



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

(Incorporated in the Cayman Islands with limited liability)  
(於開曼群島註冊成立之有限公司)  
(Stock Code 股份代號: 3868)

## INTERIM RESULTS 2010 Corporate Presentation

August 2010

# Agenda

**1. 1H2010 Financial Overview**

**P.2**

**2. Operational Review**

**P.10**

**3. Future Plans & Strategies**

**P.15**

**4. Appendix – Investment Highlights**

**P.18**



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## 1H2010 Financial Review



# Financial Highlights

<i>(RMB '000)</i>	1H2010	1H2009	yoy growth
<i>For the 6 month ended 30 June</i>			
Revenue	<b>873,569</b>	702,205	<b>24.4%</b>
Gross profit	<b>224,008</b>	196,770	<b>13.8%</b>
Profit for the period	<b>172,508</b>	149,208	<b>15.6%</b>
Basic earnings per share (RMB cents)	<b>17</b>	14	<b>21.4%</b>
Dividend per share (HK cents) – Interim	--	3.277	--

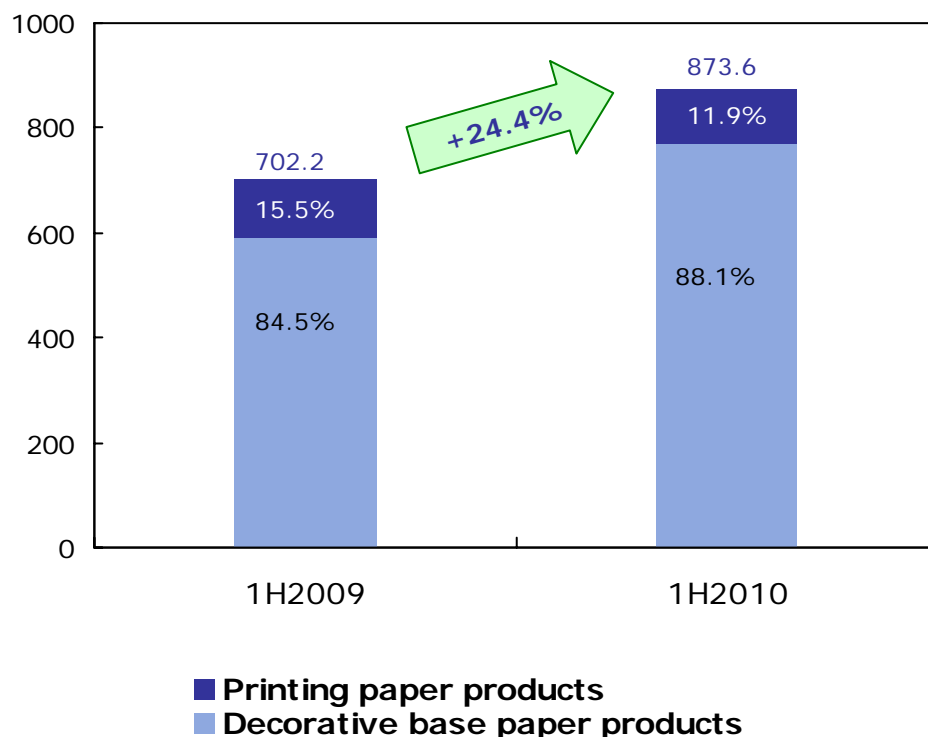




# Remarkable Turnover

## Turnover

(RMB' million)



### ◆ Increase in turnover:

- Overall sales volumes increased by approx. 12.9% to 76,858 tonnes from 68,078 tonnes
- Sales volume of decorative base paper products increased by approx. 22.7% to 60,329 tonnes from 49,175 tonnes

### ◆ ASP of our products:

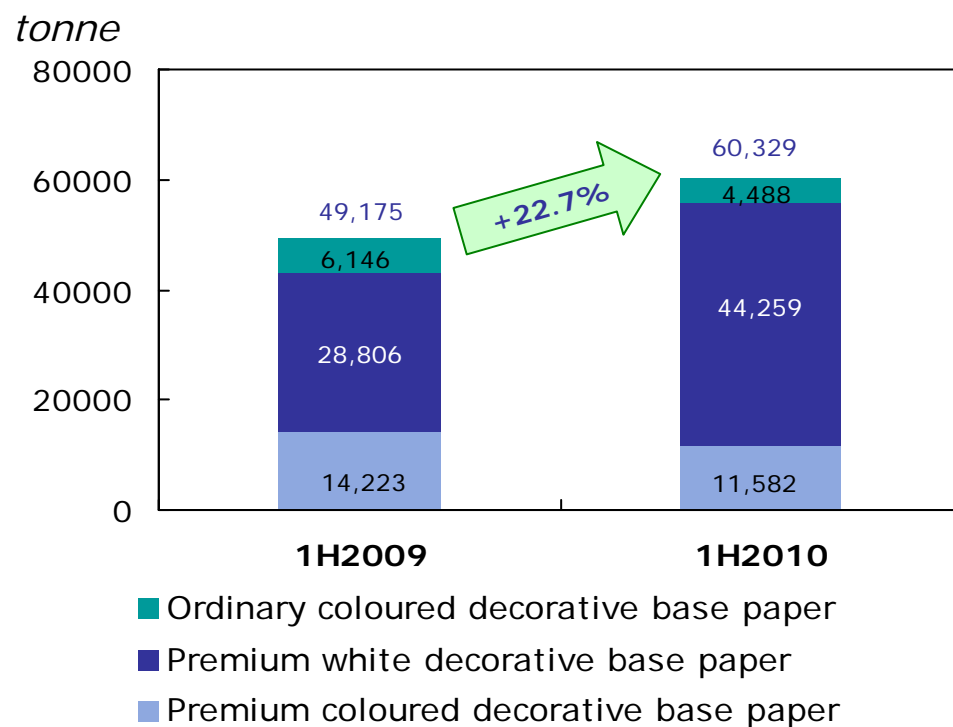
(RMB per tonne)	1H2010	1H2009	yoy growth
<i>For the 6 month ended 30 June</i>			
Decorative base paper products	<b>12,755</b>	12,072	<b>+5.7%</b>
Printing paper product	<b>6,297</b>	5,744	<b>+9.6%</b>



