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 2010

FINANCIAL HIGHLIGHTS

- Turnover increased by approximately 24.4% to RMB873.6 million.
- Gross profit rose by approximately 13.8% to RMB224.0 million.
- Gross profit margin decreased from 28.0% to 25.6%.
- Profit attributable to shareholders increased by approximately 15.6% to RMB172.5 million.
- Earnings per share increased by approximately 21.4% from RMB14 cents to RMB17 cents.

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 2010 together with the comparative figures for the six months ended 30 June 2009 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
		2010	2009
	Note	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Turnover	*3*	**873,569**	702,205
Cost of sales		**(649,561)**	(505,435)
Gross profit		**224,008**	196,770
Other revenue	*4*	**1,223**	2,643
Other net loss	*4*	**(84)**	(755)
Selling expenses		**(9,866)**	(8,414)
Administrative expenses		**(17,019)**	(14,777)
Profit from operations		**198,262**	175,467
Finance costs	*5(a)*	**—**	(4,168)
Profit before taxation	*5*	**198,262**	171,299
Income tax	*6*	**(25,754)**	(22,091)
Profit for the period		**172,508**	149,208
Earnings per share (RMB cents)	*8*		
Basic		**17**	14

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Profit for the period	**172,508**	149,208
Other comprehensive income for the period		
Exchange differences on translation of financial statements of operations outside the People's Republic of China (the "PRC")	**(942)**	(33)
Total comprehensive income for the period	**171,566**	149,175
Attributable to:		
Equity shareholders of the Company	**171,566**	149,175

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 30 June 2010 RMB'000 (Unaudited)	As at 31 December 2009 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	9	**1,414,842**	1,365,520
Construction in progress	9	**499,773**	296,911
Lease prepayments	9	**14,639**	14,809
Prepayment for the acquisition of plant and equipment	9	**—**	60,780
		1,929,254	1,738,020
Current assets			
Inventories	10	**55,148**	37,334
Trade and other receivables	11	**140,175**	72,047
Cash and cash equivalents		**684,820**	682,764
		880,143	792,505
Current liabilities			
Trade and other payables	12	**155,915**	58,000
Current taxation		**29,607**	20,216
		185,522	78,216
Net current assets		**694,621**	714,289
NET ASSETS		**2,623,875**	2,452,309
Capital and reserves			
Share capital	13	**102,427**	100,258
Reserves		**2,521,448**	2,352,051
TOTAL EQUITY		**2,623,875**	2,452,309

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	**260,406**	199,756
Net cash used in investing activities	**(257,287)**	(306,616)
Net cash used in financing activities	**—**	(205,158)
Net increase/(decrease) in cash and cash equivalents	**3,119**	(312,018)
Cash and cash equivalents at beginning of the period	**682,764**	1,539,373
Effect of foreign exchange rate changes	**(1,063)**	(69)
Cash and cash equivalents at end of the period	**684,820**	1,227,286

Notes:

1. GENERAL INFORMATION AND BASIS OF PREPARATION

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. The shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 2 October 2007.

The condensed consolidated financial statements for the six months ended 30 June 2009 and 2010 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 2009 (the "2009 Annual Report").

2. CHANGES IN ACCOUNTING POLICIES

Except as described below, the accounting policies adopted in the condensed consolidated financial statements for the six months ended 30 June 2010 are consistent with those in the preparation of the 2009 Annual Report.

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 the consolidated financial statements for the current and prior accounting periods presented.

