



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 2007

FINANCIAL HIGHLIGHTS

- Turnover increased by approximately 18.4% to RMB1,125.5 million.
- Gross profit rose by approximately 54.0% to RMB283.5 million.
- Gross profit margin increased from 19.4% to 25.2%.
- Profit attributable to shareholders increased by approximately 273.4% to RMB350.6 million.
- Earnings per share achieved RMB42 cents.
- A final dividend of RMB10.126 cents per share was proposed.

ANNUAL RESULTS

The board (the “Board”) of directors (the “Directors”) of Qunxing Paper Holdings Company Limited (the “Company” or “Qunxing Paper”) is pleased to announce the consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2007 together with the comparative figures for the year ended 31 December 2006 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	<i>Note</i>	2007 RMB'000	2006 <i>RMB'000</i>
Turnover	3	1,125,524	950,844
Cost of sales		<u>(842,055)</u>	<u>(766,727)</u>
Gross profit		283,469	184,117
Other revenue	4	121,952	726
Other net loss	4	(627)	–
Selling expenses		(9,459)	(9,597)
Administrative expenses		<u>(23,698)</u>	<u>(11,929)</u>
Profit from operations		371,637	163,317
Finance costs	5(a)	<u>(21,065)</u>	<u>(20,625)</u>
Profit before taxation	5	350,572	142,692
Income tax	6	<u>–</u>	<u>(48,755)</u>
Profit for the year		<u>350,572</u>	<u>93,937</u>
Dividends payable to equity shareholders of the Company attributable to the year:	7		
Final dividend proposed after the balance sheet date		<u>105,172</u>	<u>–</u>
Earnings per share (RMB)	8		
Basic		<u>0.42</u>	<u>0.13</u>

CONSOLIDATED BALANCE SHEET*As at 31 December 2007*

	<i>Note</i>	2007 RMB'000	2006 RMB'000
Non-current assets			
Property, plant and equipment		461,021	499,776
Construction in progress		167,098	16,000
Lease prepayments		11,255	–
		639,374	515,776
Current assets			
Inventories	9	35,487	50,989
Trade and other receivables	10	50,903	81,785
Amount due from a director		–	15
Amounts due from related parties		–	183
Cash and cash equivalents		1,792,158	67,265
		1,878,548	200,237
Current liabilities			
Bank loans	11	30,000	332,000
Trade and other payables	12	229,404	79,013
Amounts due to directors		–	194,491
Current taxation		9,868	21,671
		269,272	627,175
Net current assets/(liabilities)		1,609,276	(426,938)
Total assets less current liabilities		2,248,650	88,838
Non-current liabilities			
Bank loans	11	207,000	–
NET ASSETS		2,041,650	88,838
Capital and reserves			
Share capital		101,359	102
Reserves		1,940,291	88,736
TOTAL EQUITY		2,041,650	88,838

1. GENERAL INFORMATION AND BASIS OF PRESENTATION

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

Pursuant to a reorganisation (“the Reorganisation”) of the Group, the Company acquired the 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 consolidated financial statements of the Group for the year ended 31 December 2007 and the comparatives have been prepared as if the current group structure had been in existence throughout the years presented.

2. STATEMENT OF COMPLIANCE

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

These 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. The adoption of these new and revised IFRSs did not result in significant changes to the Group’s accounting policies applied in these financial statements for the years presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. TURNOVER

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

	2007 <i>RMB’000</i>	2006 <i>RMB’000</i>
Decorative base paper products	868,267	834,160
Printing paper product	257,257	116,684
	<u>1,125,524</u>	<u>950,844</u>

4. OTHER REVENUE AND NET LOSS

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Other revenue		
Interest income on financial assets not at fair value through profit or loss		
– Interest income from banks	15,006	726
– Interest income from subscription monies upon public offering	<u>106,946</u>	<u>–</u>
	<u>121,952</u>	<u>726</u>
Other net loss		
Loss on disposal of property, plant and equipment	103	–
Net foreign exchange loss	<u>524</u>	<u>–</u>
	<u>627</u>	<u>–</u>

