Qunxing Paper Holdings Company Limited
群星紙業控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 3868)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010

FINANCIAL HIGHLIGHTS

- Turnover increased by approximately 34.5% to RMB2,058.9 million.
- Gross profit rose by approximately 22.4% to RMB519.8 million.
- Profit attributable to shareholders increased by approximately 22.7% to RMB397.5 million.
- Earnings per share of RMB38 cents achieved.
- Final dividend of HK8.633 cents per share and special cash dividend of HK3 cents per share.

ANNUAL RESULTS

The board of directors (the "Board") of Qunxing Paper Holdings Company Limited (the "Company" or "QX Paper") is pleased to announce the consolidated results of the Company and its subsidiaries (the "Group" or "QX Group") for the year ended 31 December 2010 together with the comparative figures for the corresponding period in 2009 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2010

	Note	**2010** **RMB'000**	2009 RMB'000
Turnover	3	**2,058,916**	1,530,321
Cost of sales		**(1,539,131)**	(1,105,517)
Gross profit		**519,785**	424,804
Other revenue	4	**2,212**	4,371
Other net loss	4	**(189)**	(62)
Selling expenses		**(26,426)**	(19,233)
Administrative expenses		**(39,409)**	(34,018)
Profit from operations		**455,973**	375,862
Finance costs	5(a)	**—**	(4,168)
Profit before taxation	5	**455,973**	371,694
Income tax	6	**(58,467)**	(47,607)
Profit for the year		**397,506**	324,087
Earnings per share (RMB cents)	8		
Basic		**38**	31

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	2010 *RMB'000*	2009 *RMB'000*
Profit for the year	**397,506**	324,087
Other comprehensive income for the year		
Exchange differences on translation of financial statements of operations outside the People's Republic of China (the "PRC")	**(2,371)**	(153)
Total comprehensive income for the year	**395,135**	323,934
Attributable to:		
Equity shareholders of the Company	**395,135**	323,934

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2010

	Note	**2010** **RMB'000**	2009 RMB'000
Non-current assets			
Property, plant and equipment	9	**2,015,579**	1,365,520
Construction in progress	9	**253,878**	296,911
Lease prepayments		**14,468**	14,809
Prepayment for the acquisition of plant and equipment	9	**24,029**	60,780
Prepayment for flood prevention expenses		**41,225**	—
		2,349,179	1,738,020
Current assets			
Inventories	10	**48,962**	37,334
Trade and other receivables	11	**111,288**	72,407
Cash and cash equivalents		**447,763**	682,764
		608,013	792,505
Current liabilities			
Trade and other payables	12	**87,040**	58,000
Current taxation		**22,708**	20,216
		109,748	78,216
Net current assets		**498,265**	714,289
NET ASSETS		**2,847,444**	2,452,309
Capital and reserves			
Share capital	13	**102,427**	100,258
Reserves		**2,745,017**	2,352,051
TOTAL EQUITY		**2,847,444**	2,452,309

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 consolidated results set out in this announcement do not constitute the Group's financial statements for the year ended 31 December 2010 but are extracted from those financial statements.

The financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual IFRSs, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB"). The financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Saved as described in Note 2, 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.

2. CHANGES IN ACCOUNTING POLICIES

The IASB has issued two revised IFRS, a number of amendments to IFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

— IFRS 3 (revised 2008), *Business combinations*

— Amendments to IAS 27, *Consolidated and separate financial statements*

— Improvements to IFRSs (2009)

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The developments resulted in changes in accounting policy but none of these changes in policies has a material impact on the current or comparative periods, for the following reasons:

— The impact of the majority of the revisions to IFRS 3 and IAS 27 has not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination or a disposal of a subsidiary) and there is no requirement to restate the amounts recorded in respect of previous such transactions.

— The impact of the amendments to IFRS 3 (in respect of recognition of acquiree's deferred tax assets) and IAS 27 (in respect of allocation of losses to non-controlling interests in excess of their equity interest) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current period.

— The amendment introduced by the *Improvements to IFRSs (2009)* omnibus standard in respect of IAS 17, *Leases* had no material impact on the Group's financial statements as the Group does not have any leasehold land interests located in Hong Kong and the Group has re-evaluated the classification of its interests in leasehold land in PRC as to whether, in the Group's judgement, the lease transfers substantially all the risks and rewards of ownership of the land such that the Group is in a position economically similar to that of a purchaser. The Group has concluded that the classification of such leases as operating leases continues to be appropriate.

