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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)

ISSUE OF UNLISTED WARRANTS

The Company entered into the Subscription Agreement with the Subscriber on 14 January 2011 pursuant to which the Subscriber has agreed to subscribe for Warrants of up to HK\$609,352,000.00 at the Warrant Subscription Price of HK\$0.05 per Warrant, the aggregate of which amounting to HK\$10,328,000.00.

The Warrants entitle the Subscriber to subscribe for a total of 206,560,000 Warrant Shares at the Warrant Exercise Price of HK\$2.95 per Warrant Share for a period of 12 months commencing from the Completion Date. Each Warrant carries the right to subscribe for one Warrant Share. The Warrant Shares will be issued under the General Mandate granted to the Directors at the annual general meeting of the Company held on 5 May 2010.

It is expected the net proceeds of approximately HK\$10,178,000.00 will be raised by the Subscription and the same will be utilised by the Group as its general working capital.

Assuming the full exercise of the subscription rights attaching to the Warrants by the Subscriber, an additional amount of HK\$609,352,000.00 will be raised. The estimated net proceeds of approximately HK\$609,252,000.00 will be utilised by the Group for its general working capital and as funds for future business development of the Group, particularly in the PRC's decorative base paper industry and related sector. As at the date of this announcement, the Company did not have any specific development and investment plans.

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Warrant Shares which may fall to be allotted and issued upon exercise of the subscription rights attaching to the Warrants. No listing of the Warrants will be sought on the Stock Exchange or any other stock exchanges.

THE SUBSCRIPTION AGREEMENT

Date: 14 January 2011

Parties: (i) Issuer: the Company

(ii) Subscriber: Victory Asset Management HK Limited

The Subscriber

Victory Asset Management HK Limited, a company incorporated in the British Virgin Islands, is an investment holding company. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Subscriber and its ultimate beneficial owner are Independent Third Parties.

Information on the Warrants

Warrants of up to HK\$609,352,000.00 at the Warrant Subscription Price of HK\$0.05 per Warrant are to be issued pursuant to the Subscription Agreement. Upon full exercise of the subscription rights attaching to the Warrants, a total of 206,560,000 Warrant Shares at the Warrant Exercise Price of HK\$2.95 per Warrant Share will be issued. The aggregate Warrant Shares represent approximately 13.02% of the issued share capital of the company as at the date of this announcement and approximately 11.52% of the issued share capital of the Company as enlarged by the issue and allotment of all the Warrant Shares.

The Warrants will be issued to the Subscriber upon Completion in registered form and constituted by the Subscription Agreement. The Warrants will rank pari passu in all respects among themselves.

Each Warrant carries the rights to subscribe for one Warrant Share at the Warrant Exercise Price (subject to adjustment) and to be issued at the Warrant Subscription Price.

The subscription rights attaching to the Warrants can be exercised at any time during a period of 12 months commencing from the Completion Date.

The Warrant Shares, when fully paid, and allotted, will rank pari passu among themselves and with the then Shares in issue on the date of their allotment and issue.

Warrant Exercise Price and Warrant Subscription Price

The Warrant Subscription Price is HK\$0.05 per Warrant. The net Warrant Subscription Price is estimated to be approximately HK\$0.049 per Warrant. The Warrant Exercise Price is HK\$2.95 per Warrant Share, subject to adjustment based on the prescribed formulas as set out in the Subscription Agreement upon the happening of the following normal adjustment events:

- (i) an alteration of the nominal amount of each Share by reason of any consolidation or subdivision; and
- (ii) an issue (other than pursuant to a scrip dividend scheme in lieu of a cash dividend) by the Company of Shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve fund).

The Warrant Exercise Price of HK\$2.95 per Warrant Share represents:

- (i) a premium of approximately 3.87% to the closing price of HK\$2.84 per Share as quoted on the Stock Exchange on 14 January 2011, being the last trading day immediately prior to the entering into of the Subscription Agreement;
- (ii) a premium of approximately 6.12% to the average closing price of approximately HK\$2.78 per Share for the last five trading days up to and including 14 January 2011; and
- (iii) a premium of approximately 8.86% over the audited net asset value per Share attributable to the Shareholders of approximately RMB2.32 (equivalent to approximately HK\$2.71) as at 31 December 2009.

The aggregate of the Warrant Subscription Price per Warrant and the Warrant Exercise Price per Warrant Share of HK\$3.00 represents:

- (i) a premium of approximately 5.63% to the closing price of HK\$2.84 per Share as quoted on the Stock Exchange on 14 January 2011, being the last trading day immediately prior to the entering into of the Subscription Agreement;
- (ii) a premium of approximately 7.91% to the average closing price of approximately HK\$2.78 per Share as quoted on the Stock Exchange for the last five trading days up to and including 14 January 2011; and
- (iii) a premium of approximately 10.70% over the audited net asset value per Share attributable to the Shareholders of approximately RMB2.32 (equivalent to approximately HK\$2.71) as at 31 December 2009.

