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 2012

SUMMARY OF RESULTS

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 2012 together with the comparative figures for the corresponding period in 2011 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	Note	**2012** ***RMB'000***	2011 *RMB'000*
Turnover	3	**1,880,407**	2,003,651
Cost of sales		**(1,673,428)**	(1,676,741)
Gross profit		**206,979**	326,910
Other revenue	4	**2,221**	3,167
Other net (loss)/gain	4	**(12,610)**	18
Selling expenses		**(28,272)**	(25,494)
Administrative expenses		**(58,341)**	(48,418)
Profit before taxation	5	**109,977**	256,183
Income tax expense	6	**(34,724)**	(34,215)
Profit for the year		**75,253**	221,968
Earnings per share (RMB cents)	8		
Basic		**5**	14

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	2012	2011
	RMB'000	*RMB'000*
Profit for the year	**75,253**	221,968
Other comprehensive income/(loss) for the year		
Exchange differences on translation of financial statements of operations outside the People's Republic of China (the "PRC")	**1,036**	(9,043)
Total comprehensive income for the year	**76,289**	212,925
Attributable to:		
Equity shareholders of the Company	**76,289**	212,925

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Note	**2012** ***RMB'000***	2011 *RMB'000*
Non-current assets			
Property, plant and equipment	*9*	**2,473,224**	2,193,346
Construction in progress	*9*	**111,832**	451,492
Lease prepayments		**13,786**	14,127
Prepayment for flood prevention expenses		**39,525**	40,375
		2,638,367	2,699,340
Current assets			
Inventories	*10*	**41,319**	53,440
Trade and other receivables, prepayments and deposits	*11*	**126,061**	74,290
Cash and cash equivalents		**539,535**	488,934
		706,915	616,664
Current liabilities			
Trade and other payables	*12*	**101,123**	100,532
Current taxation		**9,868**	13,076
		110,991	113,608
Net current assets		**595,924**	503,056
NET ASSETS		**3,234,291**	3,202,396
Capital and reserves			
Share capital	*13*	**147,562**	147,562
Reserves		**3,086,729**	3,054,834
TOTAL EQUITY		**3,234,291**	3,202,396

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 2012 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. 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.

Amendments to IFRS 7 *Disclosures – Transfers of Financial Assets* are effective for annual period beginning or after 1 July 2011. It increases the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred. The Group did not enter into any types of transfer of financial assets during the year. The amendments to IFRS 7 had no material impact on the disclosure requirements in the Group's consolidated financial statements.

Amendments to IAS 12 *Deferred Tax: Recovery of Underlying Assets* are effective for annual period beginning on or after 1 January 2012. Those 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 Properties* are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances. This is not currently applicable to the Group, as it has no deferred tax on recovery of underlying assets.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective:

IAS 1 (Amendments)	Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income[4]
IAS 16 (Amendments)	Property, Plant and Equipment[3]
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 Instruments: Offsetting Financial Assets and Financial Liabilities[2]
IAS 34 (Amendments)	Interim Financial Reporting[3]
IFRIC – Int 20	Stripping Cost in Production Phase a Surface Mine[3]
IFRS 7 (Amendments)	Disclosures – Offsetting Financial Assets and Financial Liabilities[3]
IFRS 9	Financial Instruments[1]
IFRS 10	Consolidated Financial Statements[3]
IFRS 11	Joint Arrangements[3]
IFRS 12	Disclosure of Interests in Other Entities[3]
IFRS 13	Fair Value Measurement[3]
IFRS 10, 11, 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transitional Guidance[3]
IFRS 10,12 and IAS 27 (Amendments)	Investment Entities[2]
IFRS (Amendments)	Annual Improvements to IFRSs 2009-2011 Cycle[3]

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

Amendments to IAS 1 *Presentation of Financial Statements-Presentation of Items of Other Comprehensive Income* are effective for annual period beginning on or after 1 July 2012. Those introduce new terminology for the statement of comprehensive income and income statement. Those 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.

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 HKFRS 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.

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.

In June 2012, the amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the application of these IFRSs for the first time.

The amendments to IAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specially, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments to IFRS 7 requires entities to disclose information about rights of offset and related arrangement (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

Amendment to IAS 1 *Presentation of Financial Statements* under *Annual Improvements to IFRSs 2009-2011 Cycle* is effective for annual period beginning on or after 1 January 2013. It requires an entity that changes accounting polices retrospective restatement or reclassification to present a statement of financial position as at the beginning of the preceding period. The amendments to IAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position. This is not currently applicable to the Group, as it has no presentation of financial statement currently.