Further details of these changes in accounting policies are as follows:

— As a result of the adoption of IFRS 3 (revised 2008), any business combination acquired on or after 1 January 2010 will be recognised in accordance with the new requirements and detailed guidance contained in IFRS 3 (revised 2008). These include the following changes in accounting policies:

  — Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, will be expensed as incurred, whereas previously they were accounted for as part of the cost of the business combination and therefore impacted the amount of goodwill recognised.

  — If the Group holds interests in the acquiree immediately prior to obtaining control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.

  — Contingent consideration will be measured at fair value at the acquisition date. Subsequent changes in the measurement of that contingent consideration unrelated to facts and circumstances that existed at the acquisition date will be recognised in profit or loss, whereas previously these changes were recognised as an adjustment to the cost of the business combination and therefore impacted the amount of goodwill recognised.

— If the acquiree has accumulated tax losses or other temporary deductible differences and these fail to meet the recognition criteria for deferred tax assets at the date of acquisition, then any subsequent recognition of these assets will be recognised in profit or loss, rather than as an adjustment to goodwill as was previously the policy.

— In addition to the Group's existing policy of measuring the non-controlling interests in the acquiree at the non-controlling interest's proportionate share of the acquiree's net identifiable assets, in future the Group may elect, on a transaction by transaction basis, to measure the non-controlling interest at fair value.

In accordance with the transitional provisions in IFRS 3 (revised 2008), these new accounting policies will be applied prospectively to any business combinations in the current or future periods. The new policy in respect of recognition in the movement of deferred tax assets will also be applied prospectively to accumulated tax losses and other temporary deductible differences acquired in previous business combinations. No adjustments have been made to the carrying values of assets and liabilities that arose from business combinations whose acquisition dates preceded the application of this revised standard.

— As a result of the adoption of IAS 27 (amended 2008), the following changes in accounting policies will be applied as from 1 January 2010:

— If the Group acquires an additional interest in a non-wholly owned subsidiary, the transaction will be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no goodwill will be recognised as a result of such transactions. Similarly, if the Group disposes of part of its interest in a subsidiary but still retains control, this transaction will also be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no profit or loss will be recognised as a result of such transactions. Previously the Group treated such transactions as step-up transactions and partial disposals, respectively.

— If the Group loses control of a subsidiary, the transaction will be accounted for as a disposal of the entire interest in that subsidiary, with any remaining interest retained by the Group being recognised at fair value as if reacquired. In addition, as a result of the adoption of the amendment to IFRS 5, if at the end of reporting period the Group has the intention to dispose of a controlling interest in a subsidiary, the entire interest in that subsidiary will be classified as held for sale (assuming that the held for sale criteria in IFRS 5 are met) irrespective of the extent to which the Group will retain an interest. Previously such transactions would have been treated as partial disposals.

In accordance with the transitional provisions in IAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

— In order to be consistent with the above amendments to IFRS 3 and IAS 27, the following accounting policies will be applied as from 1 January 2010:

— If the Group holds interests in the acquiree immediately prior to obtaining significant influence or joint control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining significant influence or joint control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.

— If the Group loses significant influence or joint control, the transaction will be accounted for as a disposal of the entire interest in that investee, with any remaining interest being recognised at fair value as if re-acquired. Previously such transactions were treated as partial disposals.

Consistent with the transitional provisions in IFRS 3 and IAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

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:

	2010	2009
	RMB'000	*RMB'000*
Decorative base paper products	**1,825,455**	1,307,243
Printing paper product	**233,461**	223,078
	2,058,916	1,530,321

4. OTHER REVENUE AND NET LOSS

	2010	2009
	RMB'000	*RMB'000*
Other revenue		
Bank interest income	**2,212**	3,977
Dividend income from listed securities	**—**	394
	2,212	4,371
Other net loss		
Loss on disposal of property, plant and equipment	**—**	6
Net foreign exchange loss	**189**	14
Net realised and unrealised losses on financial assets at fair value through profit or loss	**—**	42
	189	62

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2010 *RMB'000*	2009 *RMB'000*
(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	**3,905**	2,831
Salaries, wages and other benefits	**42,338**	37,923
	46,243	40,754
(c) Other items:		
Amortisation of lease prepayments	**341**	341
Auditors' remuneration		
— Audit services	**1,001**	881
— Tax services	**66**	50
Depreciation	**150,960**	93,393
Loss on disposal of property, plant and equipment	**—**	6
Impairment of property, plant and equipment	**4,137**	—
Operating lease charges in respect of:		
— leasehold land and properties	**4,944**	3,967
— others	**150**	150
Sewage disposal expenses	**362**	132
Research and development costs	**189**	156

6. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

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 have assessable profits subject to Hong Kong Profits Tax during the year.