3. TURNOVER

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

	For the six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Decorative base paper products	**769,493**	593,634
Printing paper product	**104,076**	108,571
	873,569	702,205

4. OTHER REVENUE AND NET LOSS

	For the six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Other revenue		
Interest income on financial assets not at fair value through profit or loss		
— Interest income from banks	**1,223**	2,249
Dividend income from listed securities	**—**	394
	1,223	2,643
Other net loss		
Gain on disposal of property, plant and equipment	**21**	—
Net foreign exchange loss	**(105)**	—
Net realised and unrealised losses on financial assets at fair value through profit or loss	**—**	(755)
	(84)	(755)

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	For the six months ended 30 June	
	2010	2009
	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
(b) Staff costs:		
Contributions to defined contribution retirement plans	**1,904**	1,326
Salaries, wages and other benefits	**19,307**	17,216
	21,211	18,542
(c) Other items:		
Amortisation of lease prepayments	**170**	170
Depreciation	**67,106**	42,214
Gain on disposal of property, plant and equipment	**(21)**	—
Operating lease charges in respect of:		
— leasehold land and properties	**4,516**	1,512
— others	**75**	75
Sewage disposal expenses	**143**	66
Research and development costs	**129**	96

6. INCOME TAX

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 the BVI.

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

Shandong Qunxing Paper Limited ("Shandong QX") is a foreign investment enterprise and 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 the PRC income tax rate for the following three years from 1 January 2009 to 31 December 2011. The applicable tax rate of Shandong QX for the six months ended 30 June 2009 and 2010 is 12.5%.

7. DIVIDENDS

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

	For the six months ended 30 June	
	2010	2009
	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	**—**	29,842

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2010.

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

	For the six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Final dividend in respect of the previous financial year, approved and paid during the interim period of HK7.403 cents (equivalent to approximately RMB6.525 cents) per ordinary share (2009: HK8.45 cents per ordinary share, equivalent to approximately RMB7.45 cents per ordinary share)	**67,385**	76,990

8. EARNINGS PER SHARE

(a) The calculation of basic earnings per share for the six months ended 30 June 2010 is based on the profit attributable to ordinary equity shareholders of the Company of RMB172,508,000 (2009: RMB149,208,000) and the weighted average number of 1,035,951,000 (2009: 1,032,800,000) 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 and prepayments for the acquisition of plant and equipment. During the six months ended 30 June 2010, the Group incurred aggregate capital expenditure of RMB258,510,000 (2009: RMB202,604,000).

10. INVENTORIES

	As at 30 June 2010 ***RMB'000*** **(Unaudited)**	As at 31 December 2009 *RMB'000* (Audited)
Raw materials and consumables	**37,503**	23,336
Finished goods	**17,645**	13,998
	55,148	37,334

11. TRADE AND OTHER RECEIVABLES

	As at 30 June 2010 ***RMB'000*** **(Unaudited)**	As at 31 December 2009 *RMB'000* (Audited)
Trade receivables	**139,720**	29,520
Prepayments, deposits and other receivables	**122**	2,737
Other tax recoverable	**—**	40,150
Less: allowance for doubtful debts	**—**	—
	139,842	72,407

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 2010 ***RMB'000*** **(Unaudited)**	As at 31 December 2009 *RMB'000* (Audited)
Current	**139,720**	27,630
Less than one month past due	**—**	1,890
	139,720	29,520

12. TRADE AND OTHER PAYABLES

	As at 30 June 2010 *RMB'000* **(Unaudited)**	As at 31 December 2009 *RMB'000* (Audited)
Trade payables	**139,592**	45,529
Other payables and accruals	**16,323**	12,471
	155,915	58,000

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

	As at 30 June 2010 *RMB'000* **(Unaudited)**	As at 31 December 2009 *RMB'000* (Audited)
Due within 30 days	**139,592**	45,529

13. SHARE CAPITAL

	2010		2009	
	Number of shares ***('000)***	***RMB'000***	Number of shares *('000)*	*RMB'000*
	(Unaudited)		(Unaudited)	
At 1 January	**1,032,800**	**100,258**	1,032,800	100,258
Shares issued in lieu of dividend	**24,794**	**2,169**	—	—
At 30 June	**1,057,594**	**102,427**	1,032,800	100,258

INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2010 (2009: HK3.277 cents).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2010, the global economy continued its recovery seen in the latter half of 2009 despite lingering worries over credit conditions in Europe. China's economy remained robust, thanks to the effort of the PRC's government in boosting domestic demand, adjusting economic development structure, building a new countryside and improving overall living standard. According to the National Bureau of Statistics, China's gross domestic product ("GDP") grew 11.1% in the first half of 2010. On a quarter to quarter basis, the first-quarter GDP growth was 11.9% whilst the second-quarter GDP growth remaining strong at 10.3%.