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.

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:

	2012	2011
	RMB'000	*RMB'000*
Decorative base paper products	**1,705,393**	1,860,237
Printing paper product	**175,014**	143,414
	1,880,407	2,003,651

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

	2012	2011
	RMB'000	*RMB'000*
Other revenue		
Bank interest income	**2,182**	3,131
Others	**39**	36
	2,221	3,167
Other net (loss)/gain		
Impairment loss of property, plant and equipment	**(12,608)**	—
Net foreign exchange (loss)/gain	**(2)**	18
	(12,610)	18

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2012 *RMB'000*	2011 *RMB'000*
(a) Staff costs:		
Contributions to defined contribution retirement plans	**6,637**	5,097
Salaries, wages and other benefits	**61,954**	50,081
	68,591	55,178
(b) Other items:		
Amortisation of prepayment for flood prevention expenses	**850**	850
Amortisation of lease prepayments	**341**	341
Auditors' remuneration		
— Audit services		
— current year	**2,300**	1,904
— underprovision in prior year	**800**	497
Depreciation	**229,871**	197,776
Impairment loss of property, plant and equipment	**12,608**	—
Operating lease charges in respect of:		
— leasehold land and properties	**9,199**	6,523
— others	**170**	150
Sewage disposal expenses	**438**	438
Research and development costs	**118**	119

6. INCOME TAX EXPENSE

	2012 *RMB'000*	2011 *RMB'000*
Current tax — PRC corporate income tax		
Provision for the year	**34,235**	33,684
Under-provision in respect of the prior year	**489**	531
	34,724	34,215

(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 2011 and 2012 are 12.5% and 25% respectively.

In addition, the Group would be subject to withholding tax at the rate of 5% if profits generated by Shandong 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.

7. DIVIDENDS

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

	2012	2011
	RMB'000	*RMB'000*
Interim dividend declared and paid of HK Nil cents per ordinary share (2011: Nil)	**—**	—
Final dividend proposed after the end of the reporting period of HK1.229 cents (equivalent to approximately RMB1 cent) per ordinary share (2011: HK3.380 cents, equivalent to approximately RMB2.798 cents, per ordinary share)	**15,864**	44,394
	15,864	44,394

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

	2012	2011
	RMB'000	*RMB'000*
Final dividend in respect of the year ended 31 December 2011, approved and paid 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 in respect of the year ended 31 December 2011, approved and paid 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

8. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2012 is based on the profit attributable to ordinary equity shareholders of the Company of RMB75,253,000 (2011: RMB221,968,000) and the weighted average number of 1,586,391,450 (2011: 1,586,391,450) ordinary shares in issue during the year.

(b) Diluted earnings per share

Diluted earnings per share for the years ended 31 December 2012 and 2011 were the same as the basis earnings per share as there were no diluting event existed during both years.

9. CAPITAL EXPENDITURE

Capital expenditure comprises additions to property, plant and equipment and construction in progress. During the year ended 31 December 2012, the Group incurred aggregate capital expenditure of RMB240,576,000 (2011: RMB549,144,000).

10. INVENTORIES

	2012	2011
	RMB'000	*RMB'000*
Raw materials and consumables	**24,762**	36,006
Finished goods	**16,557**	17,434
	41,319	53,440

11. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	2012	2011
	RMB'000	*RMB'000*
Trade receivables	**53,999**	72,258
Prepayments, deposits and other receivables	**72,062**	2,032
	126,061	74,290

All of the trade receivables are expected to be recovered within one year.

Included in prepayments, deposits and other receivables, deposits of approximately RMB67,200,000 was paid to acquire plant and machinery as at 31 December 2012.

Ageing analysis

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

	2012	2011
	RMB'000	*RMB'000*
Current	**53,999**	72,258

12. TRADE AND OTHER PAYABLES

	2012	2011
	RMB'000	*RMB'000*
Trade payables	**78,120**	79,119
Other payables and accruals	**23,003**	21,413
	101,123	100,532

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

	2012	2011
	RMB'000	*RMB'000*
0 to 30 days	**78,120**	79,119

13. SHARE CAPITAL

		2012		2011	
	Note	**Number of shares** ***'000***	***RMB'000***	Number of shares *'000*	*RMB'000*
At 1 January		**1,586,391**	**147,562**	1,057,594	102,427
Shares issued under Open Offer	*(a)*	**—**	**—**	528,797	45,135
At 31 December		**1,586,391**	**147,562**	1,586,391	147,562

(a) 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

The Board has recommended the payment of a final dividend of HK1.229 cents (2011: HK3.38 cents) per share for the year ended 31 December 2012. No interim dividend was paid for the six months ended 30 June 2012 (six months ended 30 June 2011: Nil).