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 years ended 31 December 2009 and 2010 is 12.5%.

7. DIVIDENDS

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

	2010	2009
	RMB'000	*RMB'000*
Interim dividend declared and paid of HK Nil cents (equivalent to approximately RMB Nil cents) per ordinary share (2009: HK3.277 cents per ordinary share, equivalent to approximately RMB2.889 cents per ordinary share)	**—**	29,842
Final dividend proposed after the balance sheet date of HK8.633 cents (equivalent to approximately RMB7.517 cents) per ordinary share (2009: HK7.403 cents per ordinary share, equivalent to approximately RMB6.525 cents per ordinary share)	**119,252**	67,385
Special dividend proposed after the balance sheet date of HK3 cents (equivalent to approximately RMB2.612 cents) per ordinary share (2009: Nil)	**41,442**	—
	160,694	97,227

The Board has resolved to recommend the payment of a final dividend for the year ended 31 December 2010 equivalent to HK8.633 cents (2009: HK7.403 cents) per ordinary share and a special cash dividend of HK3 cents (2009: Nil) per ordinary share to shareholders whose names appear on the register of members of the company on 18 May 2011. Shareholders may elect to receive the final dividend in scrip form or in cash form.

The final dividend and special dividend proposed after the end of the reporting period have not been recognised as liabilities at the end of the reporting period.

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

	2010	2009
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year of HK7.403 cents (equivalent to approximately RMB6.525 cents) per ordinary share wholly in scrip form (2009: HK8.45 cents per ordinary share, in cash form 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 year ended 31 December 2010 is based on the profit attributable to ordinary equity shareholders of the Company of RMB397,506,000 (2009: RMB324,087,000) and the weighted average number of 1,057,594,300 (2009 (restated): 1,057,594,300) ordinary shares in issue during the year after adjusting the outstanding number of ordinary shares deemed to be issued as at the beginning of the year as a result of the scrip dividend.

(b) There were no dilutive potential ordinary shares during the years 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 change in prepayments for the acquisition of plant and equipment. During the year ended 31 December 2010, the Group incurred aggregate capital expenditure of RMB725,383,000 (2009: RMB939,406,000).

10. INVENTORIES

	2010	2009
	RMB'000	*RMB'000*
Raw materials and consumables	**33,372**	23,336
Finished goods	**15,590**	13,998
	48,962	37,334

11. TRADE AND OTHER RECEIVABLES

	2010	2009
	RMB'000	*RMB'000*
Trade receivables	**97,503**	29,520
Prepayments, deposits and other receivables	**1,228**	2,737
Other tax recoverable	**12,557**	40,150
Less: allowance for doubtful debts	**—**	—
	111,288	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:

	2010	2009
	RMB'000	*RMB'000*
Current	**93,802**	27,630
Less than one month past due	**3,701**	1,890
	97,503	29,520

12. TRADE AND OTHER PAYABLES

	2010	2009
	RMB'000	*RMB'000*
Trade payables	**75,596**	45,529
Other payables and accruals	**11,444**	12,471
	87,040	58,000

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.

	2010	2009
	RMB'000	*RMB'000*
Due within 30 days	**75,596**	45,529

13. SHARE CAPITAL

	2010		2009	
	Number of shares *('000)*	***RMB'000***	Number of shares *('000)*	*RMB'000*
At 1 January	**1,032,800**	**100,258**	1,032,800	100,258
Shares issued in lieu of dividend	**24,794**	**2,169**	—	—
At 31 December	**1,057,594**	**102,427**	1,032,800	100,258

AUDIT OPINION

The auditors of the Company will issue a disclaimer of opinion on the financial statements of the Group for the year under review. An extract of the auditors' report is set out in the section headed "Extract of report of the auditors" below.

