



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

# **INTERIM RESULTS 2008 Corporate Presentation**

**August 2008**



# Agenda

➤ 1H2008 Financial Review

➤ 1H2008 Operational Review

➤ Future Plans and Strategies

➤ Open Forum





# 1H2008 Financial Review



# Financial Highlights

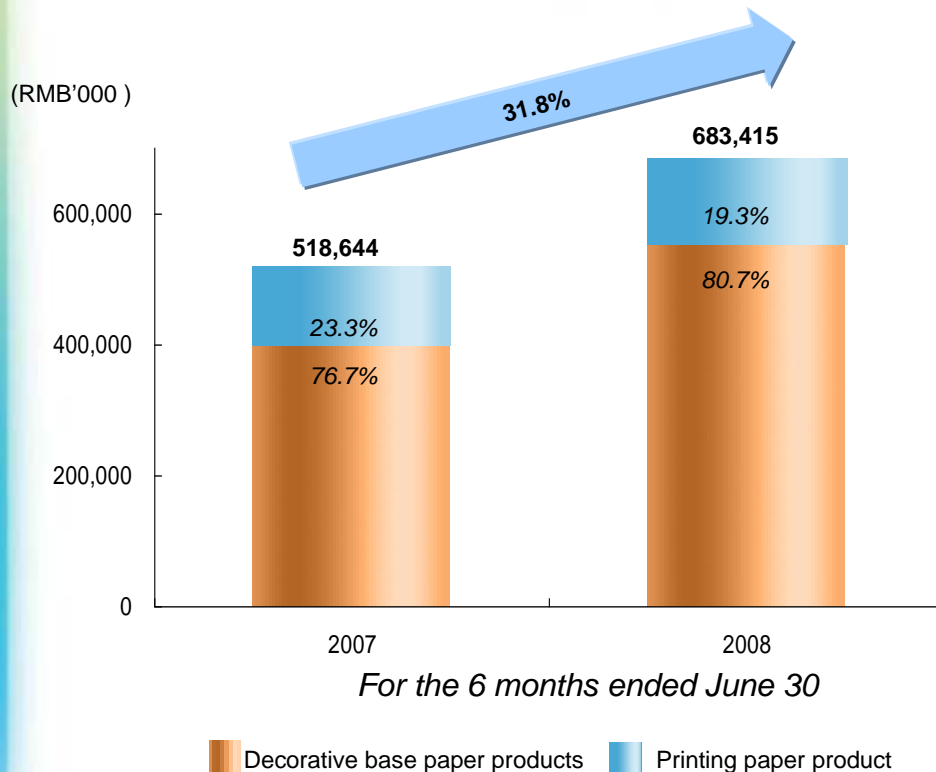
For the 6 months ended June 30

RMB '000	2008 (Unaudited)	2007 (Unaudited)	Change (%)
<b>Revenue</b>	<b>683,415</b>	518,644	+31.8%
<b>Gross profit</b>	<b>172,735</b>	130,718	+32.1%
<b>Profit from operations</b>	<b>200,062</b>	118,798	+68.4%
<b>Profit for the period</b>	<b>190,089</b>	107,936	+76.2%
<b>Basic earnings per share (RMB cents)</b>	<b>18</b>	14	+28.6%
<b>Dividend per share (HK cents)</b>	<b>4.16</b>	-	N/A



