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

ANNOUNCEMENT OF AUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2013

INTERIM RESULTS

The board of directors (the "**Board**") of Qunxing Paper Holdings Company Limited (the "**Company**" or "**QX Paper**") announces the audited condensed interim results of the Company and its subsidiaries (the "**Group**" or "**QX Group**") for the six months ended 30 June 2013 together with the comparative figures for the six months ended 30 June 2012 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	**For the six months ended 30 June 2013** **RMB'000** **(Audited)**	2012 *RMB'000* (Audited)
Turnover	*6*	**776,828**	974,635
Cost of sales		**(671,559)**	(857,525)
Gross profit		**105,269**	117,110
Other revenue	*7*	**1,024**	1,332
Other net loss	*7*	**(5)**	(12,549)
Selling expenses		**(5,595)**	(13,357)
Administrative expenses		**(28,281)**	(32,644)
Profit before taxation	*8*	**72,412**	59,892
Income tax expense	*9*	**(20,900)**	(19,063)
Profit for the period		**51,512**	40,829
Attributable to:			
Equity shareholders of the Company		**51,512**	40,829
Earnings per share (RMB cents)	*11*		
Basic and diluted		**3.2**	2.6

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
	(Audited)	(Audited)
Profit for the period	**51,512**	40,829
Other comprehensive (loss)/income for the period		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of operations outside the People's Republic of China (the "PRC")	**(2,186)**	1,835
Total comprehensive income for the period	**49,326**	42,664
Total comprehensive income for the period attributable to:		
Equity shareholders of the Company	**49,326**	42,664

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**As at 30 June 2013** *RMB'000* **(Audited)**	As at 31 December 2012 *RMB'000* (Audited)
Non-current assets			
Property, plant and equipment	*12*	**2,404,658**	2,473,224
Construction in progress	*12*	**111,832**	111,832
Lease prepayments		**13,616**	13,786
Prepayment for flood prevention expenses		**39,100**	39,525
		2,569,206	2,638,367
Current assets			
Inventories	*13*	**41,052**	41,319
Trade and other receivables, prepayments and deposits	*14*	**164,964**	126,061
Cash and cash equivalents		**655,317**	539,535
		861,333	706,915
Current liabilities			
Trade and other payables	*15*	**118,031**	101,094
Dividends payable		**15,559**	29
Current taxation		**29,196**	9,868
		162,786	110,991
Net current assets		**698,547**	595,924
NET ASSETS		**3,267,753**	3,234,291
Capital and reserves			
Share capital	*16*	**147,562**	147,562
Reserves		**3,120,191**	3,086,729
TOTAL EQUITY		**3,267,753**	3,234,291

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Attributable to equity shareholders of the Company							
	Note	Share capital *RMB'000*	Share premium *RMB'000*	Warrant reserve *RMB'000*	Other reserve *RMB'000*	Statutory surplus reserves *RMB'000*	Exchange reserve *RMB'000*	Retained profits *RMB'000*	Total equity *RMB'000*
Balance at 1 January 2012 (Audited)		147,562	1,454,114	8,589	(10,323)	182,092	(63,047)	1,483,409	3,202,396
Profit for the period		–	–	–	–	–	–	40,829	40,829
Other comprehensive income for the period		–	–	–	–	–	1,835	–	1,835
Total comprehensive income for the period		–	–	–	–	–	1,835	40,829	42,664
Dividends declared and approved in respect of the previous year	*10(b)*	–	(44,394)	–	–	–	–	–	(44,394)
Release of warrant reserve upon expiry of warrants		–	–	(8,589)	–	–	–	8,589	–
Balance at 30 June 2012 (Audited)		147,562	1,409,720	–	(10,323)	182,092	(61,212)	1,532,827	3,200,666
Balance at 1 January 2013 (Audited)		**147,562**	**1,409,720**	**–**	**(10,323)**	**192,110**	**(62,011)**	**1,557,233**	**3,234,291**
Profit for the period		**–**	**–**	**–**	**–**	**–**	**–**	**51,512**	**51,512**
Other comprehensive loss for the period		**–**	**–**	**–**	**–**	**–**	**(2,186)**	**–**	**(2,186)**
Total comprehensive income for the period		**–**	**–**	**–**	**–**	**–**	**(2,186)**	**51,512**	**49,326**
Dividends declared and approved in respect of the previous year	*10(b)*	**–**	**(15,864)**	**–**	**–**	**–**	**–**	**–**	**(15,864)**
Balance at 30 June 2013 (Audited)		**147,562**	**1,393,856**	**–**	**(10,323)**	**192,110**	**(64,197)**	**1,608,745**	**3,267,753**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six moths ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
	(Audited)	(Audited)
Net cash generated from operating activities	**195,470**	209,655
Net cash used in investing activities	**(76,864)**	(125,846)
Net increase in cash and cash equivalents	**118,606**	83,809
Cash and cash equivalents at beginning of the period	**539,535**	488,934
Effect of foreign exchange rate changes	**(2,824)**	1,267
Cash and cash equivalents at end of the period	**655,317**	574,010