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
(a) Finance costs:		
Interest on financial liabilities not at fair value through profit or loss		
– Interest on bank borrowings wholly repayable within five years	<u>21,065</u>	<u>20,625</u>
(b) Staff costs:		
Contributions to defined contribution retirement plans	1,798	2,058
Salaries, wages and other benefits	<u>25,035</u>	<u>18,732</u>
	<u>26,833</u>	<u>20,790</u>
(c) Other items:		
Amortisation of lease prepayments	186	–
Auditors' remuneration	1,212	6
Depreciation	57,075	47,983
Loss on disposal of property, plant and equipment	103	–
Operating lease charges in respect of leasehold land and properties	960	1,200
Sewage disposal expenses	107	72
Research and development costs	<u>796</u>	<u>1,216</u>

6. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

	2007 RMB'000	2006 <i>RMB'000</i>
Current tax – PRC income tax		
Provision for the year	<u>–</u>	<u>48,755</u>

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

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

Pursuant to the income tax rules and regulations of the People’s Republic of China (“PRC”), Shandong Qunxing Paper Limited (“Shandong Qunxing”) was liable to PRC income tax at a rate of 33% for the year ended 31 December 2006. As Shandong Qunxing became a foreign investment enterprise on 16 August 2006, it has been granted certain tax relief whereby it is fully exempted from PRC income tax for the two years starting from 1 January 2007 to 31 December 2008, followed by a 50% reduction in PRC income tax rate for the three years from 1 January 2009 to 31 December 2011.

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

Under the grandfathering treatments of the New Tax Law (“Grandfathering Treatments”), Shandong Qunxing 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 Qunxing is exempted from PRC income tax for the two years starting from 1 January 2007 to 31 December 2008, followed by a reduced PRC income tax rate at 12.5% for the remaining three years from 1 January 2009 to 31 December 2011.

Under the New Tax Law, dividends received by foreign investors from its investment in foreign-invested enterprises are subject to withholding tax at a rate of 10% unless reduced by treaty. Pursuant to the Grandfathering Treatments, dividends receivable by the Group from Shandong Qunxing in respect of its undistributed profits prior to 31 December 2007 are exempted from the withholding tax. Dividends receivable by the Group from Shandong Qunxing in respect of its profits earned since 1 January 2008 will be subject to the withholding tax.

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

	2007 RMB'000	2006 <i>RMB'000</i>
Final dividend proposed after the balance sheet date of RMB10.126 cents per ordinary share (2006: Nil)	<u>105,172</u>	<u>–</u>

The final 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 year ended 31 December 2007 is based on the profit attributable to equity shareholders of the Company of RMB350,572,000 and the weighted average number of 826,562,000 ordinary shares in issue during the year.

The calculation of basic earnings per share for the year ended 31 December 2006 is based on the profit attributable to equity shareholders of the Company of RMB93,937,000 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 year.

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

9. INVENTORIES

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Raw materials and consumables	19,316	30,426
Finished goods	16,171	20,563
	<u>35,487</u>	<u>50,989</u>

10. TRADE AND OTHER RECEIVABLES

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Trade receivables	50,297	80,478
Prepayments, deposits and other receivables	606	1,307
Less: allowance for doubtful debts	–	–
	<u>50,903</u>	<u>81,785</u>

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:

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Current	50,297	79,226
Less than one month past due	–	1,252
	<u>50,297</u>	<u>80,478</u>

11. BANK LOANS

At 31 December 2007, the bank loans were repayable as follows:

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Within one year	30,000	332,000
After one year but within two years	207,000	–
	237,000	332,000

At 31 December 2007, the bank loans were secured as follows:

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Secured bank loans:		
– secured by property, plant and equipment	237,000	187,000
Unsecured bank loans:		
– guaranteed by a related party	–	145,000
	237,000	332,000

The bank loans as at 31 December 2007 were interest bearing at rates ranging from 7.23% to 8.95% per annum (2006: 6.13% to 8.93% per annum).

The guarantees provided by a related party were released on 28 September 2007.