EXTRACT OF REPORT OF THE AUDITORS

"**Basis for disclaimer of opinion**

When performing our audit procedures and seeking independent corroborative evidence, we identified inconsistencies between the information contained in the Group's accounting records with respect to transactions and balances with certain customers and suppliers and independently obtained information. We also identified discrepancies which indicated that documents contained in the Group's accounting records relating to some of the Group's bank transactions may not be authentic or otherwise reliable. We have not been able to obtain satisfactory explanations from the management of the Group concerning these matters and we were also unable to satisfy ourselves that these instances were isolated occurrences.

This has called into question the reliability of the financial and other information and documents provided by management and undermined our ability to rely on the Group's system of internal control to safeguard the genuineness of accounting records and documentation. Given these circumstances, there were no practicable audit procedures that we could perform to satisfy ourselves that the information and documents presented to us for the purpose of our audit are complete and accurate in all material respects, nor to quantify the extent of adjustments that might be necessary in respect of the Group's financial statements for the year ended 31 December 2010, including the comparative figures for the prior year and opening balances.

Disclaimer of opinion

Because of the significance of the matters described in the basis for disclaimer of opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance."

FINAL DIVIDEND AND SPECIAL DIVIDEND

No interim dividend was declared for the six months ended 30 June 2010 (six months ended 30 June 2009: HK3.277 cents per share).

The Board has resolved to recommend the payment of a final dividend for the year ended 31 December 2010 in scrip form equivalent to HK8.633 cents (2009: HK7.403 cents) per share with a cash option and a special cash dividend of HK3 cents (2009: Nil) per share to shareholders whose names appear on the register of members of the Company on Wednesday, 18 May 2011. Subject to the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the new shares, each of the shareholders will be allotted fully paid shares having an aggregate market value equal to the total amount which such shareholders could elect to receive the final dividend in cash. They will be given an option to elect to receive cash in lieu of the allotment of new shares either in whole or in part. These proposed dividends are subject to the approval of the Company's shareholders at the forthcoming annual general meeting to be held on Wednesday, 18 May 2011 and will be paid on or about Thursday, 16 June 2011.

Details about the scrip dividend scheme ("Scheme") in relation to the final dividend will be set out in a circular to be despatched to shareholders on or about Monday, 11 April 2011 and the full details of the Scheme will be set out in another circular to be sent to the shareholders together with a form of election on or about Wednesday, 25 May 2011.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 12 May 2011 to Wednesday, 18 May 2011, both days inclusive. In order to qualify for the proposed final dividend and special dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Wednesday, 11 May 2011.

BUSINESS REVIEW

Business Review

Thanks to the collective efforts of governments around the world to tackle the financial crisis, the global economy has been making a notable recovery. Nonetheless, with the sovereign debt crisis in Europe still lingering, and commodity and property prices driven up by the second round of US$600 billion quantitative easing launched by the US government, the risk of inflation has gradually heightened in Asia. In 2010, the Chinese government launched a multitude of measures in a bid to cool down the property market, the stock market and the capital asset market. These measures successfully enabled China to dodge the debt crisis in Europe, avoid sliding into double-dip recession and ward off the inflow of hot money. According to the National Bureau of Statistics, China's gross domestic product ("GDP") reached RMB39.8 trillion in 2010, up 10.3% from 2009 and outpacing the 9.2% growth rate recorded in 2009. All these reflected the steady economic growth, sustained rising living standard and accelerating urbanisation in China for the past year.

Although the central government continued to step up efforts to curb the overheating of the mainland property market, the adjustment in sales volume was only temporary, and the market remains active on the whole, indicating the demand-driven nature of the PRC property market, particularly in second- and third-tier cities where huge demand was seen. The Group delivered an excellent performance marked by continuous growth momentum, thanks to accelerating urbanisation in second- and third-tier cities, the construction of social security housing, rising demand for housing decoration materials, and our strategy to boost sales of high-end products in accordance with market demand.

For the year ended 31 December 2010, the Group recorded a turnover of RMB2,058,916,000, up 34.5% year-on-year. Profits for the year reached RMB397,506,000, representing a 22.7% increase from the same period last year. Earnings per share were RMB38 cents (2009: RMB31 cents).

Strong sales growth

During the year, both the selling price and sales volume of the Group's products increased. Average product price of decorative base paper products was up 6.3% year-on-year, mainly due to a surge in the cost of raw materials that led to adjustments to product prices. The total sales volume for decorative base paper products also went up by 31.4%, indicating an improvement in the production capacity as well as market demand for premium decorative base paper. Production lines nos. 12 and 13 were launched in the October of 2010 and the effects of their economies of scale have not been reflected. As a result, the Group's gross profit margin for the year dropped from 27.8% in 2009 to 25.2%, which was still at a healthy level.

