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 AUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2012

INTERIM RESULTS

The board of directors (the "Board") of Qunxing Paper Holdings Company Limited (the "Company" or "QX Paper") announces the audited condensed interim results of the Company and its subsidiaries (the "Group" or "QX Group") for the six months ended 30 June 2012 together with the comparative figures for the six months ended 30 June 2011 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
		2012	2011
	Note	***RMB'000***	*RMB'000*
		(Audited)	(Audited)
Turnover	*4*	**974,635**	1,038,341
Cost of sales		**(857,525)**	(817,475)
Gross profit		**117,110**	220,866
Other revenue	*5*	**1,332**	1,628
Other net gain/(loss)	*5*	**(12,549)**	(53)
Selling expenses		**(13,357)**	(11,240)
Administrative expenses		**(32,644)**	(28,199)
Profit before taxation	*6*	**59,892**	183,002
Income tax	*7*	**(19,063)**	(24,198)
Profit for the period		**40,829**	158,804
Attributable to:			
Equity shareholders of the Company		**40,829**	158,804
Earnings per share (RMB cents)	*9*		
Basic and diluted		**3**	11

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	For the six months ended 30 June **2012** ***RMB'000*** **(Audited)**	2011 *RMB'000* (Audited)
Profit for the period		**40,829**	158,804
Other comprehensive income for the period			
Exchange differences on translation of financial statements of operations outside the People's Republic of China (the "PRC")		**1,835**	(3,383)
Total comprehensive income for the period		**42,664**	155,421
Attributable to:			
Equity shareholders of the Company		**42,664**	155,421

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**As at 30 June 2012 *RMB'000* (Audited)**	As at 31 December 2011 *RMB'000* (Audited)
Non-current assets			
Property, plant and equipment	*10*	**2,410,755**	2,193,346
Construction in progress	*10*	**111,832**	451,492
Lease prepayments		**13,957**	14,127
Prepayment for the acquisition of plant and equipment	*10*	**67,200**	—
Prepayment for flood prevention expenses		**39,950**	40,375
		2,643,694	2,699,340
Current assets			
Inventories	*11*	**62,155**	53,440
Trade and other receivables	*12*	**135,120**	74,290
Cash and cash equivalents		**574,010**	488,934
		771,285	616,664
Current liabilities			
Trade and other payables	*13*	**142,388**	100,532
Dividend payable		**44,394**	—
Current taxation		**27,531**	13,076
		214,313	113,608
Net current assets		**556,972**	503,056
NET ASSETS		**3,200,666**	3,202,396
Capital and reserves			
Share capital	*14*	**147,562**	147,562
Reserves		**3,053,104**	3,054,834
TOTAL EQUITY		**3,200,666**	3,202,396

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Attributable to equity shareholders of the Company							
	Note	Share capital *RMB'000*	Share premium *RMB'000*	Warrant reserve *RMB'000*	Other reserve *RMB'000*	Statutory surplus reserves *RMB'000*	Exchange reserve *RMB'000*	Retained profits *RMB'000*	Total equity *RMB'000*
Balance at 1 January 2011 (Audited)		102,427	1,365,811	—	(10,323)	158,513	(54,004)	1,285,020	2,847,444
Profit for the period		—	—	—	—	—	—	158,804	158,804
Other comprehensive income for the period		—	—	—	—	—	(3,383)	—	(3,383)
Total comprehensive income for the period		—	—	—	—	—	(3,383)	158,804	155,421
Dividends declared and approved in respect of the previous year	8(b)	—	(160,694)	—	—	—	—	—	(160,694)
Shares issued under Open Offer	14(a)	45,135	248,997	—	—	—	—	—	294,132
Issue of warrants	Note	—	—	8,589	—	—	—	—	8,589
Balance at 30 June 2011 (Audited)		147,562	1,454,114	8,589	(10,323)	158,513	(57,387)	1,443,824	3,144,892
Balance at 1 January 2012 (Audited)		**147,562**	**1,454,114**	**8,589**	**(10,323)**	**182,092**	**(63,047)**	**1,483,409**	**3,202,396**
Profit for the period		**—**	**—**	**—**	**—**	**—**	**—**	**40,829**	**40,829**
Other comprehensive income for the period		**—**	**—**	**—**	**—**	**—**	**1,835**	**—**	**1,835**
Total comprehensive income for the period		**—**	**—**	**—**	**—**	**—**	**1,835**	**40,829**	**42,664**
Dividends declared and approved in respect of the previous year	8(b)	**—**	**(44,394)**	**—**	**—**	**—**	**—**	**—**	**(44,394)**
Release of warrant reserve upon expiry of warrants	Note	**—**	**—**	**(8,589)**	**—**	**—**	**—**	**8,589**	**—**
Balance at 30 June 2012 (Audited)		**147,562**	**1,409,720**	**—**	**(10,323)**	**182,092**	**(61,212)**	**1,532,827**	**3,200,666**