12. TRADE AND OTHER PAYABLES

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Trade payables	61,120	53,979
Other payables and accruals	168,284	25,034
	229,404	79,013

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.

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Due within 30 days	61,120	53,979

All of the trade and other payables are expected to be settled within one year, apart from retention monies payable in respect of the construction of production lines of RMB8,339,000 (2006: Nil) which are expected to be settled after one year.

13. NON-ADJUSTING POST BALANCE SHEET EVENTS

After the balance sheet date of 31 December 2007 and up to the date of this report, 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. Particulars of the shares repurchased after the balance sheet date and up to 29 February 2008 are as follows:

Month/year	Number of shares repurchased	Highest price paid per share HK\$	Lowest price paid per share HK\$	Aggregate consideration paid HK\$'000
January 2008	3,990,000	3.02	2.80	11,897
February 2008	2,391,000	3.41	2.99	7,561
	<u>6,381,000</u>			<u>19,458</u>

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of RMB10.126 cents per ordinary share for the year ended 31 December 2007 which shall be payable on or about Tuesday, 13 May 2008 to shareholders whose names appear on the register of members of the Company on Tuesday, 29 April 2008, subject to the approval of the shareholders at the annual general meeting of the Company to be held on Tuesday, 29 April 2008. The final dividend will be paid in Hong Kong Dollars based on the official exchange rate of Renminbi against Hong Kong Dollars as quoted by the People's Bank of China at the remittance date.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 22 April 2008 to Tuesday, 29 April 2008, both days inclusive. In order to qualify for the above mentioned proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday, 21 April 2008.

BUSINESS REVIEW AND OUTLOOK

Business Review

Our Group is the largest decorative base paper manufacturer in the PRC. The year 2007 marked a milestone for Qunxing Paper. The initial public offering of new shares of the Company in October 2007 received overwhelming market response and was of 857 times oversubscribed, raising net proceeds of approximately HK\$1,492.8 million (equivalent to approximately RMB1,445.5 million). The success of our initial public offering provided us with new funds for business development and enabled us to access to international capital markets, thus making us well-positioned to capture additional growth opportunities as they arise. Moreover, the listing enabled us to align ourselves with international best practices in various areas such as internal control and corporate governance. Qunxing Paper will not only strive to affirm its leading position in decorative base paper industry in the PRC, but also to establish a sound system of corporate governance.

Even more encouraging is the remarkable results we achieved in 2007. During the year, both our turnover and profit attained new records. Turnover of the Group amounted to approximately RMB1,125.5 million, representing an increase of 18.4% over that of the same period of last year. Profit attributable to shareholders for the year was RMB350.6 million, representing a growth of 273.4%. Basic earnings per share was approximately RMB42 cents.

Our encouraging results during the year were attributable to the strong demand for decorative base paper products. According to the National Bureau of Statistics of the PRC, the country gross domestic product (GDP) reached RMB24,661.9 billion in 2007, rising approximately 11.4% on a year-on-year basis, which represents the fifth consecutive year with a growth rate of over 10%. The rapid growth of personal disposable income and rising living standard in the PRC stimulated demand for quality housing and greater floor space, resulting in a booming property market in the PRC. Such development fueled the growth of the PRC's furniture and construction material industry, which in turn led to an increase in demand for laminated board, a material widely used as decorative materials in the furniture and construction materials industry. As our decorative base paper products constitute a major raw material to furnish the surface of laminated board, sales of our decorative base paper products recorded significant growth during the year.

Currently, the supply of decorative base papers in the PRC is, to a large extent, dependent on import. Existing domestic supply obviously falls short of market demand. In view of this huge market potential, the Group will endeavour to expand its production capacity of decorative base paper products in order to capture new business opportunities and to take advantage of economy of scale. Assigning an equally high priority, the Group will also put more efforts in strengthening its brand building, product research and development and quality control system.