Subject to the approval of the shareholders at the annual general meeting (the "**2013 AGM**") of the Company to be held on Wednesday, 19 June 2013, the proposed final dividend will be paid on or about Friday, 12 July 2013 to shareholders whose names appear on the register of members of the Company on Friday, 28 June 2013.

EXTRACT FROM ANNUAL REPORT

The annual report on the Group's financial information for the year months ended 31 December 2012 contained an emphasis of matter. The following is extracted from the annual report issued by HLB Hodgson Impey Cheng Limited.

Opinion

In our opinion, 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 2012 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Emphasis of matter

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

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 17 June 2013 to Wednesday, 19 June 2013 (both days inclusive), for the purpose of ascertaining the shareholders who are entitled to attend and vote at the 2013 AGM. In order to qualify for attending and voting at the 2013 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,14 June 2013.

The register of members of the Company will be closed from Wednesday, 26 June 2013 to Friday, 28 June 2013 (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, 25 June 2013.

2013 AGM

The 2013 AGM will be held at the Company's head office situated at San Li He, Chang Shang Town, Zouping County, Shandong Province, the PRC on Wednesday, 19 June 2013. The Notice of the 2013 AGM will be published on the website of the Company at www.qxpaper.com and HKExnews website of the Stock Exchange at www.hkexnews.hk respectively, and despatched to the Company's shareholders around mid April 2013.

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of QX Paper, I hereby present the audited annual results of the Group for the year ended 31 December 2012.

Business review

In 2012, the global economy was perplexed by the sovereign debt crisis in Europe and the financial cliff in the United States. In comparison to the global economy, the Chinese economy maintained sound growth momentum despite its slowing economic growth. According to the National Bureau of Statistics of China, the country's gross domestic product (GDP) for 2012 amounted to RMB51.9 trillion, representing a growth of 7.8%, which decelerated from 2011.

Although the real estate market showed signs of recovery during the year, the sales of floor space of commodity housing only recorded a slight increase of 1.8% to 1,113.04 million square metres largely due to central government's property curbs. This represented a decline of 2.6 percentage points in sales growth from 2011, exerting pressure on the demand for decorative items and in turn relatively significant effect on the business of the Group.

For the year ended 31 December 2012, the Group recorded a turnover of RMB1,880,407,000, representing a decrease of 6.2% from the turnover of RMB2,003,651,000 for the same period in 2011. Gross profits dropped from approximately RMB326,910,000 in 2011 by 36.7% to approximately RMB206,979,000 in 2012. In 2012, profits declined by 66.1% to RMB75,253,000. Basic earnings per share was RMB5 cents (2011: RMB14 cents). The Board recommends distribution of final dividends of HK1.229 cents per share (2011: HK3.38 cents).

Decrease in profits of the Group during the year was mainly attributable to (1) decrease in overall sales volume, leading to an increase in the fixed cost shared by each tonne of products and therefore a decrease in the gross profit margin; (2) loss from disposal of the legacy Production line no. 2 upon completion of reconstruction and commencement of commercial production of Production line no. 2 in March 2012; (3) increment in administrative expense resulting from the Company's measures to investigate audit issues raised by its former auditors and (4) increase in income tax expenses as compared to the same period last year as the tax concession entitled by the Group as a foreign investment enterprise expired at the end of 2011.

Sales performance

During the year under review, the Group's products recorded decrease in the overall sales volume, which mainly reflected customers' more prudent approach to placing orders under the influence of the macroeconomy, as well as the direct impact of intensifying competition in the PRC's decorative base paper market on the sales revenue of the Group. Despite their completion of reconstruction in the fourth quarter of 2011 and their additional contribution to the production capacity, Production lines nos. 1 and 2 would be unable to help invigorate sales growth in the short term.

During the year, the overall sales volume of the Group dropped from 164,202 tonnes for the same period last year by approximately 3.5% to 158,405 tonnes of 2012. Of this, the sales volume of our major product decorative base paper was down by 8.4% from 142,480 tonnes of 2011 to 130,529 tonnes of 2012, whereas the average sales price maintained at a steady level. In 2012, the sales revenue of decorative base paper shrunk by 8.3%, accounting for 90.7% of the total turnover.

