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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 2009

FINANCIAL HIGHLIGHTS

- Turnover increased by approximately 2.8% to RMB702.2 million.
- Gross profit rose by approximately 14.0% to RMB196.8 million.
- Gross profit margin increased from 25.3% to 28.0%.
- Profit attributable to shareholders decreased by approximately 21.5% to RMB149.2 million.
- Earnings per share decreased by approximately 22.2% from RMB18 cents to RMB14 cents.
- Interim dividend of HK3.277 cents (equivalent to approximately RMB2.889 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 2009 together with the comparative figures for the six months ended 30 June 2008 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
		2009	2008
	Note	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Turnover	*3*	**702,205**	683,415
Cost of sales		**(505,435)**	(510,680)
Gross profit		**196,770**	172,735
Other revenue	*4*	**2,643**	21,075
Other net (loss)/gain	*4*	**(755)**	28,591
Selling expenses		**(8,414)**	(7,234)
Administrative expenses		**(14,777)**	(15,105)
Profit from operations		**175,467**	200,062
Finance costs	*5(a)*	**(4,168)**	(7,688)
Profit before taxation	*5*	**171,299**	192,374
Income tax expense	*6*	**(22,091)**	(2,285)
Profit for the period		**149,208**	190,089
Dividends:	*7*		
— Final dividend paid		**76,990**	105,172
— Interim dividend proposed		**29,842**	38,018
Earnings per share (RMB cents)	*8*		
Basic		**14**	18

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	As at 30 June 2009 RMB'000 (Unaudited)	As at 31 December 2008 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	9	**788,664**	561,146
Construction in progress	9	**303,600**	316,060
Lease prepayments	9	**14,980**	15,150
Prepayment for the acquisition of plant and equipment	9	**16,626**	110,880
		1,123,870	1,003,236
Current assets			
Trading securities		**19,565**	64,753
Inventories	10	**38,915**	43,622
Trade and other receivables	11	**57,766**	38,844
Cash and cash equivalents		**1,227,286**	1,539,373
		1,343,532	1,686,592
Current liabilities			
Bank loans	12	**—**	124,000
Trade and other payables	13	**138,149**	320,753
Current taxation		**21,861**	9,868
		160,010	454,621
Net current assets		**1,183,522**	1,231,971
NET ASSETS		**2,307,392**	2,235,207
Capital and reserves			
Share capital	14	**100,258**	100,258
Reserves		**2,207,134**	2,134,949
TOTAL EQUITY		**2,307,392**	2,235,207

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 June	
	2009	2008
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	**199,756**	157,458
Net cash used in investing activities	**(306,616)**	(196,301)
Net cash used in financing activities	**(205,158)**	(244,331)
Net decrease in cash and cash equivalents	**(312,018)**	(283,174)
Cash and cash equivalents at beginning of the period	**1,539,373**	1,792,158
Effect of foreign exchange rate changes	**(69)**	(18,222)
Cash and cash equivalents at end of the period	**1,227,286**	1,490,762

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 were 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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The condensed consolidated financial statements for the six months ended 30 June 2008 and 2009 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 2008 (the "2008 Annual Report").

The accounting policies adopted in the condensed consolidated financial statements for the six months ended 30 June 2009 are consistent with those in the preparation of the 2008 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	
	2009	2008
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Decorative base paper products	**593,634**	551,780
Printing paper product	**108,571**	131,635
	702,205	683,415

4. OTHER REVENUE AND NET (LOSS)/GAIN

	For the six months ended 30 June	
	2009	2008
	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	**2,249**	21,075
Dividend income from listed securities	**394**	—
	2,643	21,075
Other net (loss)/gain		
Loss on disposal of property, plant and equipment	**—**	(9)
Net foreign exchange loss	**—**	(464)
Net realised and unrealised (loss)/gain on financial assets at fair value through profit or loss	**(755)**	29,064
	(755)	28,591

