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 2011

The board of directors (the "Board") of Qunxing Paper Holdings Company Limited (the "Company" or "QX Paper") announces the consolidated results of the Company and its subsidiaries (the "Group" or "QX Group") for the year ended 31 December 2011 together with the comparative figures for the corresponding period in 2010 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011

	Note	2011 RMB'000	2010 RMB'000
Turnover	4	**2,003,651**	2,058,916
Cost of sales		**(1,676,741)**	(1,539,131)
Gross profit		**326,910**	519,785
Other revenue	5	**3,167**	2,212
Other net gain/(loss)	5	**18**	(189)
Selling expenses		**(25,494)**	(26,426)
Administrative expenses		**(48,418)**	(39,409)
Profit before taxation	6	**256,183**	455,973
Income tax expense	7	**(34,215)**	(58,467)
Profit for the year		**221,968**	397,506
Earnings per share (RMB cents)	9		
Basic		**14**	38

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2011

	2011	2010
	RMB'000	*RMB'000*
Profit for the year	**221,968**	397,506
Other comprehensive loss for the year		
Exchange differences on translation of financial statements of operations outside the People's Republic of China (the "PRC")	**(9,043)**	(2,371)
Total comprehensive income for the year	**212,925**	395,135
Attributable to:		
Equity shareholders of the Company	**212,925**	395,135

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Note	**2011** *RMB'000*	2010 *RMB'000*
Non-current assets			
Property, plant and equipment	*10*	**2,193,346**	2,015,579
Construction in progress	*10*	**451,492**	253,878
Lease prepayments		**14,127**	14,468
Prepayment for the acquisition of plant and equipment	*10*	**—**	24,029
Prepayment for flood prevention expenses		**40,375**	41,225
		2,699,340	2,349,179
Current assets			
Inventories	*11*	**53,440**	48,962
Trade and other receivables	*12*	**74,290**	111,288
Cash and cash equivalents		**488,934**	447,763
		616,664	608,013
Current liabilities			
Trade and other payables	*13*	**100,532**	87,040
Current taxation		**13,076**	22,708
		113,608	109,748
Net current assets		**503,056**	498,265
NET ASSETS		**3,202,396**	2,847,444
Capital and reserves			
Share capital	*14*	**147,562**	102,427
Reserves		**3,054,834**	2,745,017
TOTAL EQUITY		**3,202,396**	2,847,444

Notes:—

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 consolidated results set out in this announcement do not constitute the Group’s financial statements for the year ended 31 December 2011 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.

2. SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies used in the consolidated financial statements for the year ended 31 December 2011 are consistent with those in the preparation of the Group’s 2010 Annual Report.

Warrant

Warrant issued by the Company that will be settled by the exchange of a fixed amount of cash for a fixed number of the Company’s own equity instruments are classified as an equity instrument.

The fair value of warrants on the date of issue is recognised in equity (warrant reserve). The warrants reserve will be transferred to share capital and share premium upon exercise of the warrants. Where the warrants remain unexercised at the expiry date, the amount previously recognised in warrants reserve will be released to the retained profits or accumulated losses.

3. APPLICATION OF NEW AND REVISED 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 and revised standards and interpretations is discussed below.

IAS 24 (Revised) *Related Party Disclosures* is effective for annual period beginning on or after 1 January 2011. It introduces an exception from all of the disclosure requirements of IAS 24 for transactions among government related entities and the government. Those disclosures are replaced with a requirement to disclose:

— The name of the government and the nature of their relationship

— The nature and amount of any individually significant transactions; and

— The extent of any collectively-significant transactions qualitatively or quantitatively.

It also clarifies and simplifies the definition of a related party.

Amendment to IAS 32 *Classification of Rights Issues* is effective for annual period beginning on or after 1 February 2010. This is not currently applicable to the Group, as it has not made any rights issue.

Amendment to IFRIC – Int 14 *Prepayments of a Minimum Funding Requirement* is effective for annual periods beginning on or after 1 January 2011. This is not currently applicable to the Group, as it does not have a minimum funding requirement.

IFRIC – Int 19 *Extinguishing Financial Liabilities with Equity Instruments* is effective for annual period beginning on or after 1 July 2010. This is not currently applicable to the Group, as it has no extinguishment of financial liabilities replaced with equity instruments currently.