General wage growth and acceleration in urbanization have paved the growing market demand of decorative base paper industry in the PRC. In particular, strong backing for the construction of economically affordable housing by the PRC government fueled demand for laminated boards in substitution of logs, driving the growth of the Group's decorative base paper business.

During the period under review, the overall business performance of the Group remained stable with improvements in operating efficiency. For the six months ended 30 June 2010, the Group recorded a turnover of RMB873.6 million, representing an increase of approximately 24.4% as compared to that of the corresponding period in 2009. Profit for the period amounted to RMB172.5 million, representing an increase of approximately 15.6% as compared with the corresponding period in 2009. Basic earnings per share were RMB17 cents (2009: RMB14 cents). The overall gross profit margin dropped by 2.4% to 25.6% from 28.0% for the corresponding period in 2009. The decrease in overall gross profit margin was primarily due to the fact that Production lines nos. 10 and 11 were still in their preliminary stage of commercial production during the period under review and had not yet achieved their optimal production capacity. Moreover, an increase in depreciation expenses arising from establishment of new production facilities also cut into the Group's overall gross profit margin.

Expansion of production capacity

As at 30 June 2010, the Group has invested and is operating 11 highly automated Production lines nos. 1 to 11, with an aggregate designed annual production capacity of approximately 320,000 tonnes, comprising approximately 270,000 tonnes of decorative base paper products and approximately 50,000 tonnes of printing paper product. Production lines nos. 12 and 13, each of which has a designed annual production capacity of approximately 30,000 tonnes, are currently under construction and are expected to be completed in August 2010. Commercial production of these two Production lines is expected to commence in the fourth quarter of 2010 and will further expand the Group's aggregate designed annual production capacity to approximately 380,000 tonnes.

In addition, the Group plans to rebuild two production lines, namely, Production lines nos. 1 and 2 in the second half of 2010 in order to further increase the designed annual production capacity of these production lines and to enhance the Group's cost competitiveness.

Comprehensive distribution channels

During the period under review, the Group continued to develop business strategically in 6 designated sales regions in the PRC, namely, Shandong, Sichuan, Guangdong, Beijing, Jiangsu and Zhejiang. The Group has maintained a comprehensive distribution channel with over 130 customers covering 13 provinces, autonomous regions and municipalities in the PRC. The Group will endeavor to maintain and strengthen the long term relationships with existing customers with a view to developing a solid foundation for our future business expansion.

Research and development of products

The Group has been putting efforts in research and development of products and technology. During the period under review, the Group has marketed more than 80 types of decorative base paper products which can be used in a wide spectrum of areas, ranging from furniture and flooring of home and office to interior decoration of large scale infrastructure facilities and vehicles, such as sports stadiums, community halls and air-crafts. The Group will continue to optimize product mix by enlarging the proportion of premium decorative base paper products so as to further capture market share and to enhance profitability.

Environmental protection

Environmental protection and corporate social responsibilities have always been highlighted in the Group's agenda. Decorative base paper products, as the Group's core product, are indeed a cost-effective alternative for wood products. Furthermore, the premium wood pulp used in the production of decorative base paper products conforms to the national policies for environmental protection of the PRC with almost no pollution caused. Besides, the promotion of the development and use of new energy automobiles by the PRC Government could poise the growing demand in our environmentally friendly decorative base paper products as interior decoration materials.

Currently, the Group has two waste water treatment systems. An earlier established system (the "Old System") has an annual processing capacity of approximately 1,700,000 cubic meters whilst the other established in December 2009 has an annual processing capacity of approximately 3,650,000 cubic meters. A monitoring device is installed in those systems by the relevant authority in the PRC to ensure their waste water emission level is up to national standard. In order to further enhance the standard of our waste water treatment to accommodate the Group's long-term growth and future expansion of production capacity, the Group has planned to commence renovation and improvement works on the Old System in the second half of 2010.