Expansion of production capacity

The Group's construction of Production lines nos. 12 and 13 were completed smoothly in August 2010 and commenced commercial production in October 2010. Each production line has an annual production capacity of approximately 30,000 tonnes, pushing up the Group's aggregate designed annual production capacity to about 380,000 tonnes, comprising approximately 330,000 tonnes of decorative base paper products and approximately 50,000 tonnes of printing paper product.

The Group launched the reconstruction of Production lines nos. 1 and 2 in September 2010 and completion is scheduled for the fourth quarter of 2011. The expansion of production capacity mainly involves premium decorative base paper products that have a higher profit margin. This will effectively alleviate the pressure on the gross profit margin resulting from the surge in the cost of wood pulp.

Sophisticated distribution channels

During the period under review, the Group continued to focus on expanding its business in six designated retail sales regions, namely Shandong, Sichuan, Guangdong, Beijing, Jiangsu and Zhejiang. We boast a sophisticated distribution network and our clientele are formed by more than 130 customers spanning across 13 provinces, autonomous regions and municipalities in China.

Versatile product portfolio

The Group strives to develop widely applicable and quality decorative base paper. At present, we produce and retail over 80 types of products catering to different markets. Our products are suitable for a broad range of applications from furniture and home and office products to stadiums, community halls, exhibition centres, as well as interior decoration of vehicles and aircrafts. QX Group will continue to enhance sales of high-end decorative paper base products to increase its profits.

Environmental protection

We are committed to fulfilling our corporate social responsibilities and environmental protection has always been one of our first priorities. 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.

The Group is also highly concerned about the impacts of its operations on the environment. At present, we have two waste water treatment systems with a total annual processing capacity of approximately 5,350,000 cubic metres. The Group has upgraded and improved one of the systems with an annual processing capacity of approximately 1,700,000 cubic metres in October 2010 to enhance its sewage standard. The other system has an annual processing capacity of approximately 3,650,000 cubic metres. Waste water after treatment is reused for irrigation at the Group's production base in Shandong, the PRC.

FINANCIAL REVIEW

Turnover

Turnover increased by approximately 34.5% from RMB1,530.3 million for the year ended 31 December 2009 to RMB2,058.9 million for the year ended 31 December 2010. The increase in turnover during the year ended 31 December 2010 was mainly attributable to the combined effects of (i) the increase in overall sales volumes by approximately 21.2% from 146,506 tonnes in 2009 to 177,567 tonnes in 2010, out of which sales volumes of the decorative base paper products increased by approximately 31.4% from 107,667 tonnes for the year ended 31 December 2009 to 141,429 tonnes for the year ended 31 December 2010; and (ii) the increase in the average selling prices of the decorative base paper products and printing paper product by approximately 6.3% from RMB12,142 per tonne in 2009 to RMB12,907 per tonne in 2010 and approximately 12.5% from RMB5,744 per tonne in 2009 to RMB6,460 per tonne in 2010, respectively.

Cost of sales

Cost of sales represents the production costs of goods sold during the year. 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.

Cost of sales increased by approximately 39.2% from RMB1,105.5 million for the year ended 31 December 2009 to RMB1,539.1 million for the year ended 31 December 2010. The increase in cost of sales was primarily due to the combined effects of (i) an increase in the aggregate raw material costs, which are the major component of our cost of sales, as a result of the increased sales volume, (ii) an increase in purchasing costs of wood pulp and titanium dioxide powder, our principal raw materials for production during the year ended 31 December 2010 (as discussed below), (iii) an increase in production overheads, such as electricity and steam expenses, in line with the increase in production volume; and (iv) an increase in depreciation expenses due to the commercial production of Production lines nos. 10 to 11 and 12 to 13 since December 2009 and October 2010, respectively.

Principal raw materials

Our results of operations are subject to price fluctuations of raw materials used in the production process. The principal raw materials for our production are wood pulp and titanium dioxide powder.