Improvement to IFRSs (2010) were issued in May 2010 by IASB are not currently relevant to the Group. All improvements are effective in the financial year of 2011.

The Group has not early applied the following new IFRS that have been issued but are not yet effective:

IAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[4]
IAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[5]
IAS 19 (Amendments) (as revised in 2011)	Employee Benefits[3]
IAS 27 (as revised in 2011)	Separate Financial Statements[3]
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[3]
IAS 32 (as revised in 2011)	Financial Instrument[2]
IFRIC – Int 20	Stripping Cost in Production Phase a Surface Mine[3]
IFRS 7 (Amendments)	Disclosure — Transfer of Financial Assets[1]
IFRS 9	Financial Instruments[4]
IFRS 10	Consolidated Financial Statements[4]
IFRS 11	Joint Arrangements[4]
IFRS 12	Disclosure of Interests in Other Entities[4]
IFRS 13	Fair Value Measurement[4]

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

The amendments to IAS 1 require companies preparing financial statements in accordance with IFRSs to group together items within other comprehensive income ("OCI") that may be reclassified to the profit or loss section of the income statement. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements.

The amendments to IAS 12 provide an exception to the general principles in IAS 12 that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of an asset. Specially, under the amendments, investment properties that are measured using the fair value model in accordance with IAS 40 Investment Property are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The amendments to IAS 12 are effective for annual periods beginning on or after 1 January 2012. The Directors anticipate that the application of the amendments to IAS 12 in future reporting periods may result in adjustments to the amounts of deferred tax liabilities recognised in prior years regarding the Group's investment properties of which the carrying amounts are presumed to be recovered through sales. However, the Directors have not yet performed a detailed analysis of the impact of the application of the amendments and hence have not yet quantified the extent of the impact.

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

The amendments to IAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application with certain exceptions. The Directors anticipate that the amendments to IAS 19 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the amendments to IAS 19 may have impact on amounts reported in respect of the Group's defined benefit plans. However, the Directors have not yet performed a detailed analysis of the impact of the application of the amendments and hence have not yet quantified the extent of the impact.

IFRS 9 *Financial Instruments* introduces new requirements for the classification and measurement of financial assets. IFRS 9 *Financial Instruments* (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

The standard requires all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be measured at either amortised cost or fair value. Specifically, debt investment that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of IFRS 9 will affect the classification and measurement of the Group's financial assets.

In relation of financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Previously, under IAS 39, the entire amount of change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

IFRS 9 will be effective from 1 January 2013, with earlier application permitted.

The amendments to IFRS 7 *Disclosures — Transfer of Financial Assets* increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level continuing exposure in the asset. The amendments also require disclosures when transfers of financial assets are not evenly distributed throughout the period.

IFRS 10 *Consolidated Financial Statements* builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. This standard replaces SIC-12 *Consolidation — Special Purpose Entities* and replaces parts of IAS 27 *Consolidated and Separate Financial Statements*.

IFRS 11 *Joint Arrangements* provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities — Non-monetary Contributions by Venturers*.

IFRS 12 *Disclosure of Interests in Other Entities* is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

IFRS 13 *Fair Value Measurement* improves consistency and reduces complexity by providing, for the first time, a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting, but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.

The directors of the Company anticipate that the application of the other new and revised IFRSs will have no material impact on the results and the financial position of the Group.

4. 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:

	2011	2010
	RMB'000	*RMB'000*
Decorative base paper products	**1,860,237**	1,825,455
Printing paper product	**143,414**	233,461
	2,003,651	2,058,916

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

	2011	2010
	RMB'000	*RMB'000*
Other revenue		
Bank interest income	**3,131**	2,212
Others	**36**	—
	3,167	2,212
Other net gain/(loss)		
Net foreign exchange gain/(loss)	**18**	(189)

6. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2011	2010
	RMB'000	*RMB'000*
(a) Staff costs:		
Contributions to defined contribution retirement plans	**5,097**	3,905
Salaries, wages and other benefits	**50,081**	42,338
	55,178	46,243
(b) Other items:		
Amortisation of prepayment for flood prevention expenses	**850**	425
Amortisation of lease prepayments	**341**	341
Auditors' remuneration		
— Audit services		
— current year	**1,904**	1,001
— underprovision in prior year	**497**	—
— Tax services	**—**	66
Depreciation	**197,776**	150,960
Impairment of property, plant and equipment	**—**	4,137
Operating lease charges in respect of:		
— leasehold land and properties	**6,523**	4,944
— others	**150**	150
Sewage disposal expenses	**438**	362
Research and development costs	**119**	189

7. INCOME TAX EXPENSE

	2011	2010
	RMB'000	*RMB'000*
Current tax — PRC corporate income tax		
Provision for the year	**33,684**	58,017
Under-provision in respect of the prior year	**531**	450
	34,215	58,467

(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 years.

(c) Shandong Qunxing Paper Limited ("Shandong Qunxing") 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 Qunxing for the year ended 31 December 2010 and 2011 is 12.5%.

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

8. DIVIDENDS

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

	2011	2010
	RMB'000	*RMB'000*
Interim dividend declared and paid of HK Nil cents per ordinary share (2010: Nil)	**—**	—
Final dividend proposed after the end of the reporting period of HK3.380 cents (equivalent to approximately RMB2.798 cents) per ordinary share (2010: HK8.633 cents, equivalent to approximately RMB7.517 cents, per ordinary share)	**44,394**	119,252
Special dividend proposed after the end of the reporting period of HK Nil cents per ordinary share (2010:HK3 cents, equivalent to approximately RMB2.612 cents, per ordinary share)	**—**	41,442
	44,394	160,694

The final 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 previous financial year approved and paid during the year

	2011	2010
	RMB'000	*RMB'000*
Final dividend in respect of the year ended 31 December 2010, approved and paid of HK8.633 cents (equivalent to approximately RMB7.517 cents) per ordinary share (2009: HK7.403 cents, equivalent to approximately RMB6.525 cents, per ordinary share)	**119,252**	67,385
Special dividend in respect of the year ended 31 December 2010, approved and paid of HK3 cents (equivalent to approximately RMB2.612 cents) per ordinary share (2009: Nil)	**41,442**	—
	160,694	67,385

9. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2011 is based on the profit attributable to ordinary equity shareholders of the Company of RMB221,968,000 (2010: RMB397,506,000) and the weighted average number of 1,586,391,450 (2010: 1,057,594,300) ordinary shares in issue during the year.

(b) **Diluted earnings per share**

The computation of diluted earnings per share for the year ended 31 December 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 year ended 31 December 2010.

10. 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 2011, the Group incurred aggregate capital expenditure of RMB549,144,000 (2010: RMB725,383,000).

11. INVENTORIES

	2011	2010
	RMB'000	*RMB'000*
Raw materials and consumables	**36,006**	33,372
Finished goods	**17,434**	15,590
	53,440	48,962

12. TRADE AND OTHER RECEIVABLES

	2011	2010
	RMB'000	*RMB'000*
Trade receivables	**72,258**	97,503
Prepayments, deposits and other receivables	**2,032**	1,228
Other tax recoverable	**—**	12,557
	74,290	111,288

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 end of the reporting period:

	2011	2010
	RMB'000	*RMB'000*
Current	**72,258**	93,802
Less than one month past due	**—**	3,701
	72,258	97,503

13. TRADE AND OTHER PAYABLES

	2011	2010
	RMB'000	*RMB'000*
Trade payables	**79,119**	75,596
Other payables and accruals	**21,413**	11,444
	100,532	87,040

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 is generally not more than 30 days.

	2011	2010
	RMB'000	*RMB'000*
0 to 30 days	**79,119**	75,596

14. SHARE CAPITAL

		2011		2010	
	Note	**Number of shares** ***'000***	***RMB'000***	Number of shares *'000*	*RMB'000*
At 1 January		**1,057,594**	**102,427**	1,032,800	100,258
Shares issued in respect of scrip dividends	(a)	**—**	**—**	24,794	2,169
Shares issued under Open Offer	(b)	**528,797**	**45,135**	—	—
At 31 December		**1,586,391**	**147,562**	1,057,594	102,427

(a) Shares issued in respect of scrip dividends

The Board has resolved to recommend the payment of a final dividend for the year ended 31 December 2009 wholly in scrip form equivalent to HK7.403 cents (equivalent to approximately RMB6.525 cents) per ordinary share to shareholders whose names appear on the register of members of the Company on 5 May 2010, totalling of HK$76,458,000 (equivalent to approximately RMB67,385,000).