# Remarkable Turnover Growth

## Turnover



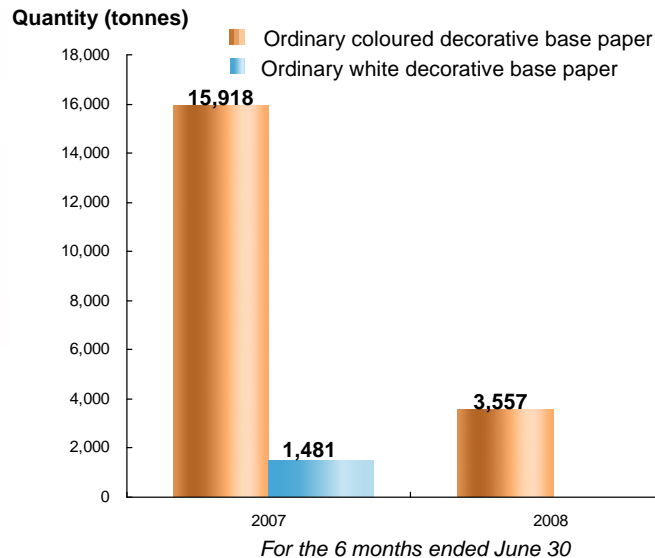
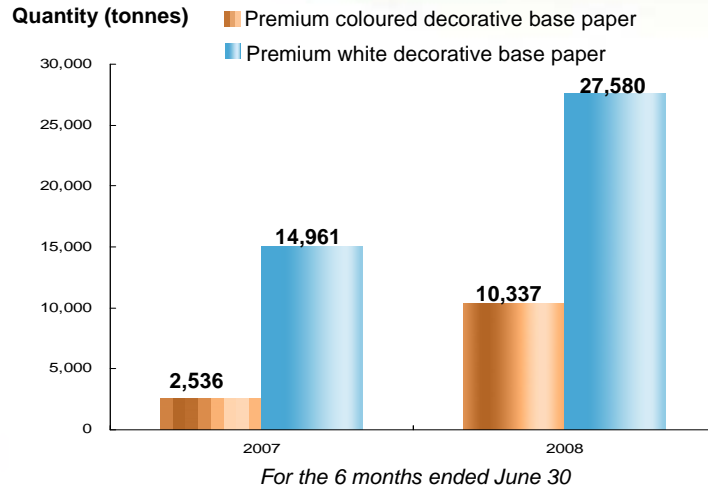
## Growth drivers:

- Overall sales volumes increased by 13.1% from 54,087 tonnes to 61,197 tonnes; In particular strong demand in decorative base paper products (Increase in sales volume by approx. 18.8% from 34,897 tonnes to 41,474 tonnes)
- ASP of decorative base paper products and printing paper product increased by approx. 16.7% from RMB11,404 per tonne to RMB13,304 per tonne and approx. 6.1% from RMB6,289 per tonne to RMB6,674 per tonne, respectively