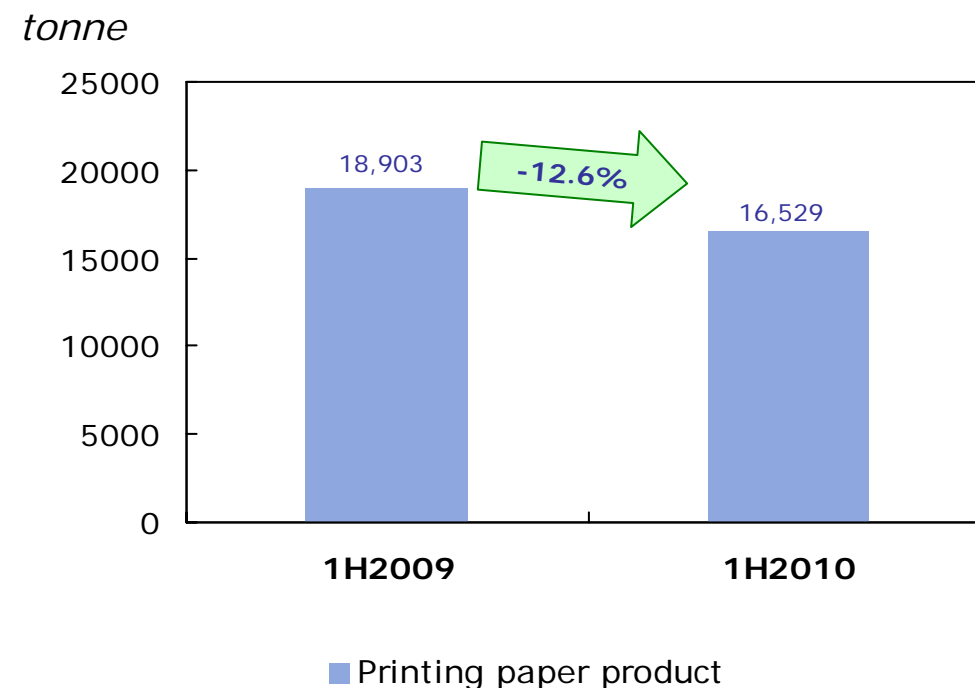
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# Sales Volume by Product Category