For the purpose of calculating the number of scrip shares allotted in respect of the 2009 final dividend, the market value of the scrip dividend was HK$3.0837, which was the average closing price of the Company's share as quoted on the Stock Exchange for the five consecutive trading days immediately preceding 5 May 2010, less a discount of 5% and rounding such figure to four decimal places.

On 8 June 2010, the Company issued and allotted 24,794,300 of shares in scrip form to shareholders totalling of HK$76,458,000 (equivalent to approximately RMB67,385,000), out of which RMB2,169,000 was recorded in share capital and RMB65,216,000 was recorded in share premium. These shares rank pari passu with the existing shares of the Company in all aspects.

(b) Shares 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.

FINAL DIVIDEND

No interim dividend was declared for the six months ended 30 June 2011 (six months ended 30 June 2010: Nil).

The Board has recommended the payment of a final dividend of HK3.38 cents (2010: HK8.633 cents) per share for the year ended 31 December 2011. The Board does not recommend the payment of a special dividend (2010: HK3 cents).

Subject to the approval of the shareholders at the annual general meeting (the "AGM") of the Company to be held on Wednesday, 27 June 2012, the proposed final dividend will be paid on or about Tuesday, 17 July 2012 to shareholders whose names appear on the register of members of the Company on Friday, 6 July 2012.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 25 June 2012 to Wednesday, 27 June 2012 (both days inclusive), for the purpose of ascertaining the shareholders who are entitled to attend and vote at the AGM. In order to qualify for attending and voting at the AGM, all transfer forms 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 Friday, 22 June 2012.

The register of members of the Company will be closed from Wednesday, 4 July 2012 to Friday, 6 July 2012 (both days inclusive), for the purpose of ascertaining the shareholders who are qualified to receive the final dividend. In order to qualify for receiving the final dividend, all transfer forms 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 Tuesday, 3 July 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

2011 was the first year of the "Twelfth Five-Year Plan" of the PRC. China was able to maintain its economic growth in a steady manner, amidst the deepening global financial crisis. According to the National Bureau of Statistics of the PRC, China's gross domestic product (GDP) reached RMB47.2 trillion in 2011, up 9.2% year-on-year, and the overall living standard in China continued to rise.

During the year, the Central Government launched stringent measures to curb the speculative property market, putting a lid on housing prices. In a bid to ease housing pressure on households and ensure affordable housing supply, more social security houses have been produced by the Central Government in recent years, resulting in stable development in the property market. Meanwhile, growth in the gross floor areas of commodity housing sold was sustained with 1,099 million square metres sold in total for 2011.

Demand for housing decoration materials was driven by the rising demand for housing. In addition, China's rising disposable income also raised people's awareness for quality of living. In order to accommodate changes in such consumer spending pattern, the Group continued to boost sales of high-end products in order to boost business growth.

For the year ended 31 December 2011, the Group recorded a turnover of RMB2,003,651,000, substantially the same as RMB2,058,916,000 achieved in 2010. Profits for the year dropped by 44.2% to RMB221,968,000 mainly due to increases in raw material costs and depreciation, inadequate local supply of electricity and steam in the second half of 2011 as well as increment in administrative expense resulting from the Group's measures to investigate audit issues raised by its former auditors. Earnings per share were RMB14 cents (2010: RMB38 cents).

Sales Growth

During the year, selling prices of the Group's decorative base paper products remained steady with the sales volume increasing by 0.7%, primarily reflecting increased production capacity and expanded demand for premium decorative base paper products, but the decrease in sales volume of printing paper product could not be fully offset by such increase. Our production capacity expanded in the second half of 2011 primarily due to the full launch of Production lines nos. 12 and 13. However, as a result of inadequate local supply of electricity and steam following the trial operations of our new production lines, full-capacity operations could not be achieved in the second half of 2011. In addition, as the northern regions of China were hit by severe cold weather throughout the fourth quarter of 2011 and households were given priority for local steam supply, average production volume of our production lines was lower than expectation. The overall utilisation rates of our production capacity declined and the effects of economies of scale were not entirely reflected during the year. Coupled with the rise in raw material costs, overall gross margin of the Group reduced to 16.3% in 2011.