FINANCIAL REVIEW

Turnover

Turnover increased by approximately 24.4% from RMB702.2 million for the six months ended 30 June 2009 to RMB873.6 million for the six months ended 30 June 2010.

The increase in turnover for the six months ended 30 June 2010 was mainly attributable to the combined effects of (i) the increase in overall sales volumes by approximately 12.9% from 68,078 tonnes to 76,858 tonnes, out of which sales volumes of the decorative base paper products increased by approximately 22.7% from 49,175 tonnes in 2009 to 60,329 tonnes in 2010; and (ii) the increase in the average selling prices of the decorative base paper products by approximately 5.7% from RMB12,072 per tonne in 2009 to RMB12,755 per tonne in 2010, as well as the printing paper product by approximately 9.6% from RMB5,744 per tonne in 2009 to RMB6,297 per tonne in 2010.

Cost of sales

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

Overall cost of sales increased by approximately 28.5% from RMB505.4 million for the six months ended 30 June 2009 to RMB649.6 million for the six months ended 30 June 2010. The increase in cost of sales was primarily due to the combined effects of (i) the increase in usage of raw materials, which are the major component of our cost of sales, as a result of the increased sales volume, (ii) the increase in average purchasing costs of wood pulp and titanium dioxide powder, our principal raw materials for production during the six months ended 30 June 2010 (as discussed below), (iii) the increase in production overheads, such as electricity and steam expenses, in line with the increase in production volume; and (iv) the increase in depreciation expenses due to the commercial production of Production lines nos. 8 to 11 since 2009.

Principal raw materials

Our results of operations are subject to the 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 each of the six months ended 30 June 2009 and 2010, the purchase of wood pulp amounted to approximately RMB192.4 million and RMB251.5 million, respectively, representing approximately 38.1% and 38.7% of the total cost of sales for the respective periods. The increase is due to the combined effect of (i) the increase in usage of wood pulp, in line with the increased sales volume; and (ii) the increase in the average purchase price (value added tax inclusive) of wood pulp by approximately 15.9% from approximately RMB5,104 per tonne in 2009 to RMB5,917 per tonne in 2010. For each of the six months ended 30 June 2009 and 2010, the purchase of titanium dioxide powder amounted to approximately RMB133.9 million and RMB183.2 million, respectively, representing approximately 26.5% and 28.2% of the total cost of sales for the respective periods. The increase was mainly due to the combined effect of (i) the increase in usage of titanium dioxide as a result of the increased sales volume in decorative base paper products; and (ii) the increase in the average purchase price (value added tax inclusive) of titanium dioxide by approximately 5.7% from approximately RMB12,524 per tonne in 2009 to RMB13,242 per tonne in 2010.

Utilities and steam expenses

Our electricity and steam expenses increased by approximately 17.6% from RMB64.9 million in the six months ended 30 June 2009 to RMB76.3 million in the six months ended 30 June 2010, which was mainly due to the increase in production volume as a result of the commercial operation of Production lines nos. 8 to 9 and Production lines nos. 10 to 11 since March 2009 and December 2009, respectively. The electricity and steam expenses accounted for approximately 12.8% and 11.7% of the total cost of sales for the respective periods.

Depreciation charges

Our depreciation charges included in cost of sales increased by approximately 55.8% from RMB41.9 million in the six months ended 30 June 2009 to RMB65.3 million in the six months ended 30 June 2010, which was mainly due to the commercial operation of Production lines nos. 8 to 11 in 2009.

Gross profit and gross profit margin

The gross profit of our Group increased by approximately 13.8% from RMB196.8 million for the six months ended 30 June 2009 to RMB224.0 million for the six months ended 30 June 2010.