During the year, the Group maintained its position as a leading decorative base paper manufacturer in the PRC. To date, the Group has invested and is operating seven highly automated Production line 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, construction of our Production line no. 7 was completed in December 2007 and its commercial production is scheduled to commence in March 2008, two months ahead of the original schedule. With a designed annual production capacity of 30,000 tonnes, Production line no. 7 brings the total designed annual production capacity of our decorative base paper products to 150,000 tonnes. At the same time, two more Production lines nos. 8 to 9 are under construction and are expected to provide additional designed annual production capacities of 60,000 tonnes in total. These new production facilities will further expand the Group's total production capacity and contribute to our turnover growth, thus strengthening our leading position in the PRC's decorative base paper market and enhancing our competitiveness.

The Group is actively seeking opportunities to broaden our distribution channels in the PRC. To date, the Group has designated six sales regions in the PRC, namely, Shandong, Sichuan, Guangdong, Beijing, Jiangsu and Zhejiang. The Group has over 125 customers covering 13 provinces, autonomous regions and municipalities in the PRC. 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.

Outlook

The PRC is currently the world's second largest production and consumption country of paper products. On the back of positive market conditions and the rapid growth of the PRC's economy, the demand for paper products will remain robust, hence creating huge growth potential for the paper industry in the PRC. The Group plans to further strengthen its leading market position and capture this promising market potential by expanding our production capacity, expanding into new regional markets, refining our production technologies and processes as well as enhancing our proprietary research and development capabilities.

Leveraging our proven track record, established market position, as well as the expertise of our management, the Group is committed to becoming a leading manufacturer of decorative base paper products and printing paper product in the region, and ultimately, generating lucrative returns to our shareholders.

FINANCIAL REVIEW

Turnover

Turnover for the year ended 31 December 2007 increased by approximately 18.4% from RMB950.8 million in the year ended 31 December 2006 to RMB1,125.5 million during the year ended 31 December 2007. The increase in turnover during the year ended 31 December 2007 was mainly attributable to the combined effects of (i) the increase in overall sales volumes by approximately 23.0% from 91,625 tonnes to 112,681 tonnes, out of which sales volumes of the printing paper product, the product line launched in July 2006, increased by approximately 107.6% from 19,503 tonnes for the six months ended 31 December 2006 to 40,494 tonnes during the year ended 31 December 2007; and (ii) the increase in the average selling prices of the decorative base paper products by approximately 4.0% from RMB11,566 per tonne to RMB12,028 per tonne.

Cost of sales

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

The cost of sales increased by approximately 9.8% from RMB766.7 million in the year ended 31 December 2006 to RMB842.1 million in the year ended 31 December 2007. 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 of Production lines nos. 5 and 6 in April 2006.

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 two years ended 31 December 2006 and 2007, the purchase of wood pulp amounted to approximately RMB310.5 million and RMB363.1 million, respectively, representing approximately 40.5% and 43.1% of the total cost of sales for the respective years and the purchase of titanium dioxide powder amounted to approximately RMB237.5 million and RMB208.9 million, respectively, representing approximately 31.0% and 24.8% of the total

cost of sales for the respective years. For the two years ended 31 December 2006 and 2007, the Group purchased wood pulp at the average price per tonne (value added tax inclusive) of approximately RMB6,056 and RMB6,100, respectively, and titanium dioxide powder at the average price per tonne (value added tax inclusive) of approximately RMB12,887 and RMB13,079, respectively. The prices of both wood pulp and titanium dioxide powder had increased steadily and moderately during the two years. Nevertheless, the increase in the prices of both wood pulp and titanium dioxide powder during the two years have not posed material impact on the Group's financial results because of the increase in the average selling prices of the Group's products and enhancement of the economies of scale through the expansion of the Group's production scale.

Gross profit and gross profit margin

The gross profit of the Group increased by approximately 54.0% from RMB184.1 million for the year ended 31 December 2006 to RMB283.5 million for the year ended 31 December 2007, while the gross profit margin of the Group increased from approximately 19.4% to approximately 25.2% during the year.