Note: On 14 January 2011, the Group entered into a subscription agreement with an independent third party to subscribe for warrants of up to HK$609,352,000 at a warrant subscription price of HK$0.05 per warrant, the aggregate of which amounting to HK$10,328,000 (equivalent to approximately RMB8,762,000).

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 (subject to adjustment as provided in the subscription agreement) at any time during a period of 12 months commencing from the completion date of the subscription of the warrants.

During the six months ended 30 June 2012, none of the warrants had been exercised. All existing warrants of the Group in accordance with the terms and conditions of the agreement dated 14 January 2011 constituting the warrants expired as at 14 January 2012.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six moths ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(Audited)	(Audited)
Net cash generated from operating activities	**209,655**	313,583
Net cash used in investing activities	**(125,846)**	(3,722)
Net cash generated from financing activities	**—**	142,027
Net increase in cash and cash equivalents	**83,809**	451,888
Cash and cash equivalents at beginning of the period	**488,934**	447,763
Effect of foreign exchange rate changes	**1,267**	(3,475)
Cash and cash equivalents at end of the period	**574,010**	896,176

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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 interim financial statements for the six months ended 30 June 2011 and 2012 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 interim 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 2011 (the "2011 Annual Report").

The consolidated financial statements of the Group for the year ended 31 December 2010 were audited by another auditor, whose report dated 30 March 2011 contained a disclaimer of opinion arising from inability to obtain sufficient appropriate audit evidence in relation to certain audit issues (the "Audit Issues"). Since 2011, the Company has appointed an independent professional advisor to undertake an independent review and investigation in respect of the Audit Issues. As at the date of approval of these condensed consolidated interim financial statements, the Group's business has been operating as usual and the Company is not aware of any possible impact on the Group's operations and financial position arising from the investigation which is still on-going.

Further announcement will be made by the Company as and when appropriate informing our shareholders on the progress of the investigation.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the condensed consolidated interim financial statements for the six months ended 30 June 2012 are consistent with those in the preparation of the Group's 2011 Annual Report.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

The following new and revised standards, interpretations and amendments ("new IFRSs") issued by IASB have been applied by the Group in the current period which are or have become effective. The impact of the application of the new IFRSs is discussed below.

IFRS 1 (Amendments)	*First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
IFRS 7 (Amendments)	*Financial Instruments: Disclosure – Transfer of Financial Assets*
IAS 12 (Amendments)	*Income Taxes – Deferred Tax: Recovery of Underlying Assets*

The application of the above new IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated interim financial statements and/or disclosures set out in these condensed consolidated interim financial statements.

IFRSs issued but not effective

The Group has not early adopted the new or revised IFRSs that have been issued but not yet effective.

IFRSs (Amendments)	*Annual Improvements to IFRSs 2009–2011 Cycle*[2]
IFRS 7 (Amendments)	*Disclosures: Offsetting Financial Assets and Financial Liabilities*[2]
IFRS 7 and IFRS 9 (Amendments)	*Mandatory Effective Date of IFRS 9 and Transition Disclosures*[4]
IFRS 10, IFRS 11 and IFRS 12 (Amendments)	*Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transitional Guidance*[2]
IFRS 9	*Financial Instruments*[3]
IFRS 10	*Consolidated Financial Statements*[2]
IFRS 11	*Joint Arrangements*[2]
IFRS 12	*Disclosure of Interests in Other Entities*[2]
IFRS 13	*Fair Value Measurement*[2]
IAS 1 (Amendments)	*Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[1]
IAS 19 (2011)	*Employee Benefits*[2]
IAS 27 (2011)	*Separate Financial Statements*[2]
IAS 28 (2011)	*Investments in Associates and Joint Ventures*[2]
IAS 32 (Amendments)	*Offsetting Financial Assets and Financial Liabilities*[4]
IFRIC – Int 20	*Stripping Costs in Production Phase of a Surface Mine*[2]