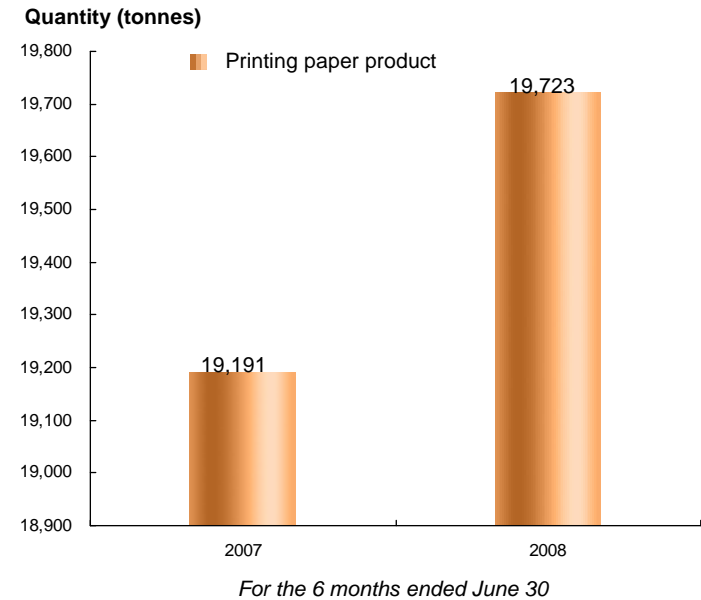


# Sales Volume by Products Category

## Decorative Base Paper Products

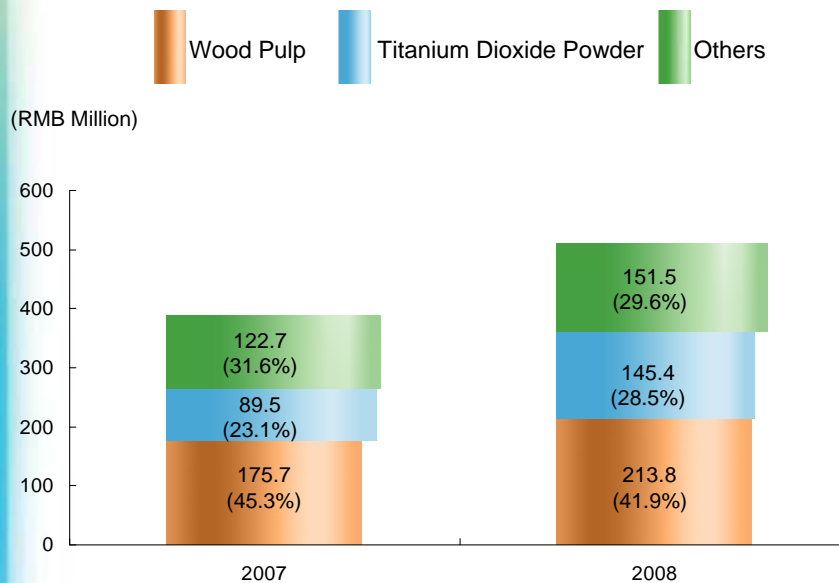


## Printing Paper Product



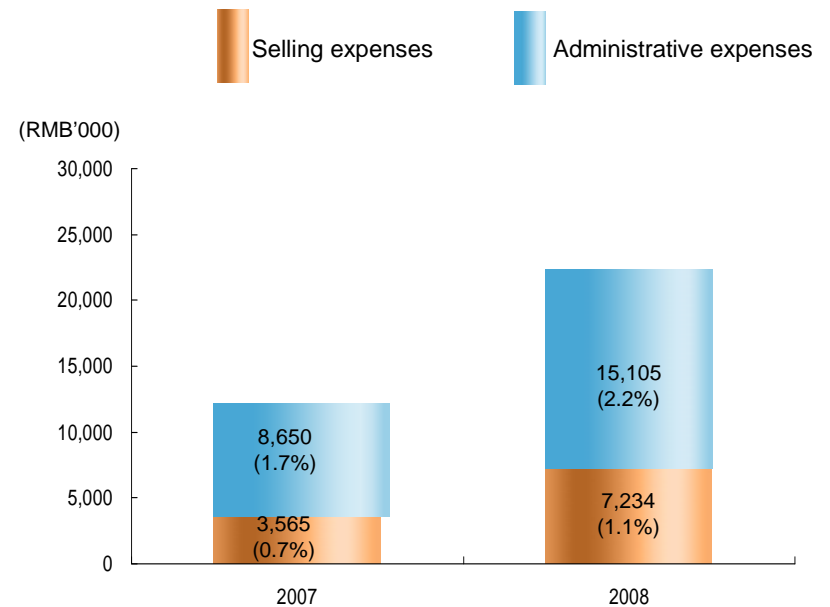
# Operating Cost Structure

## Wood Pulp, Titanium Dioxide Powder and Other Direct Costs as a Percentage of Cost of Sales



For the 6 months ended June 30

## Operating Cost as a Percentage of Turnover

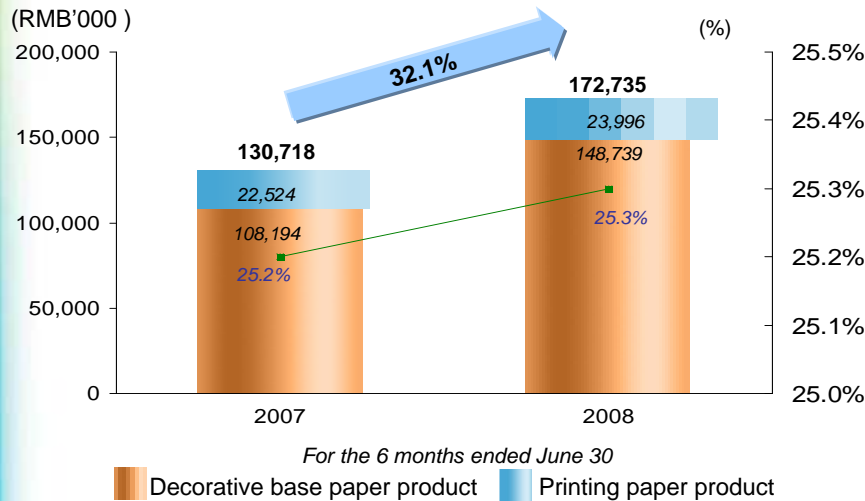


For the 6 months ended June 30

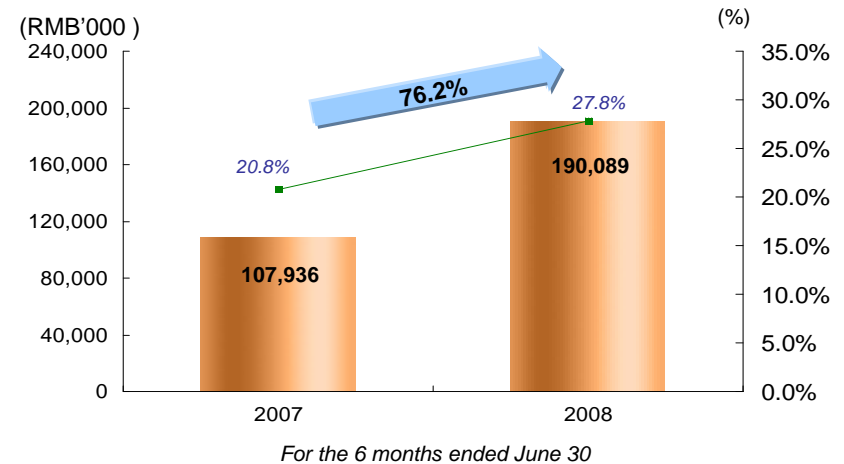


# Strengthened Profitability

## Gross Profit and Margin



## Net Profit and Margin



## Growth drivers:

- Realignment of product mix by increasing the proportion of high margin premium decorative base paper products
- Expansion of production capacity resulted in higher economies of scale and production efficiency





# Gross Profit Margin – By Product Category

## Decorative Base Paper Products

*For the 6 months ended June 30*

	2007	2008
Premium coloured decorative base paper	35.6%	35.4%
Premium white decorative base paper	27.2%	24.2%
Ordinary coloured decorative base paper	26.1%	20.8%
Ordinary white decorative base paper	18.4%	-
<b>Decorative base paper products</b>	<b>27.2%</b>	<b>27.0%</b>

## Printing Paper Product

Printing paper product	18.7%	18.2%
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## Group Overall Gross Profit Margin

25.2%

25.3%