For each of the two years ended 31 December 2009 and 2010, the purchase of wood pulp amounted to approximately RMB405.9 million and RMB603.0 million, respectively, representing approximately 36.7% and 39.2% of the total cost of sales for the respective years. The increase is due to the combined effect of (i) an increase in usage of wood pulp, in line with the increased sales volume; and (ii) an increase in the average purchase price (value added tax inclusive) of wood pulp by approximately 22.4% from approximately RMB5,104 per tonne in 2009 to RMB6,247 per tonne in 2010.

For each of the two years ended 31 December 2009 and 2010, the purchase of titanium dioxide powder amounted to approximately RMB314.3 million and RMB418.4 million, respectively, representing approximately 28.4% and 27.2% of the total cost of sales for the respective years. The increase is mainly due to the combined effect of (i) an increase in the usage of titanium dioxide as a result of the increased sales volume in decorative base paper products; and (ii) an increase in the average purchase price (value added tax inclusive) of titanium dioxide by approximately 5.5% from approximately RMB12,747 per tonne in 2009 to RMB13,451 per tonne in 2010.

Utilities and steam expenses

During the years ended 31 December 2009 and 2010, our electricity and steam expenses increased by approximately 26.7% from RMB139.4 million in 2009 to RMB176.6 million in 2010, which was mainly due to the increase in production volume as a result of the commercial operation of Production lines nos. 10 to 11 and 12 to 13 since December 2009 and October 2010, respectively. The electricity and steam expenses accounted for approximately 12.6% and 11.5% of the total cost of sales for the respective years.

Depreciation charges

During the years ended 31 December 2009 and 2010, our depreciation charges included in cost of sales increased by approximately 62.5% from RMB91.7 million in 2009 to RMB149.0 million in 2010, mainly due to the commercial operation of Production lines nos. 10 to 11 and 12 to 13 since December 2009 and October 2010, respectively.

Gross profit and gross profit margin

The gross profit of our Group increased by approximately 22.4% from RMB424.8 million for the year ended 31 December 2009 to RMB519.8 million for the year ended 31 December 2010, while the gross profit margin decreased from approximately 27.8% for the year ended 31 December 2009 to approximately 25.2% for the year ended 31 December 2010.

The following table sets forth the gross profit margin of each category of the products for the two years ended 31 December 2009 and 2010:

Products	Year ended 31 December 2010	2009
Decorative base paper products		
— Premium coloured decorative base paper	**33.2%**	37.7%
— Premium white decorative base paper	**24.7%**	26.4%
— Ordinary coloured decorative base paper	**25.7%**	26.4%
Sub-total	**26.5%**	29.6%
Printing paper product	**15.8%**	17.3%

The change in overall gross profit margin of our decorative base paper products in 2010 was mainly attributable to the increased depreciation charges under the commercial operation of Production lines nos. 12 to 13 since October 2010, where the economies of scales have not been reflected while the change in gross profit margin of our printing paper products was mainly attributable to the change in sales mix of printing paper products in 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 50.0% from RMB4.4 million for the year ended 31 December 2009 to RMB2.2 million for the year ended 31 December 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 after the wake of the financial tsunami such that interest income from deposits decreased by approximately 44.0% from RMB4.0 million in 2009 to RMB2.2 million in 2010.

In compliance with the financial management and treasury policies, certain investments were made using uncommitted funds. For the year ended 31 December 2009, we recorded a net realised loss on financial assets at fair value through profit or loss of RMB0.1 million whilst no such profit or loss was recorded for the year ended 31 December 2010.

Selling expenses

As at 31 December 2010, our Group had 46 sales and marketing staff and continued to carry out various promotional activities in an attempt to solicit new customers in the six designated sales regions in the PRC. As a result, the selling expenses increased by approximately 37.5% from RMB19.2 million for the year ended 31 December 2009 to RMB26.4 million for the year ended 31 December 2010. As a percentage of turnover, our selling expenses were maintained at approximately 1.3% for the two years ended 31 December 2009 and 2010. This was in line with the existing policy of our Group to allocate approximately 1.0% of the revenue from sales as the annual budget for the marketing activities.

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 15.9% from RMB34.0 million for the year ended 31 December 2009 to RMB39.4 million for the year ended 31 December 2010. The increase was mainly due to the recognition of an impairment loss on property, plant and equipment of RMB4.1 million upon the rebuilding of Production lines nos 1 to 2 in 2010.

Finance costs

Finance costs consist primarily of interest expenses on the bank borrowings. We recorded interest expenses of RMB4.2 million for the year ended 31 December 2009 while no interest expense was recorded for the year ended 31 December 2010 since the bank borrowings were fully repaid in 2009.