[1] Effective for annual periods beginning on or after 1 July 2012
[2] Effective for annual periods beginning on or after 1 January 2013
[3] Effective for annual periods beginning on or after 1 January 2014
[4] Effective for annual periods beginning on or after 1 January 2015

4. 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	
	2012	2011
	RMB'000	*RMB'000*
	(Audited)	(Audited)
Decorative base paper products	**886,730**	960,743
Printing paper product	**87,905**	77,598
	974,635	1,038,341

5. OTHER REVENUE AND OTHER NET GAIN/(LOSS)

	For the six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(Audited)	(Audited)
Other revenue		
Bank interest income	**1,312**	1,612
Other	**20**	16
	1,332	1,628
Other net gain/(loss)		
Loss on disposal of property, plant and equipment	**(12,608)**	—
Net foreign exchange gain/(loss)	**59**	(53)
	(12,549)	(53)

6. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	For the six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(Audited)	(Audited)
(a) Staff costs		
Contributions to defined contribution retirement plans	**3,607**	3,405
Salaries, wages and other benefits	**29,723**	21,499
	33,330	24,904

	For the six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(Audited)	(Audited)
(b) Other items		
Amortisation of lease prepayments	**170**	170
Amortisation of prepayment for flood prevention expenses	**425**	425
Auditors' remuneration		
— audit services		
— current interim period	**500**	780
— under provision in prior year's annual audit	**800**	—
Depreciation	**111,540**	96,496
Loss on disposal of property, plant and equipment	**12,608**	—
Operating lease charges in respect of		
— leasehold land and properties	**4,402**	3,144
— others	**85**	75
Sewage disposal expenses	**912**	219
Research and development cost	**59**	60

7. INCOME TAX IN THE CONDENSED CONSOLIDATED INCOME STATEMENT

	For the six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(Audited)	(Audited)
Current tax — PRC corporate income tax		
Provision for the period	**18,574**	23,667
Under-provision in respect of the prior period	**489**	531
	19,063	24,198

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

(b) No provision has been made for Hong Kong Profits Tax as the Group did not have assessable profits subjected to Hong Kong Profits Tax during the periods.

(c) 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 three years from 1 January 2009 to 31 December 2011. The applicable tax rate for Shandong QX for the six months ended 30 June 2011 and 2012 are 12.5% and 25% respectively.

In addition, the Group would be subject to withholding tax at the rate of 5% if profits generated by Shandong QX after 31 December 2007 were to be distributed. As Shandong QX is wholly owned by the Company, the Company can control the payments of dividends by Shandong QX and the Company's directors have confirmed that it is unlikely that Shandong QX will pay dividends in the foreseeable future.

8. DIVIDENDS

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

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2012 (2011: Nil).

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

	For the six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(Audited)	(Audited)
Final dividend in respect of the year ended 31 December 2011, approved during the interim period, of HK3.38 cents (equivalent to approximately RMB2.798 cents) per ordinary share (year ended 31 December 2010: HK8.633 cents, equivalent to approximately RMB7.517 cents, per ordinary share)	**44,394**	119,252
Special dividend in respect of the year ended 31 December 2010, approved during the interim period, of HK3 cents (equivalent to approximately RMB2.612 cents) per ordinary share	**—**	41,442
	44,394	160,694

9. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2012 is based on the profit attributable to ordinary equity shareholders of the Company of RMB40,829,000 (2011: RMB158,804,000) and the weighted average number of 1,586,391,450 ordinary shares (2011: 1,439,496,861) in issue during the period.

(b) Diluted earnings per share

The computation of diluted earnings per share for the six months ended 30 June 2011 does not assume the exercise of the Company's outstanding warrants as the exercise of warrants is anti-dilutive.

There was no dilutive events existed during the six months ended 30 June 2012.

10. CAPITAL EXPENDITURE

Capital expenditure comprises additions to property, plant and equipment, prepayment for the acquisition of plant and equipment and construction in progress. During the six months ended 30 June 2012, the Group incurred aggregate capital expenditure of RMB127,158,000 (2011: RMB5,334,000).