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 5 September 2006 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Group is principally engaged in manufacturing and trading of decorative base paper products and printing paper product. The shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 2 October 2007.

The condensed consolidated interim financial statements are presented in Renminbi ("RMB") unless otherwise stated, rounded to the nearest thousand.

The consolidated financial statements of the Group for the year ended 31 December 2010 were audited by another auditor, whose report dated 30 March 2011 contained a disclaimer of opinion arising from inability to obtain sufficient appropriate audit evidence in relation to certain audit issues (the "Audit Issues"). Since 2011, the Company has appointed an independent professional advisor to undertake an independent review and investigation in respect of the Audit Issues.

The independent review and investigation report in respect of the Audit Issues carried out by the independent professional advisor has been issued on 20 November 2012.

The key findings and observation of the investigation conducted by the independent professional advisor has been stated in the Company's announcements on 22 April 2013, 17 July 2013 and 9 August 2013.

The board of directors and audit committee of the Company consider that the Audit Issues raised by the Company's former auditor have been addressed. The Company has made and will make continuous efforts to reinforce the internal control system and corporate governance mechanism.

As at the date of approval of these condensed consolidated interim financial statements, the Group's business has been operating as usual and the Company is not aware of any possible impact on the Group's operations and financial position arising from the investigation result.

The Company has applied to the Stock Exchange for the resumption of trading in the shares of the Company. Announcement will be made by the Company as and when appropriate informing the shareholders on the progress of the application for the resumption of trading.

2. BASIS OF PREPARATION

The condensed consolidated interim financial statements for the six months ended 30 June 2012 and 2013 have been prepared in accordance with the applicable disclosure requirements set out in Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange and with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board ("IASB").

The condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual report for the year ended 31 December 2012 (the "2012 Annual Report").

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the condensed consolidated interim financial statements for the six months ended 30 June 2013 are consistent with those in the preparation of the Group's 2012 Annual Report.

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

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

IAS 1 (Amendments)	*Presentation of Items of Other Comprehensive Income*
IAS 16 (Amendments)	*Property, Plant and Equipment*
IAS 19 (Amendments) (as revised in 2011)	*Employee Benefits*
IAS 27 (As revised in 2011)	*Separate Financial Statements*
IAS 28 (As revised in 2011)	*Investments in Associates and Joint Ventures*
IAS 34 (Amendments)	*Interim Financial Reporting*
IFRIC — Int 20	*Stripping Cost in Production Phase of a Surface Mine*
IFRS 7 (Amendments)	*Disclosures — Offsetting Financial Assets and Financial* Liabilities
IFRS 10 (Amendments)	*Consolidated Financial Statements*
IFRS 11 (Amendments)	*Joint Arrangements*
IFRS 12 (Amendments)	*Disclosures of Interests in Other Entities*
IFRS 13	*Fair Value Measurement*
IFRS 10, IFRS 11 and IFRS 12	*Consolidated Financial Statements, Joint Arrangements and Disclosures of Interests in Other Entities: Transitional Guidance*
IFRSs (Amendments)	*Annual Improvements to IFRSs 2009-2011 Cycle*

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

IFRSs issued but not effective

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

IAS 32 (as revised in 2011)	*Financial Instrument: Offsetting Financial Assets and Financial Liabilities*[2]
IFRS 9	*Financial Instruments*[1]
IFRS 7, IFRS 9 (Amendments)	*Deferral of Mandatory Effective Date of IFRS 9 and Amendments to Transition Disclosures*[1]
IFRS 10, IFRS 12 and IAS 27 (Amendments)	*Investment Entities*[2]
IAS 32 (Amendments)	*Offsetting Financial Assets and Financial Liabilities*[2]
IAS 36 (Amendments)	*Recoverable Amount Disclosures for Non-Financial Assets*[2]
IAS 39 (Amendments)	*Novation of Derivatives*[2]