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 is liable to pay income tax in the PRC for the years ended 31 December 2009 and 2010, and is subject to the PRC income tax rate of 12.5% for the respective years.

No provision has been made for Hong Kong Profits Tax for 2009 and 2010 as the Group did not earn assessable profits subject to Hong Kong Profits Tax for either year.

The effective tax rates of our Group for the years ended 31 December 2009 and 2010 was maintained at 12.8%, The reconciliation between income tax expenses and accounting profit at the applicable tax rates was set out as follows:

	Year ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
Profit before taxation	**455,973**	371,694
Income tax on profit before taxation, calculated at the tax rates applicable in the respective tax jurisdictions concerned	**114,729**	93,706
Tax effect of tax concession period	**(58,548)**	(49,040)
Tax effect of non-deductible expenses	**1,857**	1,981
Tax effect of non-taxable income	**(21)**	(103)
Under provision in prior year	**450**	—
Tax effect of unused tax loss not recognised for deferred tax purposes	**—**	1,063
Income tax expenses for the year	**58,467**	47,607

Liquidity and financial resources

Current and quick ratio

The current ratio of the Group decreased from 10.1 as at 31 December 2009 to 5.5 as at 31 December 2010 and the quick ratio of the Group decreased from 9.7 as at 31 December 2009 to 5.1 as at 31 December 2010, respectively, which was mainly due to the combined effect of i) the settlement of construction costs for Production lines nos. 10 to 13; and ii) the partial payment of construction costs for re-building of Production lines nos. 1 to 2 during the year ended 31 December 2010.

Gearing ratio

As at 31 December 2009 and 2010, the Group did not have any outstanding bank borrowings and the gearing ratio was 0.0%.

Financial resources

The financial resources of the Group continued to be strong. As at 31 December 2010, shareholders' funds of the Group totalled RMB2,847.4 million, representing an increase of approximately 16.1% from RMB2,452.3 million at 31 December 2009. The Group had cash and cash equivalents of approximately RMB447.8 million as at 31 December 2010 (31 December 2009: RMB682.8 million).

The Group continues to enjoy a stable and strong net cash inflow from operations. During the years ended 31 December 2009 and 2010, the net cash generated from operations was RMB432.0 million and RMB565.3 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 31 December 2010, the Group did not have any bank borrowings.

The Group conducts its business transactions principally in the PRC. All of the Group's turnover and cost of sales and most of the Group's monetary assets and liabilities are denominated in RMB. RMB is the functional currency of the Group'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 years did not have significant impact on the results of the Group.

Capital expenditure

During the year ended 31 December 2010, the Group recorded aggregate additions to property, plant and equipment and construction in progress and change in prepayments for the acquisition of plant and equipment of approximately RMB725.4 million (2009: RMB939.4 million).

Capital commitments, contingencies and charge on assets

The Group will further invest RMB452.9 million to expand the production capacity and re-engineer and modify the existing production facilities to enhance production efficiency. Such capital commitments will be financed by the internal resources 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 31 December 2010.

As at 31 December 2009 and 2010, the Group did not have any property, plant and equipment secured for any borrowings.

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 31 December 2010, the net proceeds had been applied as follows:

	Planned amount *RMB'000*	**Amount utilised up to 31 December 2010** *RMB'000*	**Balance as at 31 December 2010** *RMB'000*
Settlement of the remaining balance of the construction costs of Production line no. 7	163,300	163,300	—
Construction of new 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	1,283,300	—

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 31 December 2010, our Group employed approximately 1,500 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

Under the "12th Five-Year" plan launched by the central government in October 2010, construction of more social security housing has become one of the key policies of the State. It is anticipated that the number of newly constructed social security housing in 2011 will shot up by 70% compared with 2010, pushing up the market demand for decorative base paper products. In view of the Group's high-end technology in producing decorative base paper products and its solid foundation, the Board believes the Group's business will continue to grow steadily in 2011.

To complement its business growth, the Group made an open offer in January 2011, raising approximately HK$345 million in total. On 14 January 2011, the Group issued to an independent party unlisted warrants of the Company in an amount of approximately HK$10 million. Assuming the full exercise of the subscription rights attaching to the warrants by the subscriber, the Company will be able to raise about HK$609 million. These financing activities will further enhance the Group's financial position and reinforce its ability to capture market opportunities in the decorative paper base industry of China.