11. INVENTORIES

	At 30 June 2012 *RMB'000* **(Audited)**	At 31 December 2011 *RMB'000* (Audited)
Raw materials and consumables	**39,106**	36,006
Finished goods	**23,049**	17,434
	62,155	53,440

12. TRADE AND OTHER RECEIVABLES

	At 30 June 2012 *RMB'000* **(Audited)**	At 31 December 2011 *RMB'000* (Audited)
Trade receivables	**109,408**	72,258
Prepayments, deposits and other receivables	**25,712**	2,032
	135,120	74,290

At 30 June 2012, prepayments, deposits and other receivables mainly comprises of value-added tax recoverable of RMB22,907,000 and current portion relating to the prepayment for flood prevention expenses of RMB850,000 (31 December 2011: RMB850,000).

All of the trade and other receivables are expected to be recovered or recognised as an expense within one year.

(a) Ageing analysis

Included in trade and other receivables are trade receivables with the following ageing analysis as of the end of the reporting period:

	At 30 June 2012 *RMB'000* **(Audited)**	At 31 December 2011 *RMB'000* (Audited)
Current	**109,408**	72,258

13. TRADE AND OTHER PAYABLES

	At 30 June 2012 *RMB'000* **(Audited)**	At 31 December 2011 *RMB'000* (Audited)
Trade payables	**126,809**	79,119
Other payables and accruals	**15,579**	21,413
	142,388	100,532

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

	At 30 June 2012 *RMB'000* **(Audited)**	At 31 December 2011 *RMB'000* (Audited)
Due within 30 days	**126,809**	79,119

All of the trade and other payables are expected to be settled within one year.

14. SHARE CAPITAL

		2012		2011	
	Note	**Number of shares** ***'000***	***RMB'000***	Number of shares *'000*	*RMB'000*
At 1 January		**1,586,391**	**147,562**	1,057,594	102,427
Shares issued under Open Offer	(a)	**—**	**—**	528,797	45,135
At 30 June		**1,586,391**	**147,562**	1,586,391	147,562

(a) Share issued under Open Offer

On 10 January 2011, the Company issued 528,797,150 ordinary shares pursuant to the Open Offer on the basis of one offer share for every two shares held on the record date at a subscription price of HK$0.66 per offer share. The ordinary shares were issued for the purpose of increasing general working capital for the Group. The new shares rank pari passu with the existing shares in all respects.

EXTRACT FROM INTERIM REPORT

The interim report on the Group's financial information for the six months ended 30 June 2012 contained an emphasis of matter. The following is extracted from the interim report issued by HLB Hodgson Impey Cheng Limited.

Opinion

In our opinion, the interim financial information gives a true and fair view of the state of affairs of the Group as at 30 June 2012 and of its profit and cash flows for the six month period then ended in accordance with International Accounting Standard 34 "Interim Financial Reporting".

Emphasis of matter

We draw attention to note 1 to the interim financial information which describes the uncertainty related to the outcome of an ongoing independent review and investigation currently undertaken by an independent professional advisor appointed by the Company in respect of certain audit issues raised by the Company's previous auditor in its report dated 30 March 2011 on the consolidated financial statements of the Group for the year ended 31 December 2010. Our opinion is not qualified in respect of this matter.

INTERIM DIVIDEND

The directors (the "Directors") of the Company do not recommend the payment of any interim dividend for the six months ended 30 June 2012 (1H2011: Nil).

CHAIRMAN'S STATEMENT

On behalf of the Board of QX Paper, I would like to present to you the audited interim results of the Group for the six months ended 30 June 2012.

Business Review

In the first half of 2012, the deteriorating debt crisis in Europe has rattled the global economy and China was not immune from such economic woes which led to prolonged slowdown in economic growth in China. According to the National Bureau of Statistics of the PRC, China's gross domestic product (GDP) was RMB22.7 trillion in the first half of 2012, with slowing growth of 7.8%. In view of such economic landscape, the PRC government has even pared the nation's economic growth target to 7.5%.

In spite of the slowdown in economic growth, the PRC government has not relaxed its control measures for the housing market, resulting in a 10.0% decrease in gross floor area of commodity housing sold in the first half of 2012 to 399.64 million square metres, depressing demand for building materials. Moreover, high prices of raw materials have further hampered the operations of producers of decorative base paper, and our business in the first half has also been affected as a result.