# Key Financial Ratios

	30 Jun 2008	31 Dec 2007	Change
<b>Total Assets (RMB'000)</b>	<b>2,330,109</b>	2,517,922	-7.5%
<b>Net Assets (RMB'000)</b>	<b>2,085,190</b>	2,041,650	+2.1%
<b>Return on assets (%)</b>	<b>15.1%**</b>	13.9%	+1.2pp
<b>Return on equity (%)</b>	<b>16.7%**</b>	17.2%	-0.5pp
<b>Debtors' turnover (days)</b>	<b>16</b>	16	-
<b>Creditors' turnover (days)</b>	<b>38</b>	35	+3 days
<b>Current ratio (Times)</b>	<b>6.6</b>	7.0	-0.4 times
<b>Quick ratio (Times)</b>	<b>6.5</b>	6.8	-0.3 times
<b>Gearing ratio (%)</b>	<b>5.3%</b>	9.4%	-4.1pp
<b>Inventory turnover (days)</b>	<b>17</b>	20	-3 days
<b>Effective tax rate (%)</b>	<b>1.2%</b>	0%*	+1.2 pp

\* Tax effect of tax concession period

\*\* Annualised for full-year effect





# 1H2008 Operational Review



# Expansion of production capacity

- **Production base**
  - Highly automated production base located in Zouping County, Shandong province, with a total site area of approximately 81,236 sq.m.
- **Existing designed annual production capacity as at 30 June, 2008:**
  - **Decorative base paper: 150,000 tonnes**
  - **Printing paper: 50,000 tonnes**
- **Production Line #7**
  - Line #7 commenced commercial production in March 2008 and has reached full capacity in June 2008
- **Production Lines #8 and #9**
  - Currently under construction
  - Expect to be completed by late 2008
- **Production lines #10 and #11**
  - Construction commenced in August 2008
  - Expected to be completed by early 2009