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	For the six months ended 30 June	
	2009	2008
	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	**4,168**	7,688
(b) Staff costs:		
Contributions to defined contribution retirement plans	**1,326**	997
Salaries, wages and other benefits	**17,216**	15,191
	18,542	16,188
(c) Other items:		
Amortisation of lease prepayments	**170**	139
Depreciation	**42,214**	33,988
Loss on disposal of property, plant and equipment	**—**	9
Operating lease charges in respect of leasehold land and properties	**1,512**	787
Sewage disposal expenses	**66**	66
Research and development costs	**96**	109

6. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2009	2008
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current tax		
— PRC income tax	**22,091**	—
— Hong Kong Profits Tax	**—**	2,285
	22,091	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 2009 is calculated at 16.5% (2008: 16.5%) 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 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, is 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.

7. DIVIDENDS

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

	For the six months ended 30 June	
	2009	2008
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interim dividend proposed for the six months ended 30 June 2009 of HK3.277 cents (equivalent to approximately RMB2.889 cents) per ordinary share (for the six months ended 30 June 2008: HK4.16 cents, equivalent to approximately RMB3.66 cents, per ordinary share)	**29,842**	38,018

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the period.

	For the six months ended 30 June	
	2009	2008
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Final dividend paid for the year ended 31 December 2008 of HK8.45 cents (equivalent to approximately RMB7.45 cents) per ordinary share (for the year ended 31 December 2007: HK11.28 cents, equivalent to approximately RMB10.126 cents, per ordinary share)	**76,990**	105,172

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 2009 is based on the unaudited profit attributable to equity shareholders of the Company of RMB149,208,000 (2008: RMB190,089,000) and the weighted average number of 1,032,800,000 (2008: 1,039,714,000) ordinary shares in issue during 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 and construction in progress, acquisition of land use rights and prepayments for the acquisition of plant and equipment. During the six months ended 30 June 2009, the Group has aggregate capital expenditure of RMB202,604,000 (during the six months ended 30 June 2008: RMB104,677,000).

10. INVENTORIES

	As at 30 June 2009	As at 31 December 2008
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Raw materials and consumables	**24,954**	26,932
Finished goods	**13,961**	16,690
	38,915	43,622

11. TRADE AND OTHER RECEIVABLES

	As at 30 June 2009 *RMB'000* **(Unaudited)**	As at 31 December 2008 *RMB'000* (Audited)
Trade receivables	**49,173**	37,795
Prepayments, deposits and other receivables	**650**	1,049
Value-added-tax recoverable	**7,943**	—
Less: allowance for doubtful debts	**—**	—
	57,766	38,844

All of the trade receivables are expected to be recovered within one year.

Ageing analysis

Included in trade and other receivables are trade receivables with the following ageing analysis as of the balance sheet date:

	As at 30 June 2009 *RMB'000* **(Unaudited)**	As at 31 December 2008 *RMB'000* (Audited)
Current	**49,173**	36,543
Less than one month past due	**—**	1,252
	49,173	37,795

12. BANK LOANS

At 30 June 2009, the bank loans were repayable as follows:

	As at 30 June 2009 *RMB'000* **(Unaudited)**	As at 31 December 2008 *RMB'000* (Audited)
Within one year	**—**	124,000

At 30 June 2009, the bank loans were secured as follows:

	As at 30 June 2009 *RMB'000* **(Unaudited)**	As at 31 December 2008 *RMB'000* (Audited)
Secured bank loans:		
— secured by property, plant and equipment	**—**	124,000

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

13. TRADE AND OTHER PAYABLES

	As at 30 June 2009 *RMB'000* **(Unaudited)**	As at 31 December 2008 *RMB'000* (Audited)
Trade payables	**90,099**	89,255
Other payables and accruals	**48,050**	231,498
	138,149	320,753

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 2009 *RMB'000* **(Unaudited)**	As at 31 December 2008 *RMB'000* (Audited)
Due within 30 days	**90,099**	89,255