For the six months ended 30 June 2012, our turnover slightly decreased to RMB974,635,000 as compared to approximately RMB1,038,341,000 for the same period in 2011. During the period, our cost of sales increased and gross profit margin dropped 9.3 percentage points to 12.0% due to a surge in raw material prices over the same period last year; in particular, the price of titanium dioxide powder, one of our principal raw materials, was up by 29%. Meanwhile, both increase in administrative expense which results from the Group's measures to investigate audit issues raised by its former auditors and increase in cost to sales revenue (as the benefit of economies of scale could not be fully reflected) led to a drop in profit for the first half of 2012 by 74.3% to RMB40,829,000. Basic earnings per share were RMB3 cents (1H2011: RMB11 cents). The Board does not recommend the payment of an interim dividend (1H2011: Nil).

Sales Performance

During the period under review, the sales of our products remained steady but overall sales volume decreased. Due to the uncertain macroeconomic environment, our customers maintained a cautious approach to placing orders, and the decorative base paper industry was facing increasingly intensive competition, which directly affected our sales. As such, our overall sales volume for the first half of the year dropped by 7.1%, with sales income of decorative base paper, one of our principal products down 7.7%. production lines nos. 1 and 2 have commenced operation upon the completion of their rebuilding in the fourth quarter of 2011; however, more time is needed for the increased production scale to bring in the benefits of economies of scale.

Expansion of Production Capacity

In order to enhance our production technology, we have upgraded our production technology during off peak season to facilitate long-term development. The relocation of production lines no. 3 commenced in May 2012 and completion is expected to take place in the fourth quarter of 2013. The expansion of production capacity mainly involves premium decorative base paper products which have a higher profit margin. We believe this will effectively alleviate the pressure on the gross profit margin resulting from the surge in prices of raw materials. Meanwhile, the existing production lines No. 3 has been operating as usual during the period of relocation, and our overall production capacity has not reduced.

Sophisticated Distribution Channels

At present, the Group has 6 retail sales regions in China, namely, Shandong, Sichuan, Guangdong, Beijing, Jiangsu and Zhejiang. We boast a sophisticated distribution network and have a customer base spanning across 13 provinces, autonomous regions and municipalities in China.

Versatile Product Portfolio

The Group has striven to develop widely applicable and quality decorative base paper products. At present, we produce and sell over 80 types of products catering to different segments in the market. Our products are suitable for a broad range of applications from furniture, home and office products to stadiums, community halls, exhibition centres, as well as interior decoration of vehicles and aircraft. The Group will continue to enhance sales of premium decorative paper base products to increase its profits.

Environmental Protection

We are committed to corporate social responsibilities and environmental protection. The premium wood pulp that we use to produce decorative base paper products causes almost zero environmental pollution during the production process and is in line with the national policies on environmental protection. In addition, we have two waste water treatment systems with a total annual processing capacity of approximately 5,350,000 cubic metres. One of the systems has an annual processing capacity of approximately 1,700,000 cubic metres and another one has an annual processing capacity of approximately 3,650,000 cubic metres. Waste water treated by our waste water treatment systems is reused for irrigation at the Group's production base in Shandong, the PRC.

Independent Review and Investigation Report

During the period, the Group strived to enhance our internal control system and has, at the end of last year, engaged an independent professional advisor to investigate the audit issues raised by its former auditors and to commission a further review and investigation report. We hereby reiterate that our business has been operating as usual, though we are aware of the concerns raised by shareholders and investors of the Company on our internal audit and control. Further announcement will be made by the Group as and when appropriate informing our shareholders on the progress of the further independent review and investigation.

Outlook

Looking ahead, more efforts on construction of social security housing will be put by the PRC government according to the "Twelfth Five-Year Plan". Despite the macroeconomic environment remaining grim and no sign of the PRC government relaxing control measures for the housing market in the near future, long-term steady growth in China's economy as well as increase in national income will promote long-term demand for commercial housing and therefore the demand for decorative base paper will be sustained. In view of the Group's high-end technology in producing decorative base paper products and its solid foundation, the Board is cautiously optimistic about the development of the Group in the second half of 2012.

It is expected that pressure on raw material costs will remain. To ease the pressure from rising cost of raw materials, the Group will purchase raw materials in due course by closely monitoring the price trends for raw materials. Meanwhile, we will secure competitive prices by establishing long-term relationship with our suppliers.

In response to the complex and changing market environment in the second half, the Group will further enhance its product quality as well as its goodwill by upgrading our existing production facilities, in a bid to expand our market share. In addition to attracting new customers, the Group will also strive to strengthen its leading market position and customer base in its existing sales regions, so as to improve our sales. We will not only constantly optimise our product mix, but also make an effort to boost the sales and market share of premium products with a higher gross profit margin, and implement rigorous cost-control measures, including control on costs of purchase, with a view to enhancing profitability and generating better returns for our shareholders.