The Board considers that (i) the Warrant Exercise Price per Warrant Share and the aggregate of it with the Warrant Subscription Price per Warrant are at premiums over the audited net asset value per Share attributable to the Shareholders as at 31 December 2009; and (ii) an exercise period of 12 months for subscription of the Warrant Shares, which are determined after arm's length negotiations between the Company and the Subscriber, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Minimum subscription

Subscription for the Warrants must be for a minimum of HK\$1,000,000.00 or an integral multiples thereof.

Transferability

Subject to compliance of all applicable laws and regulations, the Warrants are transferable to any person (save as the connected person of the Company where prior approval from the Company and approval from the Stock Exchange are required) in integral multiples of \$1,000,000.00 (or if at the time of transfer, the outstanding number of Warrants are less than \$1,000,000.00, the whole but not part of the outstanding Warrants). The Company will comply with the applicable Listing Rules and to make necessary announcement(s), where appropriate, if and when the Subscriber makes any transfer of the Warrants to other parties requiring disclosure.

Condition of the Subscription

Completion shall be subject to and conditional upon the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, either unconditionally or subject to conditions, the Warrant Shares which may fall to be allotted and issued upon the exercise of the subscription rights attaching to the Warrants by the Subscriber.

If the above condition is not fulfilled on or before 5:00 p.m. on 18 February 2011 (or such other date as may be mutually agreed between the Company and the Subscriber), the Subscription Agreement will lapse and become null and void and the parties to the Subscription Agreement shall be released from all obligations thereunder, save the liabilities for any antecedent breaches thereof.

Completion

Completion will take place on the second Business Day after the fulfillment of the condition referred to in the section headed "Condition of the Subscription" in this announcement.

Rights for the holder(s) of the Warrants

The holder(s) of the Warrants will not have any right to attend or vote at any meeting of the Company by virtue of his/her/them being the holders of the Warrants. The holder(s) of the Warrants shall not have the right to participate in any distributions and/or offers of further securities made by the Company.

General Mandate to issue the Warrant Shares

The General Mandate was granted to the Directors pursuant to an ordinary resolution of the Company passed at its annual general meeting held on 5 May 2010 to allot and issue up to 20% of the aggregate nominal amount of the share capital of the Company in issue on that date.

The Warrant Shares to be allotted and issued upon the exercise in full of the subscription rights attaching to the Warrants by the Subscriber will be allotted and issued under the General Mandate. The aggregate of 206,560,000 Warrant Shares to be allotted and issued upon full exercise of the subscription rights attaching to the Warrants will utilise the General Mandate in full. The General Mandate has not been previously utilised prior to the Subscription.

No Shareholders' approval is required under the constitutional documents of the Company to issue the Warrants.

Application for listing

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Warrant Shares which may fall to be allotted and issued upon exercise of the subscription rights attaching to the Warrants. No listing of the Warrants will be sought on the Stock Exchange or any other stock exchanges.

REASONS FOR ENTERING INTO THE SUBSCRIPTION AGREEMENT AND THE USE OF PROCEEDS

The Company is principally engaged in manufacturing and trading of decorative base paper products and printing paper product.

The Directors consider that the Subscription would be a good opportunity to raise further capital for the Company in that it will not have an immediate dilution effect on the shareholding of the existing Shareholders and the estimated net proceeds of approximately HK\$609,252,000.00 will be raised immediately upon completion of the Subscription.

In view of the above, the Directors consider that the issue of the unlisted Warrants is an appropriate method of raising further funds for the Company in the circumstances and that the terms of the Subscription Agreement have been arrived at after arm's length negotiations between the Company and the Subscriber, and the terms of which are fair and reasonable, and are in the interest of the Company and the Shareholders as a whole.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the date of this announcement, the Warrant Shares will not exceed 20% of the issued share capital of the Company.

It is expected the net proceeds of approximately HK\$10,178,000.00 will be raised by the Subscription and the same will be utilised by the Group as its general working capital.

Assuming the full exercise of the subscription rights attaching to the Warrants by the Subscriber, an additional amount of HK\$609,352,000.00 will be raised. The estimated net proceeds of approximately HK\$609,252,000.00 will be utilised by the Group for its general working capital and as funds for future business development of the Group, particularly in the PRC's decorative base paper industry and related sector. As at the date of this announcement, the Company did not have any specific development and investment plans.

FUND-RAISING EXERCISE DURING THE PAST TWELVE MONTHS

Date of announcement	Date of closing	Event	Net proceeds raised (approximate)	Intended use of proceeds	Actual use of proceeds
5 November 2010	10 January 2011	Open offer of new Shares	HK\$344.82 million	For the general working capital of the Group	The net proceeds are kept with a bank as deposit

The Company confirms that all funds raised from the fund-raising activity mentioned above will be applied as intended.

Save as disclosed above, there has been no other fund-raising activities conducted by the Company during the past twelve months immediately prior to the date of this announcement.