## Decorative Base Paper Products



## Printing Paper Products

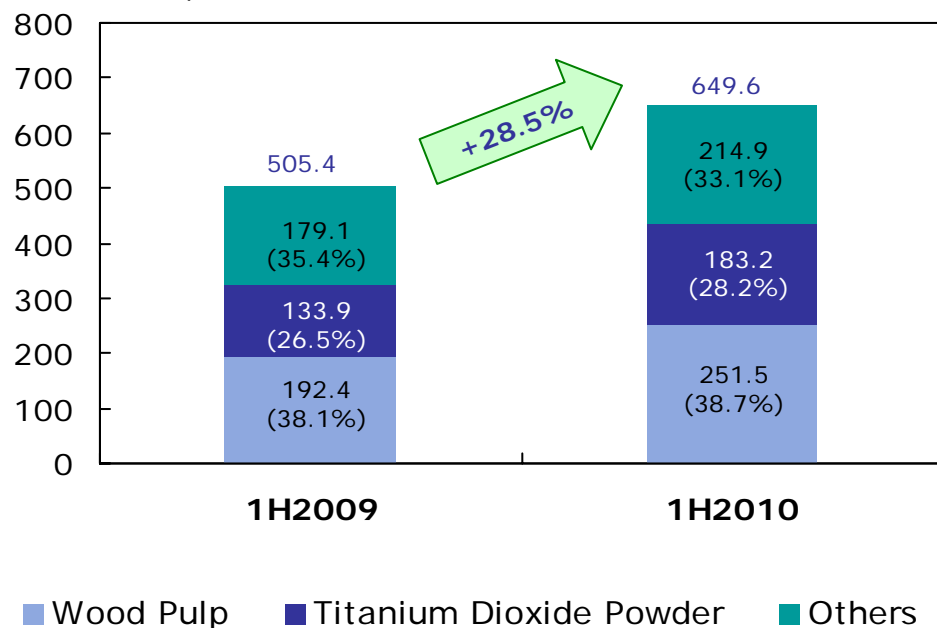




# Operating Cost Structure

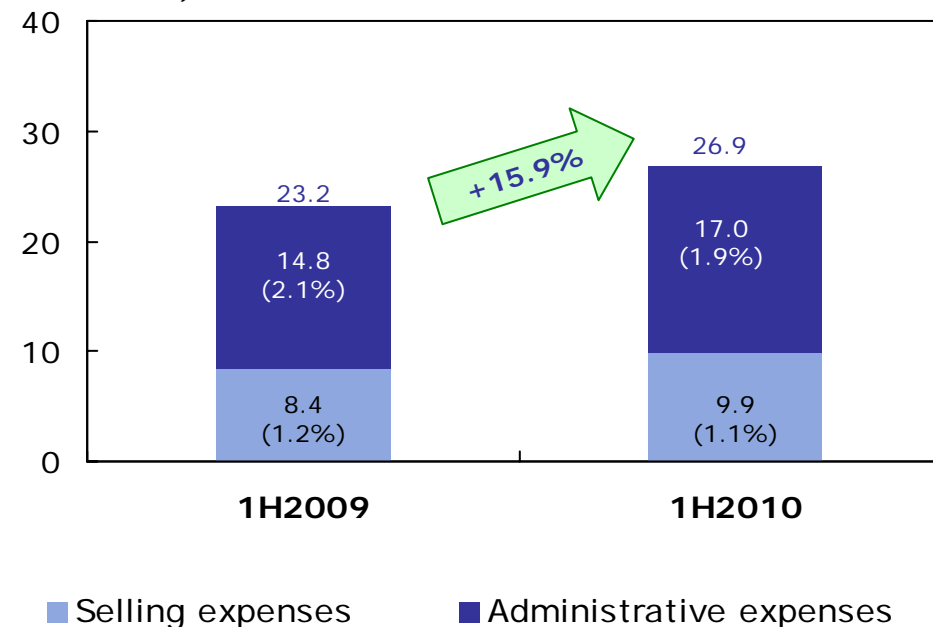
## Wood Pulp, Titanium Dioxide Powder and Other Direct Costs as a percentage of cost of sales

(RMB' million)



## Operating Cost Breakdown as a percentage of turnover

(RMB' million)