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, 23 August 2012

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Turnover

Turnover decreased by approximately 6.1% from RMB1,038.3 million for the six months ended 30 June 2011 to RMB974.6 million for the six months ended 30 June 2012. The decrease in turnover for the six months ended 30 June 2012 was mainly attributable to the combined effects of (i) the decrease in sales volumes of the decorative base paper products by approximately 10.3% from 74,245 tonnes in 2011 to 66,563 tonnes in 2012; and (ii) the increase in the average selling prices of the decorative base paper products by approximately 2.9% from RMB12,940 per tonne in 2011 to RMB13,322 per tonne in 2012. The sales volume of printing paper product increased by approximately 13.3% from 11,753 tonnes in 2011 to 13,322 tonnes in 2012 with the average selling price maintained at approximately RMB6,600 per tonne for both periods under review.

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 4.9% from RMB817.5 million for the six months ended 30 June 2011 to RMB857.5 million for the six months ended 30 June 2012. The increase in cost of sales was primarily due to the combined effects of (i) the decrease in usage of raw materials, which are the major component of our cost of sales, as a result of the decreased sales volume, (ii) the increase in average purchasing costs of titanium dioxide powder, one of our principal raw materials for production, during the six months ended 30 June 2012 as compared to the corresponding period in 2011 (as discussed below), (iii) the decrease in production overheads, such as electricity and steam expenses, in line with the decrease in production volume; and (iii) the increase in direct labour costs and depreciation expenses due to the commercial production of rebuilt Production lines nos. 1 to 2 since March 2012.

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 2011 and 2012, the purchase of wood pulp amounted to approximately RMB303.5 million and RMB283.3 million, respectively, representing approximately 37.1% and 33.0% of the total cost of sales for the respective periods. The decrease was due to the decrease in usage of wood pulp, in line with the decreased sales volume. The average purchase price (value added tax inclusive) of wood pulp was maintained at approximately RMB6,512 per tonne for both periods under review.

For each of the six months ended 30 June 2011 and 2012, the purchase of titanium dioxide powder amounted to approximately RMB235.9 million and RMB291.2 million, respectively, representing approximately 28.9% and 34.0% of the total cost of sales for the respective periods. The increase was mainly due to the combined effect of (i) the decrease in usage of titanium dioxide as a result of the decreased 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 29.3% from approximately RMB13,711 per tonne in 2011 to RMB17,735 per tonne in 2012.

Utilities and steam expenses

Our electricity and steam expenses decreased by approximately 7.2% from RMB86.0 million in the six months ended 30 June 2011 to RMB79.8 million in the six months ended 30 June 2012, which was mainly due to the decrease in production volume as a result of decrease in sales. The electricity and steam expenses accounted for approximately 10.5% and 9.3% of the total cost of sales for the respective periods.

Depreciation charges

Our depreciation charges included in cost of sales increased by approximately 16.0% from RMB94.9 million in the six months ended 30 June 2011 to RMB110.1 million in the six months ended 30 June 2012, which was mainly due to the commercial operation of rebuilt Production lines nos. 1 to 2 since March 2012. The depreciation charges accounted for approximately 11.6% and 12.8% of the total cost of sales for the respective periods.

Gross profit and gross profit margin

The gross profit of our Group decreased by approximately 47.0% from RMB220.9 million for the six months ended 30 June 2011 to RMB117.1 million for the six months ended 30 June 2012.

The following table sets forth the gross profit margin of each category of the products for the six months ended 30 June 2011 and 2012:

	For the six months ended 30 June	
	2012	2011
Products		
Decorative base paper products	**12.5%**	22.3%
Printing paper product	**7.0%**	8.3%
Overall	**12.0%**	21.3%

The decrease in overall gross profit margin of our decorative base paper products in 2012 was mainly attributable to the economies of scale has not been achieved for rebuilt Production lines nos. 1 to 2, which commenced commercial operation in March 2012. As a result, the average unit cost for decorative base paper products was comparative higher for the six months ended 30 June 2012 upon sharing the sunk costs of rebuilt Production lines nos. 1 to 2.

The gross profit margin of printing paper product decreased from 8.3% in 2011 to 7.0% in 2012 mainly due to the termination of business with a customer in early 2011 where the economies of scale in operating the printing paper product segment was affected. The Group continues to make its utmost effort in soliciting new customers with an aim to effectively utilize the resources of the Group to maximize the returns for shareholders.