## Designed annual production capacity

Line	6 months ended 30 June (tonnes)	
	2007	2008
1, 2, 3, 4	110,000	110,000
5, 6	60,000	60,000
7	-	30,000
<b>Total</b>	<b>170,000</b>	<b>200,000</b>



*Production line # 7*



# Enhancement of Product Distribution

- Realignment of product mix by increasing the proportion of high margin premium decorative base paper products
- Designated and marketed 6 sales regions in the PRC, namely Shandong, Sichuan, Guangdong, Beijing, Jiangsu and Zhejiang
- With over 96 customers scattered around 13 provinces, autonomous regions and municipalities in the PRC
- Entered into an exclusive five-year product sales contract with a customer supply all printing paper product from Production line no.4



# Diversification of Production Applications

Developed and marketed more than 80 types of decorative base paper products to cater different market demands

Strong R&D capabilities enable the Group to launch 5 to 7 new products each year



## Versatile Applications

Furniture



Kitchen ware



Wall covering decoration



Composite office wares



Fortified wooden floorboard



Motor vehicles



Aircraft





# Future Plans and Strategies



## 2H2008 Outlook

- - Diversified products applications enable the Group to widen income stream and diverse risk of downturn of a particular industry

- - Rapid expansion of production capacity will enable capture of anticipated growing demands

- - Appreciation of RMB will counteract the effect of the increase of international market price of principal raw material, wood pulp





# Expansion of Production Capacity and Refinement of Production Technology

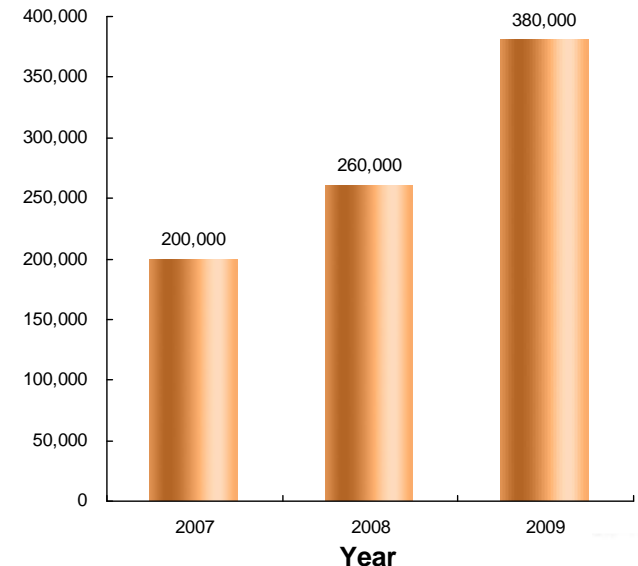
**Mission: To satisfy the growing market demand at a lower production cost**

- Re-engineer Production lines no.1 and no. 3 to facilitate the production of new premium type of decorative base paper products, which schedule to be completed in first half of 2009
- Continue to develop proprietary production technology like those under patent application in order to lower production cost and improve product quality
- Continue to refine the production process in order to minimize production interruption due to recalibration for production of different products

## Expansion Schedule

Production Line #	Designed Annual Production Capacity (tonnes)	Construction Completed (expected)
8, 9	30,000 each	Late 2008
10, 11	30,000 each	Early 2009
12, 13	30,000 each	Late 2009

**Tonnes**



# Diversification of Product Applications

**Mission: To diversify products applications and broaden income stream**

- Form strategic alliance and collaboration with reputable academic and research institutions for research on product development and technology
- Strengthen the R&D team by recruiting additional professionals with experience and experts in relevant fields



# Cooperation Opportunities

**Mission: To expand the Group through potential M&A or cooperation opportunities**

- Consider the possibility for merger and acquisition of synergistic competitors and collaborations
- Open to potential cooperation opportunities with international players, in terms of technical know-how, R&D and capital budgeting



# Planned Capital Expenditure from 2008-2009

<i>(RMB million)</i>	Year ending 31 December	
	2008	2009
Estimated capital expenditure budget	717.4	528.7

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## Vision

To become the largest decorative base paper manufacturer in Asia.





## Open Forum