1 Effective for annual periods beginning on or after 1 January 2015
2 Effective for annual periods beginning on or after 1 January 2014

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

5. SEGMENT REPORTING

The Group operates in a single business segment, the manufacturing and trading of decorative base paper products and printing paper product in the PRC. The Group's chief operating decision maker regards and manages the Group based on the information of this single business segment, for the purposes of assessing performance and making decisions about operating matters. Accordingly, no segmental analysis is presented. All of the Group's revenues are generated in the PRC and substantially all of the Group's assets are located in the PRC and therefore no geographical segment information has been disclosed.

6. TURNOVER

The principal activities of the Group are the manufacturing and sales of decorative base paper product and printing paper product in the PRC. Turnover represents the sales value of goods sold less returns, discounts and value added taxes and other sales taxes, which may be analysed as follows:

	For the six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
	(Audited)	(Audited)
Decorative base paper products	**713,855**	886,730
Printing paper product	**62,973**	87,905
	776,828	974,635

7. OTHER REVENUE AND OTHER NET LOSS

	For the six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
	(Audited)	(Audited)
Other revenue		
Bank interest income	**1,005**	1,312
Other	**19**	20
	1,024	1,332
Other net loss		
Loss on disposal of property, plant and equipment	**(43)**	(12,608)
Net foreign exchange gain	**38**	59
	(5)	(12,549)

8. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	For the six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
	(Audited)	(Audited)
(a) Staff costs		
Contributions to defined contribution retirement plans	**3,926**	3,607
Salaries, wages and other benefits	**31,586**	29,723
	35,512	33,330

	For the six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
	(Audited)	(Audited)
(b) Other items		
Amortisation of lease prepayments	**170**	170
Amortisation of prepayment for flood prevention expenses	**425**	425
Auditors' remuneration		
— audit services		
— current interim period	**1,000**	500
— under provision in prior year's annual audit	**300**	800
Depreciation	**121,968**	111,540
Loss on disposal of property, plant and equipment	**43**	12,608
Operating lease charges in respect of		
— leasehold land and properties	**5,323**	4,402
— others	**85**	85
Sewage disposal expenses	**219**	219
Research and development cost	**59**	59

9. INCOME TAX EXPENSES IN THE CONDENSED CONSOLIDATED INCOME STATEMENT

	For the six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
	(Audited)	(Audited)
Current tax — PRC corporate income tax		
Provision for the period	**20,480**	18,574
Under-provision in respect of the prior period	**420**	489
	20,900	19,063

(i) 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.

(ii) No provision has been made for Hong Kong Profits Tax as the Group did not have assessable profits subject to Hong Kong Profits Tax for the six months ended 30 June 2013 (2012: Nil).

(iii) The applicable tax rate for Shandong Qunxing Paper Limited ("Shandong QX") for the six months ended 30 June 2013 and 2012 are 25%.

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

10. DIVIDENDS

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

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2013 (2012: Nil).

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

	For the six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
	(Audited)	(Audited)
Final dividend in respect of the year ended 31 December 2012, approved during the interim period, of HK1.229 cents (equivalent to approximately RMB1 cent) per ordinary share (year ended 31 December 2011: HK3.38 cents, equivalent to approximately RMB2.798 cents, per ordinary share)	**15,864**	44,394

11. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2013 is based on the profit attributable to ordinary equity shareholders of the Company of RMB51,512,000 (2012: RMB40,829,000) and the weighted average number of 1,586,391,450 ordinary shares (2012: 1,586,391,450 ordinary shares) in issue during the period.

(b) Diluted earnings per share

Diluted earnings per share for the six months ended 30 June 2013 and 2012 are the same as the basic earnings per share. There was no dilutive events existed during the six months ended 30 June 2013 and 2012.

12. CAPITAL EXPENDITURE

Capital expenditure comprises additions to property, plant and equipment, prepayment for the acquisition of plant and equipment and construction in progress. During the six months ended 30 June 2013, the Group incurred aggregate capital expenditure of RMB77,879,000 (2012: RMB127,158,000).

