approximately RMB30.0 million during the six months ended 30 June 2008; and (ii) the reclassification of certain long-term bank loans as at 31 December 2007 to short-term bank loans as at 30 June 2008, of which are repayable within 1 year.

Gearing ratio

As at 30 June 2008, the Group had outstanding bank borrowings of RMB124.0 million (31 December 2007: RMB237.0 million). The gearing ratio decreased from approximately 9.4% as at 31 December 2007 to 5.3% as at 30 June 2008 mainly due to the decrease in bank borrowings by approximately 47.8% from RMB237.0 million as at 31 December 2007 to RMB124.0 million as at 30 June 2008.

Financial resources

The financial resources of the Group continued to be strong. As at 30 June 2008, the total shareholders' fund of the Group was RMB2,085.2 million, represented an increase of 2.1% from RMB2,041.7 million as at 31 December 2007. The Group has cash and cash equivalents of approximately RMB1,490.8 million as at 30 June 2008 (31 December 2007: RMB1,792.2 million), after the payment of dividend for the year ended 31 December 2007 of RMB150.2 million during the period.

The Group continues to enjoy a stable and strong net cash inflow from operating activities. During the six months ended 30 June 2008, the net cash generated from operating activities was RMB157.5 million, represented an increase of 12.9% as compared to RMB139.5 million for the six months ended 30 June 2007.

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 approximately fixed. As at 30 June 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 appreciation of RMB against foreign currencies during the period does not have significant impact on the result of the Group. The Group has not been exposed nor anticipates itself being exposed to material risks due to changes in exchange rates.

Capital expenditure

During the six months ended 30 June 2008, the Group has aggregate additions to property, plant and equipment, increase in construction in progress and acquisition of land use right of RMB104.7 million (during the six months ended 30 June 2007: RMB12.6 million).

Capital commitments, contingencies and charge on assets

The Group will further invest approximately RMB1,270.1 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.

As disclosed in our 2007 Annual Report, 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 30 June 2008.

As at 30 June 2008, all of the bank borrowings were secured by property, plant and equipment of the Group with net carrying amount of approximately RMB225.1 million (31 December 2007: RMB383.2 million).

Use of proceeds from initial public offering

Upon the initial public offering of the Company on 2 October 2007 (the "Listing Date"), the Group received a net proceed 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 and re-engineer and modify our existing production facilities to enhance production efficiency. Part of the net proceeds has been applied as follows:

	Planned amount *RMB'000*	**Amount utilised up to 30 June 2008** *RMB'000*	**Balance as at 30 June 2008** *RMB'000*
Settlement of the remaining balance of the construction costs of the new Production line no. 7	163,300	163,300	—
Construction of new Production lines nos. 8 to 11	720,000	97,305	622,695
Construction of new Production lines nos. 12 to 13 *(Note 2)*	360,000	—	360,000
Re-engineering and modification of the existing Production lines nos. 1 and 3	40,000	—	40,000
	1,283,300	260,605	1,022,695

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 will 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 30 June 2008, the Group employed a total of approximately 1,100 employees. Remuneration policies are reviewed regularly to ensure that the Group is offering competitive remuneration packages to the staff. Compensation of the employees includes salaries, contributions to housing fund and contributions to retirement benefit schemes. Promotion and salary increments are assessed based on performance related basis.

The Group has not 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 our employees.

OUTLOOK

Looking into the second half of 2008, our management expects that QX Group will maintain a stable growth. In order to capture the market potentials, the Group will continue to expand its production capacity, widen products applications, refine the production technologies and processes as well as enhance our proprietary R&D capabilities. The Group will also consider any potential merger and acquisition ("M&A") opportunities to further expand our operation scale and to guarantee the best interest of our shareholders. Furthermore, the recent tightening of credit policy by the PRC government may be able to create M&A opportunities for companies with strong balance sheet and resources like QX Paper.

Our management strongly believes that by leveraging our quality products with wide applications, our excellent core technical competencies and a significantly lower cost base, QX Group will be able to reinforce the market position of its products. The Group is committed to becoming a leading manufacturer of decorative base paper products in the region, and ultimately, generating lucrative returns to our shareholders.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 June 2008, the Company repurchased 6,381,000 ordinary shares of the Company in total on the Stock Exchange at an aggregate price (before expenses) of HK$19,458,330.