14. SHARE CAPITAL

	Note	**2009** **Number of shares** ***('000)*** **(Unaudited)**	**2009** ***RMB'000*** **(Unaudited)**	2008 Number of shares *('000)* (Unaudited)	2008 *RMB'000* (Unaudited)
At 1 January		**1,032,800**	**100,258**	1,045,000	101,359
Share repurchase	*(a)*	**—**	**—**	(6,381)	(588)
At 30 June		**1,032,800**	**100,258**	1,038,619	100,771

(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 HK3.277 cents (equivalent to approximately RMB2.889 cents) (2008: HK4.16 cents) per ordinary share for the six months ended 30 June 2009 which shall be payable on or about Friday, 18 September 2009 to shareholders whose names appear on the register of members of the Company on Thursday, 10 September 2009.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 8 September 2009 to Thursday, 10 September 2009, both days inclusive, during which period no transfer of shares can be registered. 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 Monday, 7 September 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2009, the impact of the financial tsunami were still lingered on and all countries worldwide continued to be affected in various degree. Although the PRC was not immune to the financial crisis, the PRC government has responded to it in a decisive manner by introducing a series of measures to stimulate the economy and obtained good results. To date, the PRC economy sustains steady and rapid growth and its economic growth momentum in substance has not been adversely affected. According to the National Bureau of Statistics of China, the gross domestic product (GDP) of the PRC increased by 7.1% to RMB13,986,200 million in the first half of 2009 as compared with the corresponding period in 2008.

As urbanization of second- and third-tiered cities and rural areas in the PRC is accelerating, the PRC government proactively encouraged construction of economically affordable housing so as to meet the increasing demand for housing from lower income group. Such development fueled the growth in completed floor space of housing and building, which in turn lead to the increase in the demand for laminated boards. In addition, the PRC government has been encouraging the use of laminated boards made from wood pulp as a substitute for logs for the sake of environmental protection and natural resource conservation. Furthermore, domestic supply of premium decorative base paper products in the PRC has been insufficient to cope with the rising demand for such products, providing the Group with plenty of room to develop its decorative base paper products. The Group will strive for greater market share and consolidate its position as the largest decorative base paper manufacturer in the PRC.

During the period under review, our business continued to grow in a time of financial crisis despite the challenging macroeconomic environment. Turnover increased by approximately 2.8% from RMB683.4 million for the six months ended 30 June 2008 to RMB702.2 million for the six months ended 30 June 2009. The overall gross profit margin increased from 25.3% for the first half of 2008 to 28.0% for the corresponding period of 2009, mainly due to the economies of scale and enhanced operating efficiency by the commercial production of Production lines nos. 8 and 9 being commenced in March 2009 as well as the on-going realignment of product mix by increasing the proportion of premium decorative base paper products. Profit for the period amounted to RMB149.2 million, representing a decrease of approximately 21.5% as compared with the corresponding period of last year. Basic earnings per share were RMB14 cents (2008: RMB18 cents).

Expansion of production capacity

As at 30 June 2009, the Group has invested and is operating 9 highly automated Production lines nos. 1 to 9 with an aggregate designed annual production capacity of approximately 260,000 tonnes, comprising approximately 210,000 tonnes of decorative base paper products and approximately 50,000 tonnes of printing paper product. Production lines nos. 10 to 13 are currently under construction, of which construction of Production lines nos. 10 and 11 is expected to be completed by late 2009 whilst that of Production lines nos. 12 and 13 is expected to be completed by mid 2010. The designed annual production capacity of each of the 4 Production lines nos. 10 to 13 is approximately 30,000 tonnes, which will further expand our designed annual production capacity to an aggregate of approximately 380,000 tonnes.

Comprehensive distribution channels

During the period, the Group maintained 6 designated sales regions in the PRC, namely, Shandong, Sichuan, Guangdong, Beijing, Jiangsu and Zhejiang. The Group has over 110 customers covering 13 provinces, autonomous regions and municipalities in the PRC. The Group will endeavor to consolidate its leading market position and customer base in those areas so as to establish a solid foundation for future expansion.