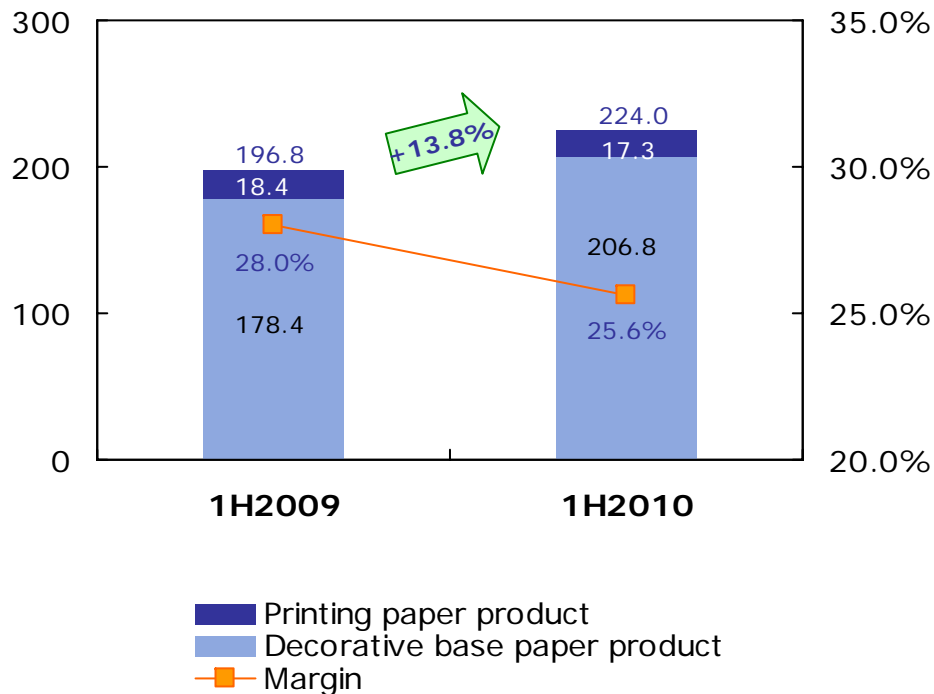


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# Profitability Analysis

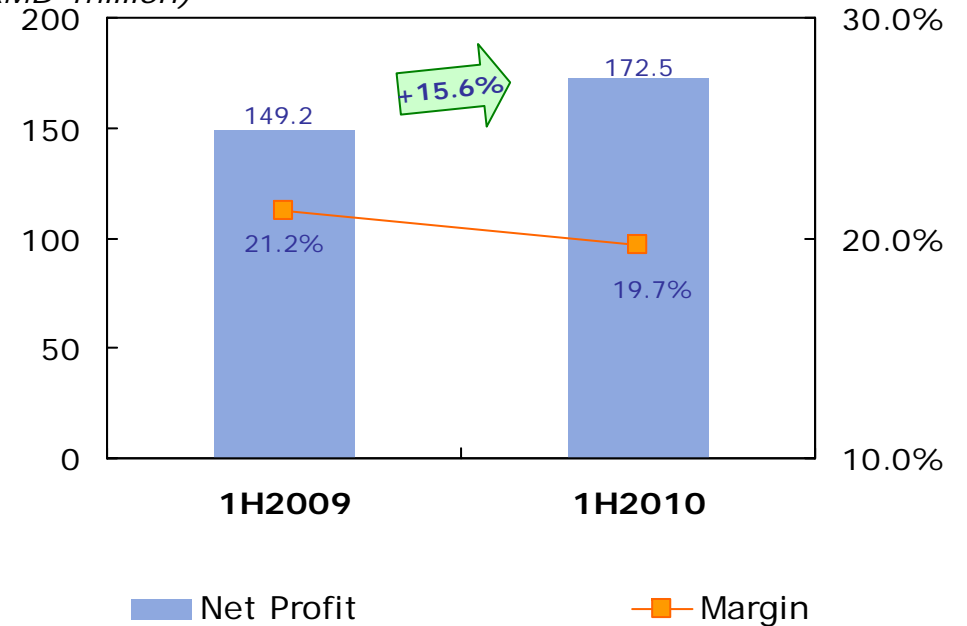
## Gross Profit and Margin

(RMB' million)



## Profit for the Period and Margin

(RMB' million)



### Decrease in overall profit margins was mainly due to:

- The change in sales mix with the sales of coloured decorative base paper products, of higher GP margin, decreased
- Economies of scale has not been reflected for the new Production Lines no. 10 and 11



# Gross Profit Margin – By Product Category

	1H2010	1H2009
Premium coloured decorative base paper	35.5%	37.7%
Premium white decorative base paper	24.6%	26.8%
Ordinary coloured decorative base paper	25.3%	25.8%
<b>Decorative base paper products</b>	<b>26.9%</b>	<b>30.0%</b>
<b>Printing paper product</b>	<b>16.6%</b>	<b>17.0%</b>
<b>Overall gross profit margin</b>	<b>25.6%</b>	<b>28.0%</b>

# Key Financial Ratios

<i>(RMB '000)</i>	As at Jun 30 2010	As at Dec 31 2009	Change
Total Assets (RMB'000)	2,809,397	2,530,525	+11.0%
Net Assets (RMB'000)	2,623,875	2,452,309	+7.0%
Return on assets (%)	11.6%*	12.8%	-1.2 pp
Return on equity (%)	12.3%*	13.2%	-0.9 pp
Debtors' turnover (days)	29	7	+22 days
Creditors' turnover (days)	30	20	+10 days
Inventory turnover (days)	20	16	+4 days
Current ratio (Times)	4.7	10.1	-5.4 times
Quick ratio (Times)	4.4	9.7	-5.3 times
Gearing ratio (%)	0%	0%	--
Effective tax rate (%)	13.0%	12.8%	+0.2 pp

\* Annualised figures





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## Operational Review



# Expansion of Production Capacity

## Annual Production Capacity

(in tonne)

Production line	As at 31 Dec 2008	As at 30 Jun 2009	As at 30 Jun 2010	By 31 Dec 2010 (Estimated)
1, 2, 3, 4	110,000	110,000	110,000	110,000
5, 6	60,000	60,000	60,000	60,000
7	30,000	30,000	30,000	30,000
8, 9	-	60,000	60,000	60,000
10, 11	-	-	60,000	60,000
12,13	-	-	-	60,000
<b>Total</b>	<b>200,000</b>	<b>260,000</b>	<b>320,000</b>	<b>380,000</b>

### Designed annual production capacity as at 30 June 2010:

- Decorative base paper products: 270,000 tonnes
- Printing paper product: 50,000 tonnes



# Comprehensive Distribution Channels

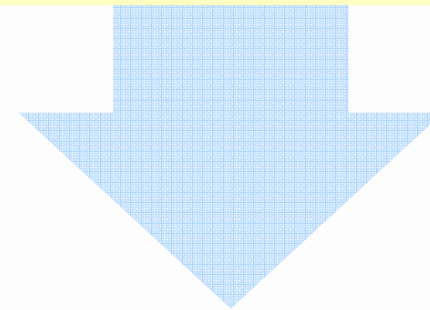
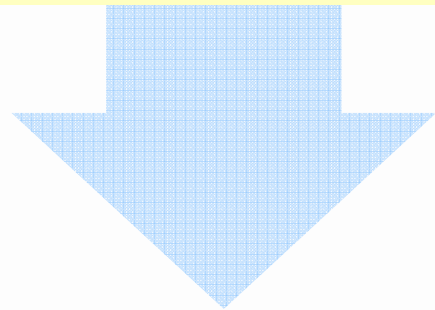
The Group maintains comprehensive distribution channels with:

## **Six Designated Sales Regions:**

*Shandong, Sichuan, Guangdong, Beijing, Jiangsu and Zhejiang*

## **Nationwide Customer Base:**

*Over 130 customers covering 13 provinces, autonomous regions and municipalities in the PRC*