As a result, our overall gross profit margin decreased from approximately 21.3% for the six months ended 30 June 2011 to approximately 12.0% for the six months ended 30 June 2012.

Other revenue and other net loss

Other revenue, which represented the interest income earned from bank deposits, decreased by approximately 18.8% from RMB1.6 million for the six months ended 30 June 2011 to RMB1.2 million for the six months ended 30 June 2012 mainly due to the decrease in average cash held on hand under the payments of construction costs for rebuilding Production lines nos. 1 to 2.

Upon the commercial operation of rebuilt Production line no 2 in March 2012, the aged Production line no 2 was disposed and a loss on disposal of RMB12.6 million was recognized during the six months ended 30 June 2012.

Selling expenses

As at 30 June 2012, our Group had 43 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. The selling expenses increased by approximately 19.6% from RMB11.2 million for the six months ended 30 June 2011 to RMB13.4 million for the six months ended 30 June 2012 and represented approximately 1.1% and 1.4% as a percentage of turnover for the six months ended 30 June 2011 and 2012 respectively.

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.

Administrative expenses increased by approximately 15.6% from RMB28.2 million for the six months ended 30 June 2011 to RMB32.6 million for the six months ended 30 June 2012 mainly due to the additional costs incurred to investigate audit issues raised by the Group’s preceding former auditors.

Finance costs

Our Group did not incur any finance costs during the six months ended 30 June 2011 and 2012.

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, our Group was liable to pay PRC income tax at the applicable tax rate of 12.5% for the six months ended 30 June 2011. Since 1 January 2012, our Group is subject to the PRC income tax at the applicable tax rate of 25%.

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 2011 and 2012.

Liquidity and financial resources

Current and quick ratio

The current ratio of the Group decreased from 5.4 as at 31 December 2011 to 3.6 as at 30 June 2012 and the quick ratio of the Group decreased from 5.0 as at 31 December 2011 to 3.3 as at 30 June 2012, respectively, which was mainly due to the 2011 final dividends approved but not yet paid as at 30 June 2012.

Financial resources

The financial resources of the Group continued to be strong. As at 30 June 2012, shareholders' fund of the Group totalled approximately RMB3,200.7 million (31 December 2011: RMB3,202.4 million). The Group had cash and cash equivalents of approximately RMB574.0 million as at 30 June 2012 (31 December 2011: RMB488.9 million).

The Group continues to enjoy a stable and strong net cash inflow from operations. During the six months ended 30 June 2011 and 2012, the net cash generated from operations was RMB313.6 million and RMB209.7 million, respectively.

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 2012, 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 2012, the Group recorded aggregate additions to property, plant and equipment, prepayment for the acquisition of plant and equipment and construction in progress of approximately RMB127.2 million (six months ended 30 June 2011: RMB5.3 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. Such capital commitments will be financed by the internal resource of the Group.

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 2012.

Human Resources

As at 30 June 2012, our Group employed approximately 1,700 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.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Purchase, Sale or Redemption of Shares

During the six months ended 30 June 2012, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

Compliance with the Corporate Governance Code of the Listing Rules

During the six months ended 30 June 2012, the Company has complied with all code provisions (the "Code Provision(s)") under the Code on Corporate Governance Practices (effective until 31 March 2012) and Corporate Governance Code (effective from 1 April 2012) 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 deviations:

Code Provision A.2.1: Currently, the Company does not have any person holding the title of CEO. Dr. Zhu Yu Guo, who apart from being an executive Director 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.

Code Provision A.6.7: Ms. Sun Rui Fang, a non-executive Director and Mr. Wang Lu, an independent non-executive Director, were unable to attend the annual general meeting (the "AGM") of the Company held on 27 June 2012 due to prior business commitment whilst Mr. Zhao Wei was unable to attend the AGM as he has gone on a business trip on that day.

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 2012.

Audit Committee

The Audit Committee currently comprises all three independent non-executive Directors. The Audit Committee has reviewed with our management, the audited consolidated interim financial statements of the Group for the six months ended 30 June 2012 and the accounting principles and practices adopted by the Group during the period.

Publication of 2012 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.hk. The Company's 2012 Interim Report will be available at both websites and will be despatched to the Company's shareholders as soon as practicable.

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.