The following table sets forth the gross profit margin of each category of the products for the six months ended 30 June 2009 and 2010:

	Six months ended 30 June	
	2010	2009
Products		
Decorative base paper products	**26.9%**	30.0%
Printing paper product	**16.6%**	17.0%
Overall	**25.6%**	28.0%

The decrease in overall gross profit margin of our decorative base paper products in 2010 was mainly attributable to (i) the change in sales mix during the six months ended 30 June 2010 where the sales of coloured decorative base paper products, which generally has higher gross profit margins, decreased; and (ii) the economies of scale has not been achieved for Production lines nos. 10 to 11, which commenced commercial operation in December 2009.

As a result, our overall gross profit margin decreased from approximately 28.0% for the six months ended 30 June 2009 to approximately 25.6% for the six months ended 30 June 2010.

Other revenue and other net loss

Other revenue, which represented mainly interest income earned from the bank deposits and dividend income from listed securities, decreased by approximately 53.8% from RMB2.6 million for the six months ended 30 June 2009 to RMB1.2 million for the six months ended 30 June 2010. The decrease was mainly due to the consequence of less cash held on hand upon the payment of construction costs for production lines and the persistently low interest rate environment in the wake of the financial tsunami.

In compliance with the financial management and treasury policies, certain investments were made using uncommitted funds. During the six months ended 30 June 2009, we recorded a net realised and unrealised loss on financial assets at fair value through profit or loss of RMB0.8 million. We did not incur such loss during the six months ended 30 June 2010.

Selling expenses

In accordance with our Group policy, we allocate approximately 1.0% of the revenue from sales as the annual budget for the marketing activities. As at latest practical date, we have 46 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 2010, the selling expenses increased by approximately 17.9% to RMB9.9 million from RMB8.4 million for the six months ended 30 June 2009. As a percentage of turnover, our selling expenses were maintained at approximately 1.1% for the six months ended 30 June 2010, which was in line with our Group policy.

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 costs, and pension contributions.

Our administrative expenses increased by approximately 14.9% from RMB14.8 million for the six months ended 30 June 2009 to RMB17.0 million for the six months ended 30 June 2010. The increase was mainly due to the continuing expansion of our business where additional supportive staff were employed such that the administrative staff costs, employee benefits and pension expenses were increased. Nevertheless, our administrative expenses, as a percentage of turnover, were maintained at approximately 2.0% for each of the six months ended 30 June 2009 and 2010.

Finance costs

Finance costs consist primarily of interest expenses on the bank borrowings. We incurred a finance cost of RMB4.2 million during the six months ended 30 June 2009, but we did not have any finance cost for the six months ended 30 June 2010 as all of the bank borrowings were repaid in last year.

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 PRC income tax for the two years 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 grandfathering treatments of the Corporate Income Tax Law of the PRC passed on 16 March 2007. As such, Shandong QX is subject to an income tax rate of 12.5% for the six months ended 30 June 2009 and 2010.

No provision has been made for Hong Kong Profits Tax as the Group did not earn assessable profits subject to Hong Kong Profits Tax for the six months ended 30 June 2009 and 2010.

Liquidity and financial resources

Current and quick ratio

The current ratio of the Group decreased from 10.1 as at 31 December 2009 to 4.7 as at 30 June 2010 and the quick ratio of the Group decreased from 9.7 as at 31 December 2009 to 4.4 as at 30 June 2010, respectively, which was mainly due to the combined effect of (i) the full utilisation of value-added tax recoverable of RMB40.2 million to offset value-added tax payables on sales during the six months ended 30 June 2010; and (ii) the increase in raw material purchases for production under the production capacity expansion.

Financial resources

The financial resources of the Group continued to be strong. As at 30 June 2010, shareholders' fund of the Group totalled RMB2,623.9 million, representing an increase of approximately 7.0% from RMB2,452.3 million at 31 December 2009. The Group had cash and cash equivalents of approximately RMB684.8 million as at 30 June 2010 (31 December 2009: RMB682.8 million).

The Group continues to enjoy a stable and strong net cash inflow from operations. During the six months ended 30 June 2009 and 2010, the net cash generated from operations was RMB199.8 million and RMB260.4 million, respectively, representing an increase of 30.3% on a period-to-period comparison.