13. INVENTORIES

	At 30 June 2013 RMB'000 (Audited)	At 31 December 2012 RMB'000 (Audited)
Raw materials and consumables	**22,292**	24,762
Finished goods	**18,760**	16,557
	41,052	41,319

14. TRADE AND OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	At 30 June 2013 RMB'000 (Audited)	At 31 December 2012 RMB'000 (Audited)
Trade receivables	**71,080**	53,999
Prepayments, deposits and other receivables	**93,884**	72,062
	164,964	126,061

At 30 June 2013, prepayments, deposits and other receivables mainly comprises of prepayments for acquisition of plant and machinery of RMB92,080,000 (At 31 December 2012: RMB67,200,000) and current portion relating to the prepayment for flood prevention expenses of RMB850,000 (At 31 December 2012: RMB850,000).

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

(a) Ageing analysis

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

	At 30 June 2013 RMB'000 (Audited)	At 31 December 2012 RMB'000 (Audited)
Current	**71,080**	53,999

15. TRADE AND OTHER PAYABLES

	At 30 June 2013 RMB'000 (Audited)	At 31 December 2012 RMB'000 (Audited)
Trade payables	**92,306**	78,120
Other payables and accruals	**25,725**	22,974
	118,031	101,094

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

	At 30 June 2013 RMB'000 (Audited)	At 31 December 2012 RMB'000 (Audited)
0-30 days	**92,306**	78,120

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

16. SHARE CAPITAL

	2013		2012	
	Number of shares *'000*	***RMB'000***	Number of shares *'000*	*RMB'000*
Ordinary shares issued and fully paid, At 1 January and at 30 June	**1,586,391**	**147,562**	1,586,391	147,562

EXTRACT FROM INTERIM REPORT

The interim report on the Group's financial information for the six months ended 30 June 2013 contained an emphasis of matter. The following is extracted from the interim report issued by HLB Hodgson Impey Cheng Limited.

OPINION

In our opinion, the interim financial information gives a true and fair view of the state of affairs of the Group as at 30 June 2013 and of its profit and cash flows for the six month period then ended in accordance with International Accounting Standard 34 "Interim Financial Reporting".

EMPHASIS OF MATTER

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

INTERIM DIVIDEND

The directors (the "**Directors**") of the Company do not recommend the payment of any interim dividend for the six months ended 30 June 2013 (1H2012: Nil).

CHAIRMAN'S STATEMENT

BUSINESS REVIEW

On behalf of the Board of QX Paper, I would like to present to you the audited interim results of the Group for the six months ended 30 June 2013.

In the first half of 2013, China's import and export trade and domestic consumption decelerated, leading to a slowdown in its economic growth. According to the National Bureau of Statistics of the China, China's gross domestic product (GDP) grew by 7.6% year on year to RMB24.8 trillion in the first half of 2013. The GDP growth was 0.2 percentage point lower than that for the same period of 2012.

During the period, although the PRC central government did not relax its control measures to rein in the property market, the housing market gradually recovered with a significant year-on-year increase of 28.7% in sales of commodity properties to 514.33 million square metres in terms of floor area. In particular, sales of residential properties grew by 30.4% while that of office buildings increased by 31.7% year on year in terms of floor area. Such developments helped stimulate the demand for interior decoration products. However, the Further Investigation (as defined below) affected its sales.

Turnover of the Group decreased by approximately 20.3% from RMB974,635,000 for the six months ended 30 June 2012 to approximately RMB776,828,000 for the six months ended 30 June 2013. Gross profit decreased by 10.1% from RMB117,110,000 for the first half of 2012 to approximately RMB105,269,000 for the first half of 2013. Profit for the Period increased by 26.2% from RMB40,829,000 for the first half of 2012 to RMB51,512,000 for the first half of 2013. Basic earnings per share were RMB3.2 cents (1H2012: RMB2.6 cents). The Board does not recommend the payment of an interim dividend (1H2012: Nil).