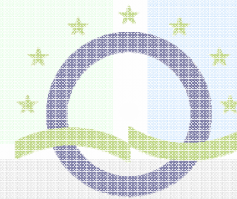


Strive to maintain and strengthen long-term relationship with existing customers for future business expansion

# Research and Development of Products

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

Formed strategic partnership with **Research and Design Institute of Papermaking Industry of Shandong Province**  
(山東造紙工業研究設計院)



Products can be used in diversified spectrum of areas:

Motor vehicles



Composite office wares

Aircraft



Fortified wooden floorboard

Furniture



Kitchen ware

Wall covering decoration



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# Environmental Protection

The PRC Government strongly promotes the development of environmental protection related enterprises

## **“Decorative base paper products being a cost-effective substitute for wooden products”**

- ◆ Using premium wood pulp is pollution free and in line with the Industrial Policy of Environmental Protection in the PRC
- ◆ Sewage after treatment from production can be reused for irrigation system at our production base in Shandong

## **“Sewage treatment system expansion”**

- ◆ Two waste water treatment systems with an annual processing capacity of 5,350,000 cubic meters
- ◆ A monitoring device is installed by relevant authority in the PRC to ensure waste water emission level is up to national standard
- ◆ Plan to commence renovation and improvement works on the old system in 2H2010





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## Future Plans and Strategies





# Future Plans and Strategies

## Cautiously optimistic about the outlook in 2H2010

- Renminbi exchange rate reform is set to bring multiple benefits to Chinese economy
- Rising wages and growing middle class drive desire for better living standard
- Expected Government Policy supporting environmental protection and related industries
- Continuous consolidation of the paper industry brings valuable expansion opportunities to well developed enterprises

## Future Plans and Strategies

- Continue to strengthen cooperation with customers and adjust product mix
- Strive to steer steady development of production and operation to capture enlarge market share
- Plan to rebuild two existing production lines by 2H2010 to enlarge production capacity and enhance cost competitiveness
- Continue to explore potential expansion opportunities

# Planned Capital Expenditure 2010-2011

<i>(RMB Million)</i>	Estimated CAPEX Budget
FY 2010	538.1
FY 2011	166.0

## COMPANY VISION

*To become the largest decorative base paper manufacturer in Asia*







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## Appendix – Investment Highlights



# Qunxing paper positioning: Strive to become a global leading China decorative base paper manufacturer



## Consistent track record with high potential for growth

- Largest decorative based paper manufacturer in China with domestic market share of 10%
- In the past five years, strong growth of EBITDA, cash flow and profit
- The newly constructed production lines (No. 12 and No. 13) will expand 18.8% of the current production capacity

## Industry leading margins and greater profitability

- Net profit ratio and EBITDA profit ratio are continuously higher than average of the industry
- Optimize product portfolio: Improve the proportion of high profit ratio products

## Growing demand with local production well-positioned to replace imports

- . Both accelerating urbanization and government's strong backing of economically affordable housing have underpinned demand for laminated boards, which provides sustained driving forces for growth of decorative base paper.
- Currently domestic manufacturers can only satisfy 60% of the nation's total demand
- Domestic suppliers have a cost advantage of 17%–20%, the supply-demand gap may push companies to expand their production capacity

## Environment protection regulation: High barrier to entry

- China environment protection laws will be more detailed and management will be more stringent, which improve the entry barrier of the paper manufacturing industry
- The established waste water treatment system of Qunxing Paper, with an annual processing capacity of 5.35 million cubic meters, will help the company to consolidate its advantageous position under new policies

## Experienced and visionary management team

- Have experienced and visionary management team

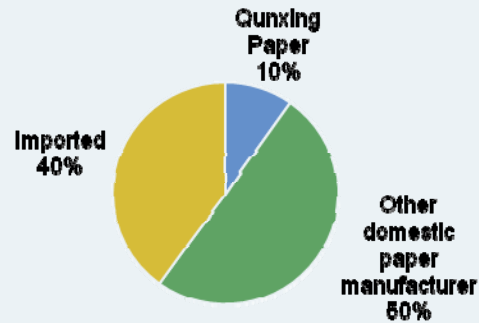


# 1 Consistent track record with high potential for growth



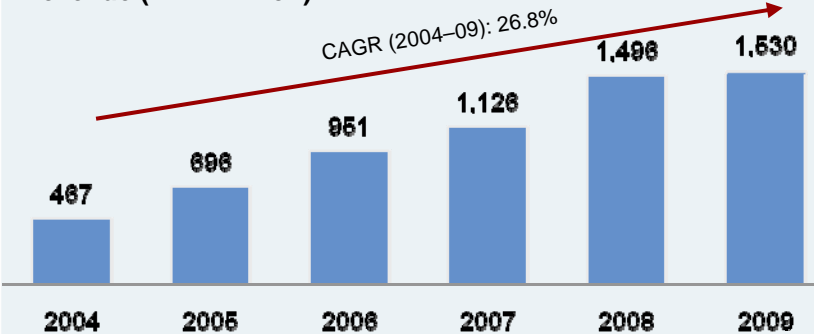
Biggest decorative base paper manufacturer of China, with a domestic market share of 10% in 2009

Sales (Ten thousand tons)