Financial management and treasury policies

The Group adopts a conservative approach for cash management and investment of uncommitted funds with an objective of enhancing the practicable returns for shareholders and maintaining adequate liquidity and preservation of capital. The Group's financing and treasury activities are centrally managed and controlled at the corporate level and aim 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 2010, the Group did not have any 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's principal operating subsidiary 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 results of the Group.

Capital expenditure

During the six months ended 30 June 2010, the Group recorded aggregate additions to property, plant and equipment and construction in progress of approximately RMB258.5 million (six months ended 30 June 2009: RMB202.6 million).

Capital commitments and contingencies

The Group will further invest to expand the production capacity and reengineering and modify the existing production facilities to enhance production efficiency. Part of 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".

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 2010.

Use of proceeds from the 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 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 2010, part of the net proceeds had been applied as follows:

	Planned amount *RMB'000*	**Amount utilized up to 30 June 2010** *RMB'000*	**Balance as at 30 June 2010** *RMB'000*
Settlement of the remaining balance of the construction costs of Production line no. 7	163,300	163,300	—
Construction of Production lines nos. 8 to 11	720,000	720,000	—
Construction of new Production lines nos. 12 to 13 *(Note 2)*	360,000	360,000	—
Re-engineering and modification of the existing Production lines nos. 1 and 2	40,000	—	40,000
	1,283,300	1,243,300	40,000

Notes:

1. Pursuant to an international placing underwriting agreement dated 20 September 2007, the Company granted an option (the "Over-allotment Option") to ICEA Securities Limited ("ICEA"), the lead manager of the Company's share offer, whereby the Company was required to allot and issue up to an aggregate 45,000,000 additional shares to cover over allocations in the international placing. The exercise price per share for the Over-allotment Option was HK$5.35. On the Listing Date, the Over-allotment Option was fully exercised by ICEA and, as a result, the Company issued 45,000,000 additional shares on the same date.

2. As disclosed in the Prospectus, in the event that the Over-allotment Option is exercised, our Group planned to apply part of the additional net proceeds of RMB360.0 million for doubling the production capacity of the planned new Production lines nos. 10 to 11 from 60,000 tonnes to 120,000 tonnes. The Over-allotment Option was exercised on the Listing Date and our Group decided to further increase our production capacity by 60,000 tonnes by way of constructing two more Production lines nos. 12 to 13.

HUMAN RESOURCES

As at 30 June 2010, our Group employed approximately 1,400 employees in the PRC and Hong Kong. Key components of the Group's remuneration packages include basic salary, medical insurance, discretionary cash bonus and retirement benefit scheme. Promotion and salary increments are assessed based on a performance related basis.

The Group has neither 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 its employees.

OUTLOOK

In view of the global economic recovery and China's huge resurgence in growth, management of the QX Group will continue to develop its business in a prudent manner and closely monitor market changes in the second half of 2010. With the PRC government's strong emphasis on environmental protection and its continuous support for related industries, the management believes the laminated board market in the PRC will continue to grow considerably. The Group will strive to steer steady development of our production and operations and to capture a higher market share.

Looking ahead to the second half of 2010, the management is confident that with the uniqueness of our decorative base paper products, strong research and development capability and healthy financial position, the Group will be able to further strengthen its leading position in China, improve our profitability and capitalize on the growing demand for laminated board in China. In addition, the Group will endeavor to seize expansion opportunities by leveraging our favorable conditions, with an aim to generating maximum returns for shareholders in the long run.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 June 2010, 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 2010, 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 2010 were consistent with those disclosed in the Company's 2009 Annual Report.

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

As at 30 June 2010, 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 2010.

Audit Committee

The Audit Committee of the Board currently comprises all three independent non-executive Directors. The Audit Committee has reviewed with our management, the consolidated interim financial statements of the Group for the six months ended 30 June 2010 and the accounting principles and practices adopted by the Group during the period.

PUBLICATION OF 2010 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 2010 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

Hong Kong, 25 August 2010

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.