Diversification of product applications

During the period, the Group has marketed more than 80 types of decorative base paper products which are used in a broad spectrum of areas, from furniture and home flooring to large scale infrastructure facilities such as sports stadiums, community halls and interior decoration of motor vehicles and air-crafts. In addition, QX Group has enlarged the weighting and market share of premium decorative base paper products during the period in order to capture the growing market demand.

Environmental protection

The Group has been putting great emphasis on implementing environmental protection and corporate social responsibility. Apart from decorative base paper products, being our core products, which act as a cost-effective alternative for wooden products, the production of our premium wood pulp, which is used for producing our decorative base paper products, causes almost no pollution and conforms to the Industrial Policy of Environmental Protection in the PRC. Besides, waste water after treatment from our production can be reused for irrigation system at our production base in Shandong. Currently, our waste water treatment system has an annual processing capacity of approximately 1,700,000 cubic metres. To accommodate our long-term growth and future expansion of production capacity, the Group is currently constructing another waste water treatment system with an expected annual processing capacity of approximately 3,650,000 cubic metres.

Awards and Recognition

Leveraging our outstanding performance in operations and management as well as our efforts in implementing corporate social responsibility, the Group received a number of awards and recognition during the period. QX Paper was conferred "The Credible Enterprise of China Accreditation in 2009" jointly by China Enterprise Reputation & Credibility Association (Overseas) Limited and Reputation Institute China in recognition of its excellent achievements in corporate reputation, product quality, corporate governance and brand image.

During the period, Shandong Qunxing Paper Limited* (山東群星紙業有限公司)("Shandong QX"), a wholly-owned subsidiary of the Company, was awarded the "2008 Chinese Enterprise with Excellent Integrity" by the China Enterprise Confederation and the China Entrepreneur Association in recognition of the Group's excellent business philosophy and practices founded on integrity. In addition, Shandong QX was awarded one of the "Top 30 Papermaking Enterprises in China*" presented by China Paper Association, while Dr. Zhu Yu Guo, Chairman of the Board, was named as one the "Outstanding Entrepreneur of Papermaking Industry in China*" by China Paper Association.

FINANCIAL REVIEW

Turnover

For the six months ended 30 June 2009, the average selling prices of the decorative base paper products and printing paper products were decreased by approximately 9.3% from RMB13,304 per tonne in 2008 to RMB12,072 per tonne in 2009 and approximately 13.9% from RMB6,674 per tonne in 2008 to RMB5,744 per tonne in 2009, respectively. Despite of this, the overall sales volumes was increased by approximately 11.2% from 61,197 tonnes to 68,078 tonnes, out of which sales volumes of the decorative base paper products increased by approximately 18.6% from 41,474 tonnes for the six months ended 30 June 2008 to 49,175 tonnes for the six months ended 30 June 2009. Therefore, the turnover for the six months ended 30 June 2009 was increased by approximately 2.8% from RMB683.4 million for the six months ended 30 June 2008 to RMB702.2 million for the six months ended 30 June 2009.

Cost of sales

Cost of sales represents the production costs of goods sold during the periods. 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 decreased by approximately 1.0% from RMB510.7 million for the six months ended 30 June 2008 to RMB505.4 million for the six months ended 30 June 2009. The decrease in the cost of sales was primarily due to the combined effects of (i) increase in the raw material costs, which are the major component of our cost of sales, as a result of the increased sales volume, (ii) decrease in costs of wood pulp and titanium dioxide powder, our principal raw materials for the production, during the six months ended 30 June 2009 (as discussed below), (iii) increase in production overheads, such as electricity and steam expenses, in line with the increase in production volume; and (iv) increase in depreciation expenses due to the commercial production of Production line nos. 8 and 9 since March 2009.