CHANGES OF SHAREHOLDING STRUCTURE

As at the date of this announcement, the Company has 1,586,391,450 Shares in issue. The shareholding structure of the Company before and after the full exercise of the subscription rights attaching to the Warrants (assuming full subscription of the Warrants) are as follows:

	As at the date of this announcement		Immediately after the exercise of the subscription rights attaching to the Warrants (assuming full subscription of the Warrants)	
	Number of Shares held	Approximate shareholding percentage %	Number of Shares held	Approximate shareholding percentage %
Boom Instant (<i>Note</i>) Public Shareholders	1,075,207,218	67.78	1,075,207,218	59.97
— Subscriber	0	0.00	206,560,000	11.52
— Other public Shareholders	511,184,232	32.22	511,184,232	28.51
Total	<u>1,586,391,450</u>	<u>100.00</u>	<u>1,792,951,450</u>	<u>100.00</u>

Note:

All these shares were beneficially owned by Boom Instant. By virtue of its 80% shareholding interest in Boom Instant, Addinsight Limited was deemed to be interested in all the shares held by Boom Instant under the SFO. Dr. Zhu Yu Guo, Mr. Zhu Mo Qun and Ms. Sun Rui Fang, the Directors, are the directors of both Boom Instant and Addinsight Limited.

IMPLICATIONS UNDER THE LISTING RULES

Pursuant to Rule 15.02(1) of the Listing Rules, the Warrant Shares to be issued on exercise of the Warrants must not, when aggregated with all other equity securities remain to be issued on exercise of any other subscription rights, if all such rights were immediately exercised, whether or not such exercise is permissible, exceed 20% of the issued share capital of the Company at the time the Warrants are issued. As at the date of this announcement, there are no securities with subscription rights outstanding and not yet exercised. Assuming full exercise of the subscription rights attaching to the Warrants, 206,560,000 Warrant Shares represent (i) approximately 13.02% of the existing issued share capital of the Company as at the date of this announcement; and (ii) approximately 11.52% of the issued share capital of the Company as enlarged by the allotment and issue of all of the Warrant Shares, assuming no Shares are further issued or repurchased. Accordingly, the issue of the Warrants is in compliance with Rule 15.02(1) of the Listing Rules.

DEFINITIONS

Terms or expressions used in this announcement shall, unless the context otherwise requires, have the meanings ascribed to them below:

“Board”	the board of Directors
“Boom Instant”	Boom Instant Limited, a company incorporated in the British Virgin Islands with limited liability, and the controlling shareholder of the Company
“Business Day”	any day (not being a Saturday, Sunday and public holiday) on which licensed banks in Hong Kong are generally open for business
“Company”	Qunxing Paper Holdings Company Limited, a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange
“Completion”	completion of the Subscription in accordance with the terms and conditions of the Subscription Agreement
“Completion Date”	the completion date of the Subscription
“Director(s)”	the director(s) of the Company
“General Mandate”	the general mandate granted to the Directors to exercise the power of the Company to issue securities up to 20% of the Company’s issued share capital at the date of passing of the ordinary resolution in relation thereof at the annual general meeting of the Company held on 5 May 2010
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party”	the counterparty and its ultimate beneficial owner being third parties independent of the Company and connected persons (as defined under the Listing Rules) of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“SFC”	The Securities and Futures Commission of Hong Kong
“Shareholders”	holders of the Shares

“Shares”	ordinary shares of HK\$0.10 each in the issued share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Victory Asset Management HK Limited, a company incorporated in the British Virgin Islands with limited liability
“Subscription”	the subscription of the Warrants by the Subscriber pursuant to the Subscription Agreement
“Subscription Agreement”	a conditional subscription agreement dated 14 January 2011 entered into between the Company and the Subscriber in relation to the Subscription
“Warrant Shares”	up to 206,560,000 new Shares (with aggregate nominal value of HK\$20,656,000) (subject to adjustment) to be allotted and issued upon exercise of the subscription rights attaching to the Warrants by the Subscriber
“Warrant Exercise Price”	an exercise price of HK\$2.95 per Warrant Share (subject to adjustment as provided in the Subscription Agreement) at which the Subscriber may subscribe for the Warrant Shares
“Warrant Subscription Price”	HK\$0.05, being the non-refundable subscription price per Warrant, the aggregate of which amounting to HK\$10,328,000.00, is payable by the Subscriber on the Completion Date under the Subscription Agreement
“Warrants”	a total of 206,560,000 non-listed warrants of up to HK\$609,352,000 to be issued by the Company at the Warrant Subscription Price, each entitles the holder thereof to subscribe for one Warrant Share at the Warrant Exercise Price (subject to adjustment) at any time during a period of 12 months commencing from the Completion Date
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent

By Order of the Board
Sophie W.Y. LAM
Company Secretary

Hong Kong, 14 January 2011

For illustration purposes, translation of RMB into HK\$ in this announcement is at the rate of RMB1.00 to HK\$1.17.

As at the date of this announcement, the executive Directors are Dr. ZHU Yu Guo (Chairman), Mr. ZHU Mo Qun (Vice-Chairman), Mr. SUN Zhen Shui, the non-executive Director is Ms. SUN Rui Fang and the independent non-executive Directors are Messrs. ZHAO Wei, WANG Lu and KWONG Kwan Tong.