The increase in profit of the Group mainly reflected the combined effect of the following factors: 1) new customers were less inclined to place orders as the Group was conducting an internal investigation. This depressed the overall sales volume during the period; 2) the prices of the Group's products declined to a lesser degree compared to the raw material prices, resulting in the profit margin of the period increased 1.6 percentage point to 13.6% for the first half of 2013; and 3) the Group, as required by the Stock Exchange, appointed another investigation team at the end of 2011 to carry out forensic investigation (the "**Further Investigation**"). The Further Investigation resulted in an additional expense of approximately RMB7,600,000 for the first half of 2012, while no such expenses were incurred for the period, leading to lower expenditure for the period.

SALES PERFORMANCE

During the period, both the selling prices of our products and overall sales volume decreased. The decrease in sales volume mainly reflected that our customers tended to be more cautious in placing orders amid the macro-economic conditions and intensive competition of the decorative base paper industry. In addition, the Further Investigation also affected the client's sentiment of placing orders. Average selling price of our products decreased by approximately 8.2%, mainly as a result of downward adjustment of the product prices under lower raw material prices.

During the period, overall sales volume of the Group dropped by 12.8% from 79,885 tonnes for the first half of last year to 69,691 tonnes for the first half of 2013. Of which, sales volume of decorative base paper, our principal product, was down by 12.3% from 66,563 tonnes for the first half of 2012 to 58,391 tonnes for the first half of 2013. Income from the sales of decorative base paper decreased by 19.5%, and accounted for 91.1% of the total revenue.

EXPANSION OF PRODUCTION CAPACITY

There was no increase in production capacity during the period. The reconstruction of production line no. 3 was still ongoing, and is expected to complete in 2014. The reconstruction of production line no. 3 was aimed at upgrading the production technology for long-term development. The existing production line no. 3 would remain in operation during the reconstruction period.

DIVERSE PRODUCT PORTFOLIO

The Group has always committed to developing quality decorative base paper products that have wide applications. At present, we produce and sell over 80 types of products catering to different needs of the markets. Our products are used in furniture, office and home products, as well as larger facilities stadiums, community halls, exhibition centres, and interior decoration of vehicles and aircraft. The Group will continue to increase the proportion of premium decorative paper base products in sales to enhance its profitability.

ENVIRONMENTAL PROTECTION

We are committed to environmental protection. The premium wood pulp that we use to produce decorative base paper products causes almost no environmental pollution during the production process. In addition, we have two waste water treatment systems with a combined processing capacity of approximately 5,350,000 cubic metres. Waste water treated by our waste water treatment systems is reused for irrigation at the Group's production base in Shandong Province.

INDEPENDENT REVIEW AND INVESTIGATION REPORTS

In response to the audit issues raised by the Company's former auditors, the Audit Committee (the "**Audit Committee**") under the Board on March 20, 2011 set up a special investigation team to investigate matters relating to the issues ("**Audit Issues**") raised by the Company's former auditors, KPMG, in respect of the financial statements of the Group for the year ended 31 December 2010. The Group subsequently appointed ZHONGLEI Risk Advisory Services Limited ("**Zhonglei**") and JLA Asia Limited ("**JLA Asia**") to carry out independent reviews and investigations. Zhonglei and JLA Asia have submitted their independent investigation reports to the Audit Committee in July 2011 and November 2012 respectively.

The Audit Committee and the Board concluded that there has already been adequate clarification of the Audit Issues through the independent investigations which have been carried out by JLA Asia and Zhonglei respectively. In addition, through the necessary actions taken by the Group in response to the recommendations made by JLA Asia and Zhonglei, the Group has established proper internal control systems to discharge its obligations under the Listing Rules. There are no areas of concern which can reasonably be expected to affect adversely and materially the interests of the Company and its shareholders as a whole.

At the meeting of the Audit Committee held on 22 November 2012, JLA Asia confirmed that it has found no evidence of manipulation of the financial data on the Group's revenue or misappropriation of the Group's assets in their investigation as evidenced by an extract of the minutes of the meeting certified by both the chairman of the Audit Committee and a director of JLA Asia. The Group has also submitted the aforesaid certified extract of the minutes to the Stock Exchange in July 2013.

The investigation report of Zhonglei and the audits subsequent to the year ended 31 December 2010 also indicated that there was no evidence of the above issues or other irregularities.

Audit opinions issued by HLB Hodgson Impey Cheng Limited, the Company's current auditors, on the Group's 2011/2012/2013 interim results and 2011/2012 annual results confirmed that the financial information gave a true and fair view of the state of affairs of the Group and of its profit and cash flows for the respective periods.