Expansion of Production Capacity

The Group launched the reconstruction of Production lines nos. 1 and 2 in September 2010 and completed the related works in the fourth quarter of 2011. Currently, trial and fine-tuning production runs are being conducted. The expansion of production capacity mainly involves premium decorative base paper products that have a higher profit margin. We believe this will effectively alleviate the pressure on the gross profit margin resulting from the surge in wood pulp cost.

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 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 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. 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 and completed in 2011. The other system 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 year, the Group strived to enhance our internal control system and has, in late 2011, 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 control. Further announcement will be made by the Company as and when appropriate for informing our shareholders on the progress of the further independent review and investigation.

FINANCIAL REVIEW

Turnover

During the year under review, the sales of decorative base paper products, our principal product, continued to provide us a sustainable source of income. The sales volumes of decorative base paper products increased by approximately 0.7% from 141,429 tonnes in 2010 to 142,480 tonnes in 2011 while the average selling price increased by approximately 1.2% from RMB12,907 per tonne in 2010 to RMB13,056 per tonne in 2011. Turnover of decorative base paper products achieved RMB1,860.2 million for the year ended 31 December 2011, represented an increase of approximately 1.9% from RMB1,825.5 million for the year ended 31 December 2010.

Nonetheless the average selling price of printing paper product increased by approximately 2.2% from RMB6,460 per tonne in 2010 to RMB6,602 per tonne in 2011, turnover of printing paper product decreased by approximately 38.6% from RMB233.5 million in 2010 to RMB143.4 million in 2011 was mainly due to the termination of business with a customer during the year where the sales volume of printing paper product decreased by approximately 39.9% from 36,318 tonnes in 2010 to 21,722 tonnes in 2011.

As a result, the overall turnover for the year ended 31 December 2011 decreased by approximately 2.7% from RMB2,058.9 million in 2010 to RMB2,003.7 million in 2011.

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 8.9% from RMB1,539.1 million for the year ended 31 December 2010 to RMB1,676.7 million for the year ended 31 December 2011. The increase in cost of sales was primarily due to the combined effects of (i) an increase in the aggregate raw materials consumed, which are the major component of our cost of sales, as a result of the increased sales volume in decorative base paper products, (ii) an increase in unit purchasing costs of wood pulp and titanium dioxide powder, our principal raw materials for production during the year ended 31 December 2011 (as discussed below), (iii) an increase in depreciation expenses and staff costs due to the commercial operation of Production lines nos. 12 and 13 since October 2010; and (iv) decrease in utilities and steam expenses due to the inadequate local supply of electricity and steam in the second half of 2011.

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 2010 and 2011, the purchase of wood pulp amounted to approximately RMB603.0 million and RMB572.4 million, respectively, representing approximately 39.2% and 34.1% of the total cost of sales for the respective years. The decrease is due to the combined effect of (i) an increase in the average purchase price (value added tax inclusive) of wood pulp by approximately 4.3% from approximately RMB6,247 per tonne in 2010 to RMB6,514 per tonne in 2011; and (ii) an decrease in usage of wood pulp as a result of the decrease in sales volume of printing paper product. For each of the two years ended 31 December 2010 and 2011, the purchase of titanium dioxide powder amounted to approximately RMB418.4 million and RMB544.0 million, respectively, representing approximately 27.2% and 32.4% 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 average purchase price (value added tax inclusive) of titanium dioxide by approximately 17.4% from approximately RMB13,451 per tonne in 2010 to RMB15,787 per tonne in 2011; and (ii) an increase in the usage of titanium dioxide as a result of the increased sales volume in decorative base paper products.

Depreciation charges

During the years ended 31 December 2010 and 2011, our depreciation charges included in cost of sales increased by approximately 30.7% from RMB149.0 million in 2010 to RMB194.7 million in 2011, was mainly due to the commercial operation of Production lines nos. 12 and 13 since October 2010.