The following table sets forth the gross profit margin of each category of the products for the two years ended 31 December 2006 and 2007:

Products	Year ended 31 December	
	2007	2006
Decorative based paper products		
– Premium coloured decorative base paper	35.1%	25.8%
– Premium white decorative base paper	26.4%	17.8%
– Ordinary coloured decorative base paper	25.9%	20.3%
– Ordinary white decorative base paper	18.4%	17.4%
Printing paper product	18.3%	13.3%

The increase in overall gross profit margin of premium coloured and premium white decorative base paper was mainly due to the increase in sales of such products, which have higher margins, during the year ended 31 December 2007. Apart from that, the average selling prices of the decorative base paper products were increased by approximately 4.0% from RMB11,566 per tonne to RMB12,028 per tonne.

Other revenue

Other revenue, which represented the interest income earned from the bank deposits, increased from RMB726,000 for the year ended 31 December 2006 to RMB122.0 million for the year ended 31 December 2007. The increase was mainly due to the interest income earned from subscription monies during the initial public offering of the Company in October 2007 which amounted to RMB106.9 million.

Selling expenses

The selling expenses consist primarily of sales and marketing staff salaries and benefits, traveling and sundry expenses. The selling expenses slightly decreased by approximately 1.0% from RMB9.6 million for the year ended 31 December 2006 to RMB9.5 million for the year ended 31 December 2007. As a percentage of turnover, our selling expenses were maintained at approximately 1.0% for each of the two years ended 31 December 2007. 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 and the expenses to be incurred in soliciting new customers in the six designated sales regions in the PRC.

Administrative expenses

The administrative expenses consist primarily of administrative and management staff salaries and benefits, depreciation of non-production related fixed assets, research and development cost, pension contributions and the city maintenance and construction tax at the rate of 5.0% on the applicable value-added tax and certain educational surcharge at such rate as determined in accordance with relevant regulations applicable to domestic enterprises in the PRC.

The administrative expenses increased by approximately 99.2% from RMB11.9 million for the year ended 31 December 2006 to RMB23.7 million for the year ended 31 December 2007. The increase in administrative expenses was mainly due to (i) the increase in administrative staff costs, employee benefits and pension expenses by approximately 96.0% from RMB2.5 million for the year ended 31 December 2006 to RMB4.9 million for the year ended 31 December 2007, which was resulted from additional employees for the expansion of operation as Production lines nos. 5 and 6 commenced commercial production in April 2006 and the corresponding change in the employee composition after our listing in October 2007 which resulted in an increase in personnel expenses; and (ii) the increase in the city maintenance and construction tax and educational surcharge by approximately 59.5% from RMB3.7 million for the year ended 31 December 2006 to RMB5.9 million for the year ended 31 December 2007. Such increase was in line with the increase of the taxable income and the expansion of business.

Finance costs

Finance costs consist primarily of interest expenses on the bank borrowings. The amount was increased by approximately 2.4% from RMB20.6 million for the year ended 31 December 2006 to RMB21.1 million for the year ended 31 December 2007. The slight increase in interest expenses was mainly due to the increase in the effective interest rates on bank borrowings, though the average bank borrowing of the Group was decreased during the year.

Income tax

The Company and the subsidiaries are incorporated in different jurisdictions, with different taxation requirements. For the year ended 31 December 2007, the Group is not liable to pay any income tax in the PRC as compared to RMB48.8 million for the year ended 31 December 2006 since Shandong Qunxing, our principal operating subsidiary in the PRC, has become a foreign investment enterprise since August 2006. According to the legal advisers as to PRC law, under the Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises, Shandong Qunxing, being an enterprise with foreign investment which conducts manufacturing business operation and has an operating term of

more than ten years, is entitled to full exemption from national enterprise income tax of 30% for a period of two years commencing from 2007, and a 50% relief on the applicable tax rate for the national enterprise income tax for the succeeding three years. Moreover, according to our legal advisers as to PRC law, pursuant to 關於擴大外商投資企業地方所得稅減免範圍有關問題的通知 (Notice on Relevant Issues Relating to Expanding the Scope of Reduction and Exemption of Local Incomes Tax on Foreign-invested Enterprises*) promulgated by the State Tax Bureau of Shandong in June 2000 and 關於確認山東群星紙業有限公司享受定期減免稅資格的批覆 (Approval on Confirming the Qualification of Shandong Qunxing on Enjoyment of Tax Reduction and Exemption*) issued by the State Tax Bureau of Zouping County in April 2007, Shandong Qunxing is further entitled to a full exemption of the local income tax of 3% as long as it maintains its corporate existence.