Expansion of production capacity

After completion of reconstruction in the fourth quarter of 2011, the Group's Production lines nos. 1 and 2 commenced commercial production in March 2012. The additional production capacity mainly concentrates on high-end decorative base paper products. On the other hand, reconstruction of Production line no. 3 on the relocation site selected by the Group in May 2012 continued to proceed, and was expected to complete in the fourth quarter of 2013. The reconstruction of Production line no. 3 was aimed at enhancing the production techniques and preparing ahead for long-term development. The existing Production line no. 3 would maintain operation during the reconstruction period.

Sophisticated distribution channels

Currently, the Group has set foot in six retail sales regions in the PRC, namely Shandong, Sichuan, Guangdong, Beijing, Jiangsu and Zhejiang. The Company boasts a sophisticated distribution network and its clientele comes from 13 provinces, autonomous regions and municipalities in the PRC.

Versatile product portfolio

The Group strives to develop widely applicable and quality decorative base paper products. At present, the Group produces and retails over 80 types of products catering to different markets. Products of the Group are suitable for a broad range of applications, ranging from furniture and office and home products to interior decorations of large facilities such as stadiums, community halls, exhibition centres, as well as vehicles and aircrafts. The Group will continue to enhance sales of high-end decorative paper base products to increase its profits.

Environmental protection

The Group places high emphasis on environmental protection. High-end wood pulp used to produce decorative base paper products causes almost zero environmental pollution during the production process. At present, we have two waste water treatment systems with a total annual processing capacity of approximately 5,350,000 cubic metres. Waste water after treatment is reused for irrigation at the Group's production base in Shandong.

Independent audit and investigation report

During the year, the Group made its best efforts to strengthen its internal audit system and engaged an independent professional firm at the end of 2011 to investigate audit matters raised by its ex-auditor and to make further report on the audit and investigation. The relevant investigation report was submitted to The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 30 November 2012. On 28 February 2013, the Stock Exchange sent its comments on the Company's submission dated 10 January 2013. The Company replied on 15 March 2013 and is awaiting the response of the Stock Exchange to the replies. The Group is aware of the concerns raised by shareholders and investors about the Group's internal audit and control functions. We hereby reiterate that the Group is conducting its business as usual. The Group will make further announcement in due course to inform the shareholders of the progress of the investigation.

Outlook

Looking ahead, the property sector cooling measures imposed by the Central Government of China will likely remain unchanged despite the uncertainty in the global and China's economies in the near future. However, the "12th Five-year Plan" states that more public and government subsidised housing will be built, which will continue to be one of the major policies during the five-year period. Such policy environment is expected to continue to lend support to the decorative base paper market. Moreover, sustained stable growth of China's economy in the long run, continued active and steady progress of urbanisation, as well as continually rising national income, will continue to fuel the demand for commercial houses and in turn decorative base paper products. Building on the Group's high-end technologies in producing decorative base paper products and its solid foundation, the Board is cautiously optimistic towards the business growth of the Group in 2013.

In face of a more challenging market environment, the Group will continue to enhance its product quality through improvements of production facilities, and to increase its market share through enhancements of goodwill. Furthermore, paralleled to the consolidation of market leadership and customer base in existing sales regions, the Group will also strive to tap into new markets. On top of these, the Group will continue to fine tune its product portfolio and increase the sales weight and market share of high-end products with higher gross profit margins. Lastly, the Group will consistently implement stringent cost control measures, including controlling procurement costs, in order to increase the gross profit margin of products and in turn deliver better returns for our shareholders.

Appreciation

On behalf of the Board, I hereby express our sincere gratitude to the management and staff for their hard work and contributions, and thank our shareholders, business partners and investors for their support during the year.

By the order of the Board
ZHU Yu Guo
Chairman

Shandong, the PRC, 18 March 2013

MANAGEMENT DISCUSSION AND ANALYSIS

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 decreased by approximately 8.4% from 142,480 tonnes in 2011 to 130,529 tonnes in 2012 while the average selling price increased by approximately 0.1% from RMB13,056 per tonne in 2011 to RMB13,065 per tonne in 2012. Turnover of decorative base paper products achieved RMB1,750.4 million for the year ended 31 December 2012, represented a decrease of approximately 5.9% from RMB1,860.2 million for the year ended 31 December 2011.