We will continue to expand our production capacity and further strengthen our competitiveness by improving and upgrading our production facilities. Paralleled to consolidating our leading market position and client base in the mainland market covered by our sales network, we will make an effort to boost the sales and market share of high-end products with a higher gross profit margin, and implement rigorous cost-control measures. The QX Group is keeping a lookout for suitable and potentially lucrative acquisition targets in the decorative base paper industry of China and related areas, with a view to generating greater returns for our shareholders in the long run. The Group will make an announcement in accordance with the requirements of the Listing Rules when such opportunities are realised.

PURCHASE, REDEMPTION OR SALE OF SHARES OF THE COMPANY

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

MATERIAL ACQUISITIONS AND DISPOSALS

The Company did not engage in any material acquisitions or disposals during the year.

CONVERTIBLE BONDS, SHARE OPTIONS, WARRANTS OR OTHER SIMILAR RIGHTS

During the year ended 31 December 2010, the Company had not issued any convertible bonds, share options, warrants or similar rights.

CORPORATE GOVERNANCE

QX Paper is committed to maintaining good standards of corporate governance practices and business ethics. It is the belief of the Board that such commitment can enhance the performance of the Group and serve to enhance our shareholders' value.

The full details of corporate governance practices adopted by the Company throughout the year ended 31 December 2010 will be set out in the Corporate Governance Report contained in the Company's 2010 Annual Report.

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

As at 31 December 2010, the Company had complied with the applicable code provisions (the "Code Provision(s)") under the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules 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 the Company's substantial shareholder (within the meaning ascribed thereto in the Listing Rules), an executive director ("Director(s)") 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 a general manager of the Company. Mr. Zhu Mo Qun (the son of Dr. Zhu), an executive Director and 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 the business strategies formulated by the Board. The Board considers that this management structure can provide the Group with consistent leadership and enables the Group to make and implement the Board's decisions promptly and efficiently. The Board will regularly review the effectiveness of this structure to ensure that such structure is appropriate in view of the Group's prevailing circumstances.

Model Code for Directors' Securities Transaction

The Company has adopted a securities dealing code (the "QX Securities Dealing Code") on no less exacting terms than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules. The QX Securities Dealing Code also applies to the relevant employees (the "Relevant Employees") who may be in possession of unpublished price sensitive information. Having made specific enquiry of all the Directors and the Relevant Employees, the Directors and the Relevant

Employees confirm that they had complied with the required standard set out in both the QX Securities Dealing Code and the Model Code during the year ended 31 December 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 financial statements of the Group for the year ended 31 December 2010 and the accounting principles and practices adopted by the Group during the year.

In view of the various discussions between the auditors of the Company and the Company regarding the issues raised by the auditors in relation to the Group's consolidated financial statements for the year ended 31 December 2010, the Audit Committee of the Company comprised of all the independent non-executive Directors had recently conducted a preliminary investigation into the state of affairs and the internal control system of the Group, and through the gathering of evidence and the conducting of verification so far, the Audit Committee did not discover any significant irregularities in the Group's internal control system and business operations. However, with a view to addressing the issues raised by the auditors, the Audit Committee will engage an independent professional advisor to conduct a review of the Group's internal control system and to conduct further investigation into the matters raised by the Company's auditors. The Company will keep shareholders informed of the progress by making further announcement as and when appropriate.

PUBLICATION OF 2010 ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement has been published on the website of the Company at www.qxpaper.com and HKExnews website of the Stock Exchange at www.hkexnews.hk respectively. The Company's 2010 Annual Report will be available at both websites and despatched to the Company's shareholders as soon as practicable.

SUSPENSION OF TRADING

The Board considers that the Company needs additional time to address the Company's auditors' concerns raised recently. In addition, sufficient time will be required by the independent professional advisor to be engaged by the Audit Committee to conduct further investigation into the matters raised by the Company's auditors. At the request of the Company, trading in the shares of the Company on the Stock Exchange was suspended with effect from 9:00 a.m. on 30 March 2011 and shall continue to remain suspended pending the release of an announcement of the Company giving further clarification to such matters.

APPRECIATION

The achievements of the Group are attributable to the concrete 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 and contributions, and our shareholders, business associates and investors for their support during the year.

By Order of the Board
ZHU Yu Guo
Chairman

Shandong, the PRC, 30 March 2011

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.