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, Shandong Qunxing 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 Qunxing is exempted from PRC income tax for the two years starting 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.

The effective tax rates of the Group for the two years ended 31 December 2007 were approximately 34.2% and 0%, respectively. The reconciliation between income tax expenses and accounting profit at the applicable tax rates for the two years ended 31 December 2007 was set out as follows:

	Year ended 31 December	
	2007	2006
	RMB'000	RMB'000
Profit before taxation	350,572	142,692
Income tax on profit before taxation, calculated at the tax rates applicable to the countries concerned	97,267	47,131
Tax effect of tax concession period	(78,021)	–
Tax effect of non-deductible expenses	1,866	1,624
Tax effect of non-taxable income	(21,112)	–
Income tax expenses for the year	–	48,755

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 (the “Prospectus”) of the Company dated 17 September 2007, 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 31 December 2007 RMB'000	Balance as at 31 December 2007 RMB'000
Settlement of the remaining balance of the construction costs of the new Production line no. 7	163,300	13,200	150,100
Construction of new Production lines nos. 8 to 11	720,000	–	720,000
Construction of new Production lines nos. 12 to 13 (<i>Note 2</i>)	360,000	–	360,000
Re-engineering and modification of the existing Production lines nos. 1 and 3	40,000	–	40,000
	<u>1,283,300</u>	<u>13,200</u>	<u>1,270,100</u>

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 is 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.

Exchange rate risk

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 Renminbi. Renminbi 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 Renminbi against foreign currencies during the year 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.

Employees and Remuneration Policies

As at 31 December 2007, the Group employed a total of approximately 1,000 employees. Remuneration policies are reviewed regularly to ensure that the Group is offering competitive employment 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.

Purchase, Redemption or sale of the Company's Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the year.

Corporate Governance Practices

Since the Listing Date and up to 31 December 2007, 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 on the Stock Exchange except the following deviation:

Code Provision A.2.1

Under the Code Provision A.2.1, the roles of chairman and chief executive officer ("CEO") should be separate and should not be performed by the same individual. Currently, the Company does not have any person holding the title of CEO. Mr. 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. Mr. 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 Mr. Zhu Yu Guo), 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.

The full details of corporate governance practices adopted by the Company will be set out in the Corporate Governance Report contained in the Company's 2007 Annual Report.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTION

The Company has adopted a Securities Dealing Code (the "Qunxing Securities 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. Having made specific enquiry of all the Directors, the Directors confirmed that they have complied with the required standard set out in both the Qunxing Securities Code and the Model Code from the Listing Date to 31 December 2007.

AUDIT COMMITTEE

The Audit Committee of the Company comprises all the independent non-executive Directors with written terms of reference in accordance with the requirements of the Listing Rules. The Audit Committee has reviewed with our management the consolidated financial statements of the Group for the year ended 31 December 2007, and the accounting principles and practices adopted by the Group during the year.

SCOPE OF WORK OF KPMG

The figures in respect of this announcement of the Group's annual results for the year ended 31 December 2007 have been compared by the Company's auditors, KPMG, Certified Public Accountants, to the amounts set out in the Group's draft 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 the auditors on this announcement.

PUBLICATION OF 2007 RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement has been published on the websites of the Company (www.qxpaper.com) and the Stock Exchange (www.hkex.com.hk). The Company's 2007 Annual Report will be despatched to the Company's shareholders and published on the above websites as soon as practicable.

APPRECIATION

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

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

The PRC, 17 March 2008

As at the date of this announcement, the executive Directors are Messrs. ZHU Yu Guo (Chairman), ZHU Mo Qun (Vice-Chairman) and 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.

* *for identification purpose only*