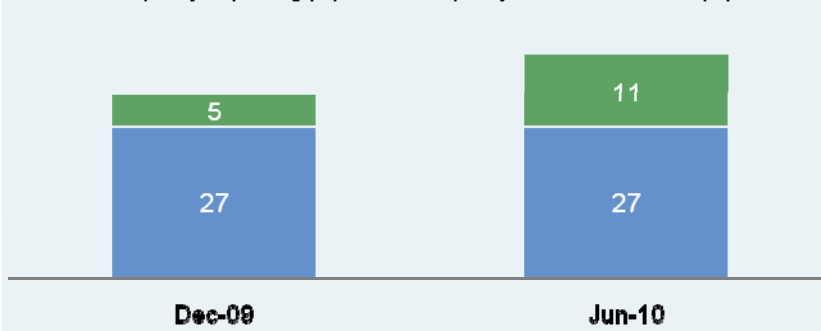
Foreseeable and steady revenue growth

Revenue (RMB million)

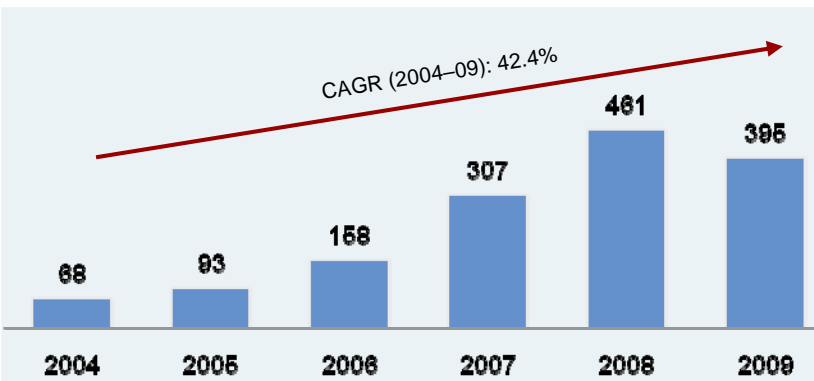


The newly increased production line of No. 12 and No. 13 will expand the company's production capacity from 320 thousand tons to 380 thousand tons, all the increased capacities are for decorative base paper

Capacity of printing paper (blue) Capacity of decorative base paper (green)



Steady operation brings strong cash flow



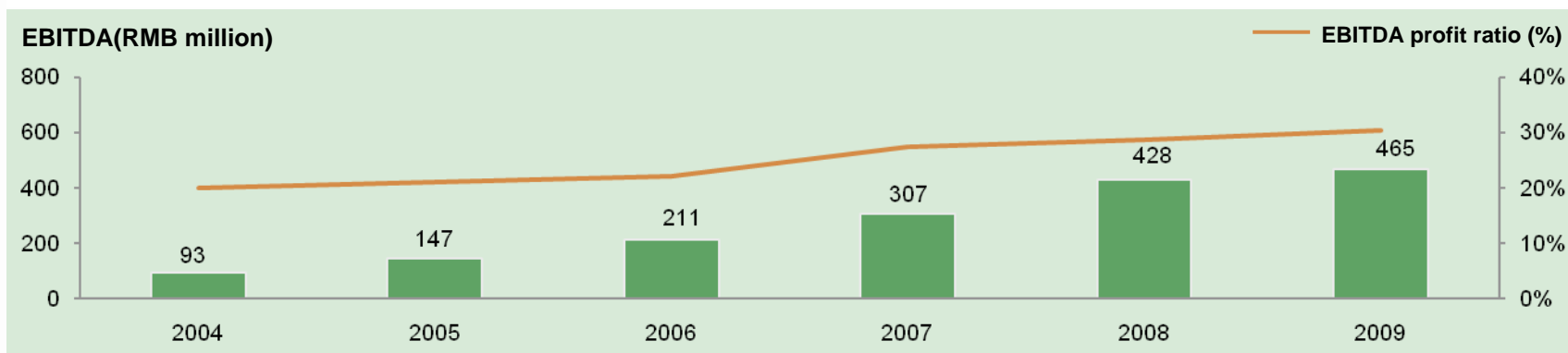
Source: Company filings and broker research reports