The results of operations are subject to price fluctuations of raw materials used in the production process. The principal raw materials for our production are wood pulp and titanium dioxide powder. For the six months ended 30 June 2008 and 2009, the purchase of wood pulp amounted to approximately RMB214.5 million and RMB192.4 million, respectively, representing approximately 42.0% and 38.1% of the total cost of sales for the respective periods and the purchase of titanium dioxide powder amounted to approximately RMB147.3 million and RMB133.9 million, respectively, representing approximately 28.8% and 26.5% of the total cost of sales for the respective periods. For the six months ended 30 June 2008 and 2009, the Group purchased wood pulp at the average price (value added tax inclusive) of approximately RMB6,540 per tonne and RMB5,104 per tonne, respectively, and titanium dioxide powder at the average price (value added tax inclusive) of approximately RMB14,023 per tonne and RMB12,524 per tonne, respectively.

Gross profit and gross profit margin

The gross profit of the Group increased by approximately 14.0% from RMB172.7 million for the six months ended 30 June 2008 to RMB196.8 million for the six months ended 30 June 2009. The following table sets forth the gross profit margin of each category of the products for the six months ended 30 June 2008 and 2009:

	For the six months ended 30 June	
	2009	2008
Decorative base paper products	**30.0%**	27.0%
Printing paper product	**17.0%**	18.2%

The increase in gross profit margin for decorative base paper products for the six months ended 30 June 2009 as compared to that for the six months ended 30 June 2008 was mainly due to (i) the increase in sales of premium decorative base paper products which have higher gross profit margins; and (ii) the continuing realignment of the product mix.

Despite the cost of raw materials, such as wood pulp, for production of printing paper products, was decreased during the six months ended 30 June 2009, the gross profit margin for printing paper product was decreased slightly for the six months ended 30 June 2009 as compared to that for the six months ended 30 June 2008 since the average selling price of printing paper products was decreased by approximately 13.9% from RMB6,674 per tonne in 2008 to RMB5,744 per tonne in 2009.

However, the overall gross profit margin of the Group was increased from approximately 25.3% to approximately 28.0% during the six months ended 30 June 2009 due to the increase in sales of decorative base paper products which have higher profit margin.

Other revenue and net loss/gain

Other revenue, which represented the interest income earned from the bank deposits and dividend income from listed securities, decreased from RMB21.1 million for the six months ended 30 June 2008 to RMB2.6 million for the six months ended 30 June 2009 and such decrease was mainly due to the decrease in average effective bank interest rate during the period.

In compliance with the financial management and treasury policies, certain investments were made on uncommitted funds. During the six months ended 30 June 2008 and 2009, we recorded a net realised gain of RMB29.1 million and a net realised and unrealised loss of RMB0.8 million on financial assets at fair value through profit or loss, respectively.

Selling expenses

As disclosed in our Prospectus, our Group planned to strengthen our marketing activities. As at 30 June 2009, the Group had over 40 sales and marketing staff to carry out various promotional activities in an attempt to solicit new customers in the six designated sales regions in the PRC. For the six months ended 30 June 2009, the selling expenses increased to RMB8.4 million, representing an increase of approximately 16.7% from 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 each of the six months ended 30 June 2008 and 2009. 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 decreased by approximately 2.0% from RMB15.1 million for the six months ended 30 June 2008 to RMB14.8 million for the six months ended 30 June 2009. The decrease was mainly due to the donation to Sichuan Earthquake Relief of RMB1.0 million during the six months ended 30 June 2008 where there was no such donation during the six months ended 30 June 2009. As a percentage of turnover, our administrative expenses decreased slightly from approximately 2.2% for the six months ended 30 June 2008 to approximately 2.1% for the six months ended 30 June 2009.

Finance costs

Finance costs consist primarily of interest expenses on the bank borrowings. The amount decreased by approximately 45.5% from RMB7.7 million for the six months ended 30 June 2008 to RMB4.2 million for the six months ended 30 June 2009. The decrease in interest expenses was mainly due to the repayment of all bank borrowings during the period.