Nonetheless the average selling price of printing paper product decreased by approximately 4.9% from RMB6,602 per tonne in 2011 to RMB6,278 per tonne in 2012, turnover of printing paper product increased by approximately 22.0% from RMB143.4 million in 2011 to RMB175.0 million in 2012 was mainly due to exploration of new customers during the year where the sales volume of printing paper product increased by approximately 28.3% from 21,722 tonnes in 2011 to 27,876 tonnes in 2012.

The overall turnover for the year ended 31 December 2012 decreased by approximately 6.2% from RMB2,003.7 million in 2011 to RMB1,880.4 million in 2012.

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 decreased by approximately 0.2% from RMB1,676.7 million for the year ended 31 December 2011 to RMB1,673.4 million for the year ended 31 December 2012. The decrease in cost of sales was primarily due to the combined effects of (i) a decrease in the aggregate raw materials consumed, which are the major component of our cost of sales, as a result of the decreased sales volume in decorative base paper products, (ii) a decrease in unit purchasing cost of wood pulp and an increase in unit purchasing cost of titanium dioxide powder, our principal raw materials for production during the year ended 31 December 2012 (as discussed below); and (iii) an increase in depreciation expenses due to the commercial operation of rebuilt Production lines nos. 1 and 2 since March 2012.

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 2011 and 2012, the purchase of wood pulp amounted to approximately RMB572.4 million and RMB520.5 million, respectively, representing approximately 34.1% and 31.1% of the total cost of sales for the respective years. The decrease is due to the combined effect of (i) a decrease in the average purchase price (value added tax inclusive) of wood pulp by approximately 5.9% from approximately RMB6,514 per tonne in 2011 to RMB6,130 per tonne in 2012; and (ii) a decrease in usage of wood pulp as a result of the decrease in sales volume of decorative base paper products.

For each of the two years ended 31 December 2011 and 2012, the purchase of titanium dioxide powder amounted to approximately RMB544.0 million and RMB559.0 million, respectively, representing approximately 32.4% and 33.4% 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 12.2% from approximately RMB15,787 per tonne in 2011 to RMB17,720 per tonne in 2012; and (ii) a decrease in the usage of titanium dioxide as a result of the decreased sales volume in decorative base paper products.

Depreciation charges

During the year ended 31 December 2011 and 2012, our depreciation charges included in cost of sales increased by approximately 17.5% from RMB194.7 million in 2011 to RMB228.7 million in 2012, was mainly due to the commercial operation of rebuilt Production lines nos. 1 and 2 since March 2012.

Utilities and steam expenses

During the years ended 31 December 2011 and 2012, our electricity and steam expenses decreased by approximately 2.5% from RMB163.5 million in 2011 to RMB159.4 million in 2012, were mainly due to the combined effect of i) a decrease in utilisation of electricity and steam as a result of decrease in production volume under the decrease in sales; and ii) the inadequate local supply of electricity and steam in the second half of 2011 while no such situation existed in 2012. The electricity and steam expenses accounted for approximately 9.8% and 9.5% 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 36.7% from RMB326.9 million for the year ended 31 December 2011 to RMB207.0 million for the year ended 31 December 2012. The following table sets forth the gross profit margin of each category of the products for the two years ended 31 December 2011 and 2012:

	Year ended 31 December	
	2012	2011
Products		
Decorative base paper products	**11.6%**	17.2%
Printing paper product	**7.0%**	5.2%
Overall	**11.0%**	16.3%

The change in overall gross profit margin of our decorative base paper products in 2012 was mainly attributable to the decrease in sales volume, changes in raw material costs and increased depreciation charges 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 2012 and the gross profit margins were affected.

The gross profit margin of printing paper product increased from 5.2% in 2011 to 7.0% in 2012 was mainly due to the expansion of clientele during 2012 where the economies of scale in operating the printing paper product segment improved. The Group will continue to solicit 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 16.3% for the year ended 31 December 2011 to approximately 11.0% for the year ended 31 December 2012.

Other revenue and other net loss

Other revenue, which represented mainly the interest income earned from the bank deposits, decreased by approximately 31.3% from RMB3.2 million for the year ended 31 December 2011 to RMB2.2 million for the year ended 31 December 2012 was mainly due to the decrease in average cash held on hand after the settlement of construction costs for rebuilding Production lines nos. 1 and 2 and the distribution of 2012 final dividend.

Upon the commercial operation of rebuilt Production line no. 2 in March 2012, the aged Production line no. 2 was disposed and a loss on disposal of RMB12.6 million was recognized during the year ended 31 December 2012.