Utilities and steam expenses

During the years ended 31 December 2010 and 2011, our electricity and steam expenses decreased by approximately 7.4% from RMB176.6 million in 2010 to RMB163.5 million in 2011, were mainly due to the inadequate local supply of electricity and steam in the second half of 2011. The electricity and steam expenses accounted for approximately 11.5% and 9.8% of the total cost of sales for the respective years.

Gross profit and gross profit margin

The gross profit of our Group decreased by approximately 37.1% from RMB519.8 million for the year ended 31 December 2010 to RMB326.9 million for the year ended 31 December 2011. The following table sets forth the gross profit margin of each category of the products for the two years ended 31 December 2010 and 2011:

Products	Year ended 31 December	
	2011	2010
Decorative base paper products		
— Premium coloured decorative base paper	**27.5%**	33.2%
— Premium white decorative base paper	**15.2%**	24.7%
— Ordinary coloured decorative base paper	**16.1%**	25.7%
Sub-total	**17.2%**	26.5%
Printing paper product	**5.2%**	15.8%
Overall	**16.3%**	25.2%

The change in overall gross profit margin of our decorative base paper products in 2011 was mainly attributable to the increased raw material costs, increased depreciation charges and inadequate local supply of electricity and steam as discussed above where the economies of scales cannot be achieved. As a result, the average unit cost for decorative base paper products was comparative higher for the year ended 31 December 2011 and the gross profit margins were affected.

The gross profit margin of printing paper product decreased from 15.8% in 2010 to 5.2% in 2011 was mainly due to the termination of business with a customer where the economies of scale in operating the printing paper product segment was affected. The Group has made 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 25.2% for the year ended 31 December 2010 to approximately 16.3% for the year ended 31 December 2011.

Other revenue

Other revenue, which represented the interest income earned from the bank deposits, increased by approximately 43.2% from RMB2.2 million for the year ended 31 December 2010 to RMB3.2 million for the year ended 31 December 2011 was mainly due to the increase in average bank balances held by the Group after the open offer in January 2011.

Selling expenses

As at 31 December 2011, our Group had 48 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. Our Group incurred selling expenses of RMB26.4 million and RMB25.5 million for the year ended 31 December 2010 and 2011, respectively. As a percentage of turnover, our selling expenses maintained at approximately 1.3% for the two years ended 31 December 2010 and 2011.

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 22.8% from RMB39.4 million for the year ended 31 December 2010 to RMB48.4 million for the year ended 31 December 2011 was mainly attributable to the additional costs of approximately RMB5.9 million incurred resulting from the Group's measures to investigate audit issues raised by the former auditors. As a percentage of turnover, our administrative expenses increased from approximately 1.9% for the year ended 31 December 2010 to approximately 2.4% for the year ended 31 December 2011.

Finance costs

Our Group did not incur any finance costs during the year ended 31 December 2010 and 2011.

Income tax

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

Shandong Qunxing, 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 2010 and 2011 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 2010 and 2011 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 2010 and 2011 were 12.8% and 13.3% respectively, The reconciliation between income tax expenses and accounting profit at the applicable tax rates was set out as follows:

	Year ended 31 December	
	2011	2010
	RMB'000	*RMB'000*
Profit before taxation	**256,183**	455,973
Notional tax on profit before taxation, calculated at the tax rates applicable in the countries concerned	**65,277**	114,729
Tax effect of tax concession period	**(33,620)**	(58,548)
Tax effect of non-deductible expenses	**2,310**	1,857
Tax effect of non-taxable income	**(283)**	(21)
Under provision in prior year	**531**	450
Income tax expenses for the year	**34,215**	58,467

Liquidity and financial resources

Current and quick ratio

During the years under review, the current ratio and quick ratio of the Group maintained at steady level. The current ratio of the Group were 5.5 and 5.4 and the quick ratio of the Group were 5.1 and 5.0 as at 31 December 2010 and 2011, respectively.

Gearing ratio

As at 31 December 2010 and 2011, 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 2011, shareholders' funds of the Group totalled RMB3,202.4 million, representing an increase of approximately 12.5% from RMB2,847.4 million at 31 December 2010. The Group had cash and cash equivalents of approximately RMB488.9 million as at 31 December 2011 (2010: RMB447.8 million).