Income tax

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

Shandong QX, our principal operating subsidiary in the PRC, had been exempted from the PRC income tax for the two years started from 1 January 2007 to 31 December 2008, followed by a reduced PRC income tax rate of 12.5% for the remaining three years from 1 January 2009 to 31 December 2011 under the grandfathering treatments of the Corporate Income Tax Law of the PRC passed on 16 March 2007. As such, our Group was not liable to pay any income tax in the PRC for the six months ended 30 June 2008, while Shandong QX is subject to an income tax rate of 12.5% for the six months ended 30 June 2009.

The provision for Hong Kong Profits Tax for 2008 and 2009 are calculated at 16.5% of the estimated assessable profits for the periods.

Liquidity and Financial Resources

Current and quick ratio

The current ratio of the Group increased from 3.7 as at 31 December 2008 to 8.4 as at 30 June 2009 and the quick ratio of the Group increased from 3.6 as at 31 December 2008 to 8.2 as at 30 June 2009, respectively, which were mainly due to the combined effect of (i) the repayment of short-term bank loans of RMB124.0 million during the six months ended 30 June 2009; and (ii) the settlement of balance payable for construction of Production line nos. 8 and 9 during the six months ended 30 June 2009.

Gearing ratio

As at 30 June 2009, the Group did not have any outstanding bank borrowings (31 December 2008: RMB124.0 million). The gearing ratio decreased from approximately 4.6% as at 31 December 2008 to 0.0% as at 30 June 2009 mainly due to the full repayment of bank borrowings of RMB124.0 million during the six months ended 30 June 2009.

Financial resources

The financial resources of the Group continued to be strong. As at 30 June 2009, the total shareholders' fund of the Group was RMB2,307.4 million, represented an increase of 3.2% from RMB2,235.2 million at 31 December 2008. The Group had cash and cash equivalents of approximately RMB1,227.3 million as at 30 June 2009 (31 December 2008: RMB1,539.4 million), after the payment of final dividend for the year ended 31 December 2008 of RMB77.0 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 2009, the net cash generated from operating activities was RMB199.8 million, represented an increase of 26.9% as compared to RMB157.5 million for the six months ended 30 June 2008.

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 presentation 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 2009, the Group did not have any bank borrowings.

The Group conducts its business transactions principally in the PRC. All of the Group's turnover and cost of sales and most of the Group's monetary assets and liabilities are denominated in RMB. RMB is the functional currency of the Group and used as the reporting currency in the preparation of the consolidated financial statements of the Group. As such, the fluctuation of RMB against foreign currencies during the periods did not have significant impact on the result of the Group.

Capital expenditure

During the six months ended 30 June 2009, the Group had aggregate additions to property, plant and equipment and construction in progress, acquisition of land use right and prepayment for the acquisition of plant and equipment of approximately RMB202.6 million (during the six months ended 30 June 2008: RMB104.7 million).

Capital commitments, contingencies and charge on assets

The Group will further invest RMB560.1 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".

As disclosed in our 2008 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 2009.

As at 30 June 2009, the Group did not have any property, plant and equipment secured for any borrowings (31 December 2008: RMB225.2 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 net proceeds amounted to approximately HK$1,492.8 million (equivalent to approximately RMB1,445.5 million), after deduction of related expenses and the exercise of 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 as well as to re-engineer and modify our existing production facilities to enhance production efficiency. As at 30 June 2009, part of the net proceeds had been applied as follows:

	Planned amount *RMB'000*	**Amount utilised up to 30 June 2009** *RMB'000*	**Balance as at 30 June 2009** *RMB'000*
Settlement of the remaining balance of the construction of Production line no. 7	163,300	163,300	—
Construction of Production lines nos. 8 to 11	720,000	559,820	160,180
Construction of Production lines nos. 12 to 13 *(Note 2)*	360,000	—	360,000
Re-engineering and modification of Production lines nos. 1 to 3	40,000	—	40,000
	1,283,300	723,120	560,180

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 Production lines nos. 10 to 11 from 60,000 tonnes to 120,000 tonnes. The Over-allotment Option was exercised on the Listing Date and our Group decided to further increase our production capacity by 60,000 tonnes by way of constructing two more Production lines nos. 12 to 13.