## 2 Industry leading margins and greater profitability

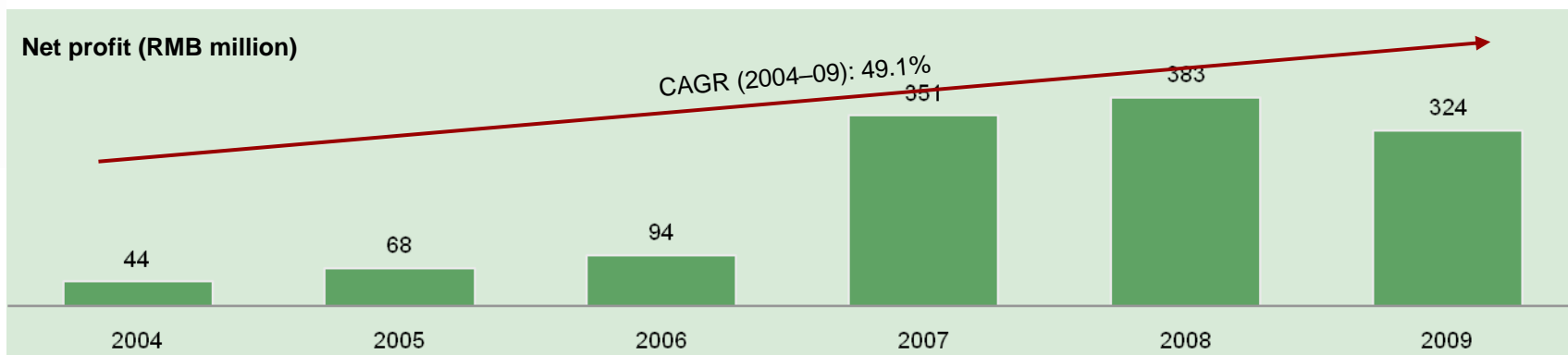
- Due to excellent cost control ability, product quality and market profitability, EBITDA profit ratio and net profit ratio are always leading among the industry
- In recent years the company continuously optimizes product portfolios: proportion of decorative base paper with high profit ratio rise both in production and sales volume



### Excellent EBITDA profit ratio level



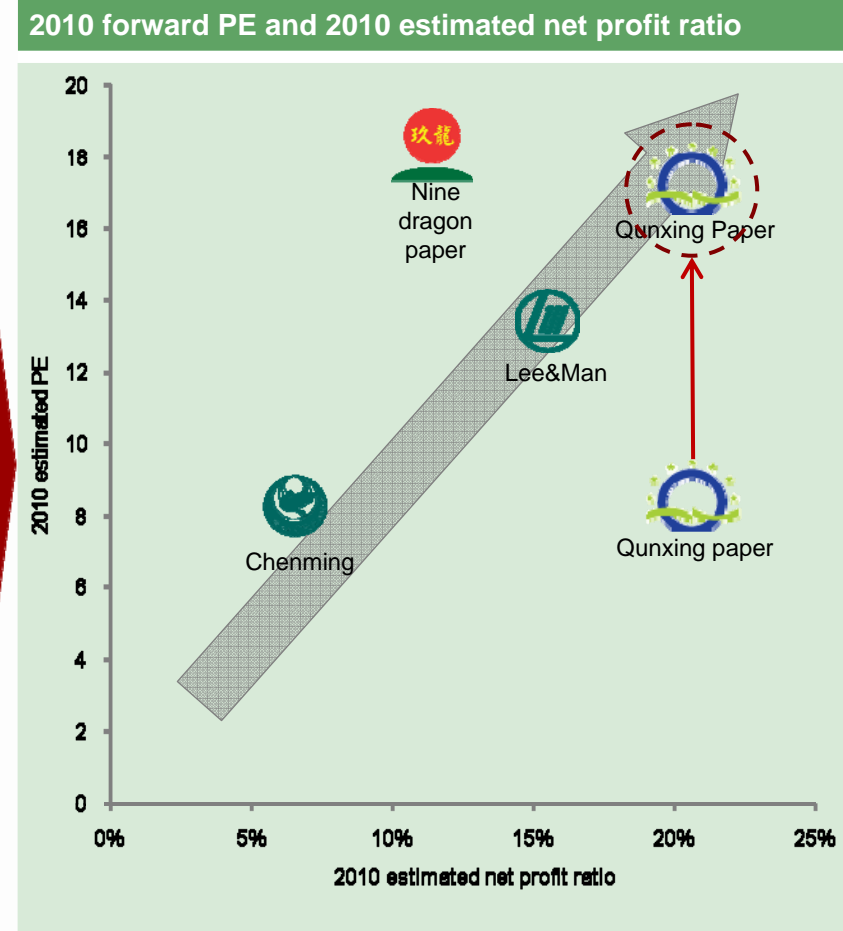
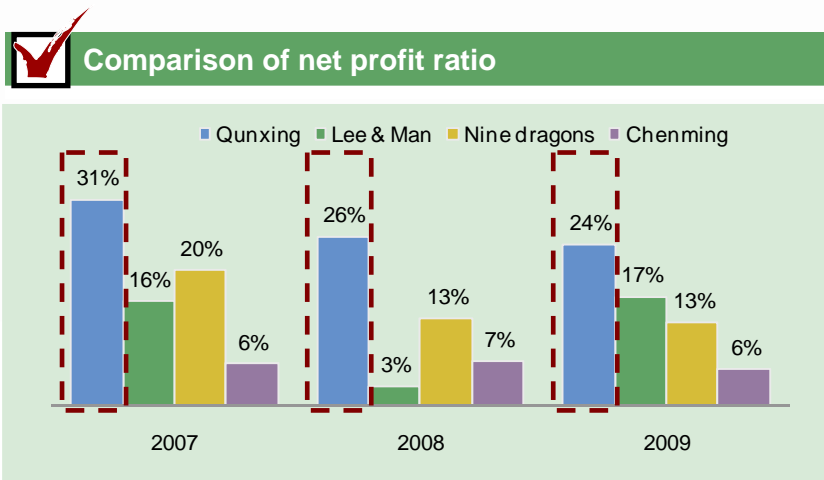
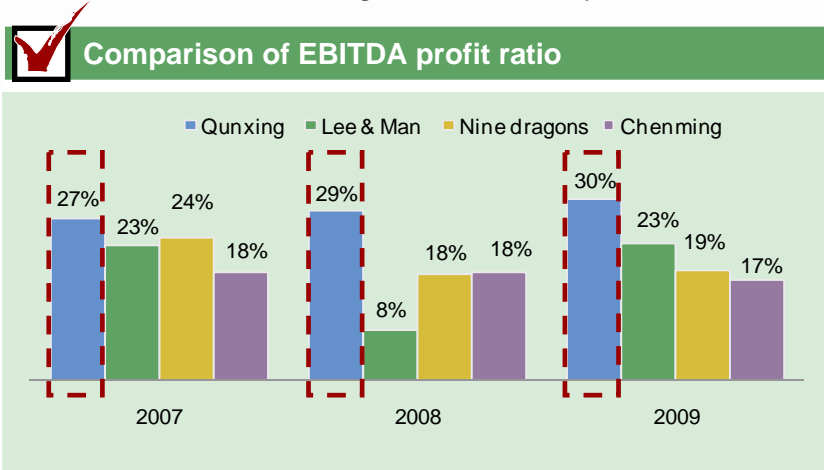
### Strong growth of net profit