Selling expenses

As at 31 December 2012, our sales and marketing team 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 RMB25.5 million and RMB28.3 million for the year ended 31 December 2011 and 2012, respectively. Our selling expenses represented approximately 1.3% and 1.5% of turnover for the two years ended 31 December 2011 and 2012.

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 20.5% from RMB48.4 million for the year ended 31 December 2011 to RMB58.3 million for the year ended 31 December 2012 was mainly attributable to the professional costs of approximately RMB8.8 million incurred in 2012 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 2.4% for the year ended 31 December 2011 to approximately 3.1% for the year ended 31 December 2012.

Finance costs

Our Group did not incur any finance costs during the year ended 31 December 2011 and 2012.

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 PRC income tax at the tax rate of 12.5% for the year ended 31 December 2011. Since 1 January 2012, our Group is subject to the PRC income tax at the applicable tax rate of 25%.

No provision has been made for Hong Kong Profits Tax for 2011 and 2012 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 year ended 31 December 2011 and 2012 were 13.3% and 31.5%, respectively. The reconciliation between income tax expenses and accounting profit at the applicable tax rates was set out as follows:

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Profit before taxation	**109,977**	256,183
Notional tax on profit before taxation, calculated at the tax rates applicable in the countries concerned	**29,561**	65,277
Tax effect of tax concession period	**—**	(33,620)
Tax effect of non-deductible expenses	**4,801**	2,310
Tax effect of non-taxable income	**(127)**	(283)
Under provision in prior year	**489**	531
Income tax expenses for the year	**34,724**	34,215

Liquidity and financial resources

Current and quick ratio

As at 31 December 2011 and 2012, the current ratios of the Group were 5.4 and 6.4 and the quick ratios of the Group were 5.0 and 6.0, respectively.

Gearing ratio

As at 31 December 2011 and 2012, 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 2012 shareholders' funds of the Group totalled RMB3,234.3 million, representing an increase of approximately 1.0% from RMB3,202.4 million at 31 December 2011. The Group had cash and cash equivalents of approximately RMB539.5 million as at 31 December 2012 (2011: RMB488.9 million).

The Group continues to enjoy a stable and strong net cash inflow from operations. During the year ended 31 December 2011 and 2012, the net cash generated from operations was RMB450.5 million and RMB333.3 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 2012, 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 2012, the Group recorded aggregate additions to property, plant and equipment and construction in progress of approximately RMB240.6 million (2011: RMB549.1 million).

Capital commitments, contingencies and charge on assets

The Group will further invest RMB156.8 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 2012.

As at 31 December 2011 and 2012, the Group did not have any property, plant and equipment secured for any borrowings.

Human Resources

As at 31 December 2012, our Group employed over 1,700 employees in the PRC and Hong Kong. Key components of the Group's remuneration packages include basic salary, medical insurance, discretionary cash bonus and retirement benefit scheme. Promotion and salary increments are assessed based on a performance related basis.

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

OTHER INFORMATION

Purchase, Redemption or Sale of Shares

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

Corporate Governance

During the year ended 31 December 2012, the Company has complied with the code provisions under the Code on Corporate Governance Practices (effective until 31 March 2012) (the "**Former Code**") and Corporate Governance Code (effective from 1 April 2012) (the "**New Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the"**Listing Rules**") on the Stock Exchange except the following deviations:

Under provision A.2.1 of the Former Code and the New Code, the roles of the chairman and chief executive officer ("**CEO**") should be separate and should not be performed by the same individual. During the year, the Company does not have any person holding the title of CEO. Dr. Zhu Yu Guo, who apart from being an executive director (the "**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 the general manager of the Company. Mr. Zhu Mo Qun, the executive Director, a general manager of the Company as well as a vice-chairman of the Board, is responsible for the overall management of the Group's business operation and implementing business strategies formulated by the Board. The Board considers that this management structure can provide the Group with consistent leadership and enables the Group to make and implement the Board's decisions promptly and effi ciently. 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.

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

Model Code for Directors' Securities Transaction

The Company has adopted a securities dealing code (the "**QX Securities Dealing Code**") 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 2012.

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 2012 and the accounting principles and practices adopted by the Group during the year.

Publication of 2012 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 2012 Annual Report will be available at the Company's and HKExnews websites and despatched to the Company's shareholders as soon as practicable.

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

The English text of this announcement shall prevail over the Chinese text in case of any inconsistency.