Details of repurchases of such ordinary shares were as follows:

Month of repurchase	Number of ordinary shares repurchased	Repurchase price per ordinary share Highest	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
Total	**6,381,000**			**19,458,330**

These repurchased shares were cancelled during the period and the issued share capital of the Company was reduced by the par value thereof. The above repurchases were effected by the Directors pursuant to the repurchase mandate granted to them for the benefit of the Company and the 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 period.

MATERIAL ACQUISITIONS AND DISPOSALS

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

CONNECTED TRANSACTION

During the six months ended 30 June 2008, the Group has entered into the following connected transaction:

Land Use Right Transfer Agreement with Zouping Guang Hua Veneer Company Limited* ("Guang Hua")

As disclosed in an announcement of the Company dated 2 May 2008, on even date, Shandong QX (a wholly-owned subsidiary of the Company) as a purchaser has entered into a land use right transfer agreement (the "Agreement") with Guang Hua as a vendor pursuant to which Shandong QX agreed to purchase and Guang Hua agreed to sell a land use right in respect of a land parcel situated at San Li He, Shang Shan Town, Zouping County, Binzhou City, Shandong Province, the PRC with a total site area of approximately 21,263 sq.m. at a total consideration of RMB4,082,496 (the "Transfer").

As the entire equity interest of Guang Hua is owned by Dr. Zhu Yu Guo (an executive Director and chairman of the Company), Mr. Zhu Mo Qun (an executive Director and vice-chairman of the Company) and Ms. Sun Rui Fang (an non-executive Director) as to approximately 50%, 33% and 17% respectively, Guang Hua is a connected person of the Company and the Transfer contemplated under the Agreement constituted a connected transaction of the Company under Chapter 14A of the Listing Rules. The Transfer was completed on 14 May 2008.

CONVERTIBLE BONDS, SHARE OPTIONS, WARRANTS OR OTHER SIMILAR RIGHTS

During the six months ended 30 June 2008, the Company has not issued any convertible bonds, share options, warrants or similar rights.

CORPORATE GOVERNANCE

Since the listing of the Company on the Main Board of the Stock Exchange in October 2007, the Board and the management are committed to promoting the Group's standards of corporate governance with emphasis on independence, effective internal control, transparency and accountability to shareholders. It is the belief of the Board that such commitment is crucial to the continuing development of the Group and to enhance our shareholders' value.

The corporate governance practices adopted by the Company throughout the six months ended 30 June 2008 were consistent with those disclosed in the Company's 2007 Annual Report.

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

As at 30 June 2008, the Company has 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 major shareholder, an executive Director and chairman of the Company, 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, vice-chairman and general manager of the Company, 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 the a securities dealing code (the "QX Securities Dealing Code") regarding Directors' and employees' securities transactions on no less exacting terms than the Mode Code for Securities Transactions by Directors of Listed Issuers (the "Mode Code") contained in Appendix 10 to the Listing Rules. The QX Securities Dealing Code also applies to the relevant employees who may be in possession of unpublished price sensitive information. Having made specific enquiry of all the Directors, the Directors confirmed that they have complied with the required standard as set out in both the QX Securities Dealing Code and the Model Code throughout the six months ended 30 June 2008.

Board Committees

The Board has established a total of four board committees including an Executive Committee (the "Executive Committee"), an Audit Committee (the "Audit Committee"), a Remuneration Committee (the "Remuneration Committee") and an 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 has reviewed with our management the condensed consolidated interim financial statements of the Group for the six months ended 30 June 2008, and the accounting principles and practices adopted by the Group during the period.

Remuneration Committee

The Remuneration Committee 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 comprises all the 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.

PUBLICATION OF 2008 INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This results announcement has been published on the websites of the Company (www.qxpaper.com) and the Stock Exchange (www.hkex.com.hk). The Company's 2008 Interim 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 period.

By Order of the Board
Qunxing Paper Holdings Company Limited
ZHU Yu Guo
Chairman

Shandong, the PRC, 15 August 2008

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.

* *the unofficial English transliteration or translation is for identification purpose only*