## 2 Industry leading margins and greater profitability (cont'd)

- As the leader of decorative base paper, the company shall enjoy a higher valuation
  - Economies of scale brought by production capacity expansion of decorative base paper
  - Profit level leading in the industry



3

# Growing demand with local production well-positioned to replace imports



Given QX Paper's leading market position and capacity expansion, it is well positioned to benefit from the current supply-demand trend of the industry

Accelerating urbanization in China

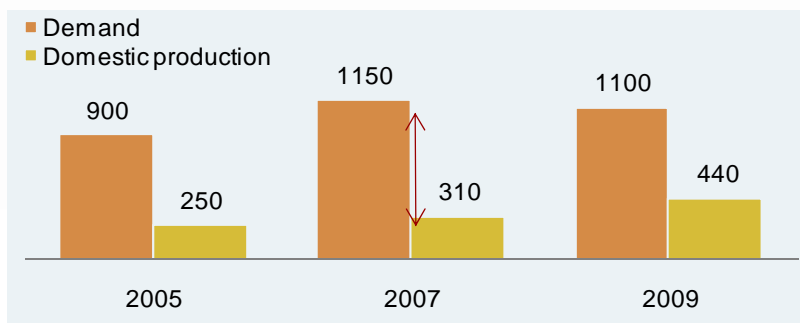
Increase in construction of economically affordable housing

National environment protection policies encourage use of non-wood materials

- 1 Largest decorative base paper manufacturer in China with a domestic market share of 10% in 2009, representing 20% of production among domestic manufacturers
- 2 Comprehensive distribution channels with 6 designated sales regions: Shandong, Sichuan, Guangdong, Beijing, Jiangsu and Zhejiang; Nationwide customer base in 13 provinces and autonomous regions
- 3 The newly increased capacity of 60 thousand tons are all for decorative base paper manufacturing

Demand of decorative base paper increases continuously, there is a great potential to substitute imported products

Demand / production of decorative base paper(thousand tonnes)



Source : Company filings and broker research reports

- A kind of special paper, used for the surface of decoration and can be made into laminated boards with different woods or composite materials
- Total demand in China in 2009 is 1.1 millions tonnes, an average annual increase rate of about 17%
- Imported products account for about 50%, while the price is 17-20% higher than domestic products



## 4 Environment protection regulation: High barrier to entry

Environment protection laws are further detailed and more stringent on discharges of paper industry

The nation's policy encourages to use non-wood materials to substitute woods, which causes the increase of demand of laminated board

The company invested RMB60 million to build a waste water treatment system with an annual processing capacity of 3.65 million cubic meters



- Requirements of environment protection facility investment bring higher entry barrier for paper industry
- Reduce possible competition and help the company to consolidate its advantages as the current leader



- Demand of decorative base paper increases correspondingly
- The company's core business fits the environment protection trend, and demand of decorative base paper increases correspondingly



- Increase annual processing capacity to 5.35 million cubic meters of waste water
- After processing it will be used for the irrigation system of Shandong production base

## 5 Experienced and visionary management team

### Dr. Zhu Yuguo

joint founder , executive director and chairman of the board

- Over 20 years' experiences in the paper industry
- Awarded World Excellent Chinese by World Excellent Chinese Union and World Chinese Merchant Investment Foundation in 2007

### Directors

**Mr. Zhu Moqun**, joint founder,  
executive director and deputy chairman of the board

- Awarded qualification of international professional managers by international manager union

**Mr. Sun Zhenshui**, executive director  
■ Over 20 years' experiences of finance works

**Ms. Sun Ruifang**, non-executive director

**Mr. Zhaowei**, independent non-executive director

**Mr. Wanglu**, independent non-executive director

**Mr Kwong Kwan Tong**, independent non-executive director

Excellent management team builds a good foundation for the company's development

Management's  
strategic  
vision

Rich  
experience of  
the industry

Deep local  
operation  
history

Excellent  
talents of  
various fields

Track record  
of execution





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