Employees and Remuneration Policies

As at 30 June 2009, our Group employed a total of approximately 1,200 employees. Remuneration policies are reviewed regularly to ensure that our Group is offering competitive employment packages to the staff. Compensation of the employees includes salaries and contributions to retirement benefit schemes. Promotion and salary increments are assessed based on performance related basis.

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

OUTLOOK

Looking into the second half of 2009, as economic stimulus packages introduced by different countries are becoming effective gradually, financial markets and economic indicators start to show steady trends with gradually improving economic sentiment, global economy hit by financial crisis in late 2008 is expected to recover in an orderly manner in the second half of 2009. In fact, the impact of the financial tsunami on the PRC is relatively indirect. With the support of RMB4 trillion economic stimulus plan and moderately loose monetary policy adopted by the PRC government, it is believed that the PRC economy will recover at a faster pace than other countries, and its growth momentum will be stronger. Therefore, we are cautiously optimistic about the prospects of our mid and long-term business development.

To satisfy market demand for our products, the Group will expand production lines of decorative base paper in a progressive approach as well as widening applications of our products. We will continue to implement stringent cost control measures, improve production efficiency and quality control system for ensuring quality of our products. Furthermore, based on the principles of pragmatism and innovation and driven by our mission of protecting environment and contributing the society, we are focusing on exploring and identifying suitable and relevant development opportunities and broadening the scope for continuing development with an aim to enhance shareholders' value in long-term, while contributing to environmental protection and ecological balance. Leveraging our healthy financial position and our experienced management with market insight, the Board is confident in the sustainable growth of the Group.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 June 2009, 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.

CONVERTIBLE BONDS, SHARE OPTIONS, WARRANTS OR OTHER SIMILAR RIGHTS

During the six months ended 30 June 2009, the Company has not issued any convertible bonds, share options, warrants or similar rights.

CORPORATE GOVERNANCE

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 2009 were consistent with those disclosed in the Company's 2008 Annual Report.

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

As at 30 June 2009, 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 Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") 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 an executive director ("Director") of the Company and a chairman of the Board, also assumed responsibilities which are comparable to those of a CEO. Dr. Zhu is responsible for overseeing and planning the business strategies of the Group as well as providing leadership and management to the Board. The role of the chairman is separated from that of the general manager of the Company. Mr. Zhu Mo Qun, an executive Director, a general manager of the Company as well as a vice-chairman of the Board, is responsible for the overall management of the Group's business operation and implementing business strategies formulated by the Board. The Board considers that this management structure can provide the Group with consistent leadership and enables the Group to make and implement the Board's decisions promptly and efficiently. The Board will regularly review the effectiveness of this structure to ensure that such structure is appropriate in view of the Group's prevailing circumstances.

Model Code for Directors' Securities Transaction

The Company has adopted a securities dealing code (the "QX Securities Dealing Code") regarding Directors' and employees' securities transactions on terms no less exacting than the required standard as set out in 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 2009.

Board Committees

The Board has established a total of 4 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 3 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 2009, and the accounting principles and practices adopted by the Group during the period.

Remuneration Committee

The Remuneration Committee currently comprises 1 executive Director and all 3 INEDs. The primary duties of the Remuneration Committee are to make recommendations to the Board on specific remuneration packages and conditions of employment for the Directors and senior management.

Nomination Committee

The Nomination Committee currently comprises 1 executive Director and all 3 INEDs. The primary function of the Nomination Committee is to make recommendations to the Board regarding candidates to fill vacancies on the Board.

Executive Committee

The Executive Committee currently comprises all 3 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 2009 INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This results announcement is published on the website of the Company at www.qxpaper.com and HKEXnews website of the Stock Exchange at www.hkexnews.com.hk. The Company’s 2009 Interim Report will be available at both websites and will be despatched to the Company’s shareholders 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 services and contributions and to our shareholders, business associates and investors for their valuable support during the period.

By Order of the Board
ZHU Yu Guo
Chairman

Shandong, the PRC, 18 August 2009

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.

* *for identification purpose only*