The Group continues to enjoy a stable and strong net cash inflow from operations. During the years ended 31 December 2010 and 2011, the net cash generated from operations was RMB509.3 million and RMB450.5 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 2011, 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 2011, 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 RMB549.1 million (2010: RMB725.4 million).

Capital commitments, contingencies and charge on assets

The Group will further invest RMB120.0 million to expand the production capacity and reengineer 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 2011.

As at 31 December 2010 and 2011, 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 2011, the net proceeds had been applied as follows:

	Planned amount *RMB'000*	**Amount utilised up to 31 December 2011** *RMB'000*	**Balance as at 31 December 2011** *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 2011, our Group employed approximately 1,600 employees in the PRC and Hong Kong. Key components of the Group's remuneration packages include basic salary, medical insurance, discretionary cash bonus and retirement benefit scheme. Promotion and salary increments are assessed based on a performance related basis.

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

OUTLOOK

In addition to the development of commodity housing market, construction of more social security housing becoming one of the key polices of the State under the "Twelfth Five-Year Plan" of the PRC will further stimulate 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 2012.

To seize important opportunities for market development, the Group will continue to expand its production capacity by upgrading existing production facilities, diversifying product offerings as well as increasing our market share. Besides, the Group will also strive to strengthen its leading position and customer base in its existing sales regions, optimize its product structure, increase sales proportion of high-end products that have a higher profit margin as well as adhering to strict cost control so as to achieve business growth. The Group is actively looking for suitable and potentially lucrative acquisition targets in the decorative base paper industry of China and related areas with a view to generating greater benefit 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.

EXTRACT OF INDEPENDENT AUDITORS' REPORT

The following is an extract from the report issued by HLB Hodgson Impey Cheng on the financial statements:

Basis for qualified opinion

The consolidated financial statements of the Group for the year ended 31 December 2010 were audited by another firm of auditors (the "Previous Auditor"), who expressed a disclaimer of opinion on those statements on 30 March 2011. As stated in its independent auditor's report dated 30 March 2011, the Previous Auditor 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. The Previous Auditor also identified discrepancies which indicated that documents contained in the Group's accounting records relating to some of the Group's bank transactions might not be authentic or otherwise reliable. In performing our audit of the consolidated financial statements of the Group for the year ended 31 December 2011, we have not been able to obtain sufficient appropriate audit evidence to satisfy ourselves as to whether the opening balances as at 1 January 2011 and comparative figures of 31 December 2010 were fairly stated. Any adjustments found to be necessary to the opening balances as at 1 January 2011 may affect the results and cash flows of the Group for the year ended 31 December 2011 and related disclosures in the consolidated financial statements.

Qualified opinion

In our opinion, except for the possible effects of the matters described in the basis for qualified opinion paragraph, the consolidated financial statements give a true and fair view of the state of affairs of the Group and the Company as at 31 December 2011, and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

The consolidated financial statements of the Group for the year ended 31 December 2010 were audited by the Previous Auditor who expressed a disclaimer of opinion on those statements on 30 March 2011.

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 years except for the issue of 528,797,150 shares by way of open offer to shareholders, details of which were set out in a prospectus of the Company dated 17 December 2010 and an announcement of the Company dated 10 January 2011.

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 2011, the Company had not issued any convertible bonds, share options or similar rights.

As disclosed in an announcement of the Company dated 14 January 2011, on even date, the Company entered into a subscription agreement (the "Subscription Agreement") with an independent third party (the "Subscriber") to subscribe for warrants (the "Warrant(s)") of up to HK$609,352,000 at a 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 an exercise price of HK$2.95 per Warrant share (subject to adjustment as provided in the Subscription Agreement) (the "Subscription Rights") at any time during a period (the "Period") of 12 months commencing from the completion date (i.e. 21 January 2011) of the subscription of the Warrants.

The Subscriber didn't exercise the Subscription Rights during the Period.

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 2011 will be set out in the Corporate Governance Report contained in the Company's 2011 Annual Report.

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

As at 31 December 2011, 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 2011.

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 2011 and the accounting principles and practices adopted by the Group during the year.

PUBLICATION OF 2011 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 2011 Annual Report will be available at both websites and despatched to the Company's shareholders as soon as practicable.

APPRECIATION

Last but not least, on behalf of the Board, I would like to take this opportunity to express my gratitude to 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, 14 March 2012

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.