Prolonged suspension of trading in the Company's shares has prevented our shareholders and investors from dealing in the Company's shares. Continuous investigations have also adversely affected the Group's business and financial performance. In view of the above, the Board considers that it is in the interests of the Company and its shareholders to resume trading in the Company's shares. The Company will apply to the Stock Exchange for the resumption of trading in its shares as soon as practicable and make further announcement as and when appropriate.

OUTLOOK

Looking ahead, China's economic growth will continue to slow down and its economic structure will change under the government's macroeconomic control measures. However, the PRC's steady economic growth for the long term, the steady progression of urbanization, and the continuous increase in the citizens' income will stimulate the demand for commodity properties and thus the demand for decorative base products in the long term. The plan to increase construction of social security housing according to the "Twelfth Five-Year Plan" was one of the major government policies for satisfying the citizens' demand for residential housing, forming an important driver of the development of the decorative base paper market. The Board is cautiously optimistic about the Group's development in the second half of 2013, leveraging on its advanced technology in producing decorative base paper products and solid foundation.

The Group will further enhance its product quality by improving its existing production facilities. In addition, the Group will also strive to strengthen its leading market position and customer base in its existing sales regions so as to improve its sales. It will also continue to adjust its product mix by raising the proportion of higher-margin products with an aim of expanding its market share. Furthermore, it will continue implementing its rigorous cost-control measures with a view to increase the products' gross margins and generate better returns for its shareholders.

APPRECIATION

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 during the period, and thank our shareholders, business partners and investors for their continued support.

By Order of the Board
ZHU Yu Guo
Chairman

Shandong, the PRC, 26 August 2013

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Turnover

Turnover decreased by approximately 20.3% from RMB974.6 million for the six months ended 30 June 2012 to RMB776.8 million for the six months ended 30 June 2013. The decrease in turnover for the six months ended 30 June 2013 was mainly attributable to the combined effects of (i) the decrease in sales volumes of the decorative base paper products by approximately 12.3% from 66,563 tonnes in 2012 to 58,391 tonnes in 2013; and (ii) the decrease in the average selling prices of the decorative base paper products by approximately 8.2% from RMB13,322 per tonne in 2012 to RMB12,225 per tonne in 2013. The sales volume of printing paper product decreased by approximately 15.2% from 13,322 tonnes in 2012 to 11,300 tonnes in 2013 with the average selling price of approximately RMB6,600 and RMB5,573 per tonne for the periods under review respectively.

Cost of sales

Cost of sales represents the production costs of goods sold during the periods. Our production costs comprise costs of raw materials, direct labour costs and manufacturing overheads, which include depreciation charges, utility expenses, consumables, repairs and maintenance and other overhead related expenses.

Overall cost of sales decreased by approximately 21.7% from RMB857.5 million for the six months ended 30 June 2012 to RMB671.6 million for the six months ended 30 June 2013. The decrease in cost of sales was primarily due to the combined effects of (i) the decrease in usage of raw materials, which are the major component of our cost of sales, as a result of the decreased sales volume, (ii) the decrease in average purchasing costs of wood pulp and titanium dioxide powder, our principal raw materials for production, during the six months ended 30 June 2013 as compared to the corresponding period in 2012 (as discussed below), (iii) the decrease in production overheads, such as electricity and steam expenses, in line with the decrease in production volume; and (iv) the increase in direct labour costs and depreciation expenses due to the commercial production of rebuilt Production lines nos. 1 to 2 since March 2012.

Principal raw materials

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

For each of the six months ended 30 June 2012 and 2013, the purchase of wood pulp amounted to approximately RMB283.3 million and RMB175.8 million, respectively, representing approximately 33.0% and 26.2% of the total cost of sales for the respective periods. The decrease was due to the decrease in usage of wood pulp, in line with the decreased sales volume and the decrease in the average purchase price (value added tax inclusive) of wood pulp from approximately RMB6,512 per tonne in 2012 to approximately RMB4,611 per tonne in 2013.

For each of the six months ended 30 June 2012 and 2013, the purchase of titanium dioxide powder amounted to approximately RMB291.2 million and RMB212.3 million, respectively, representing approximately 34.0% and 31.6% of the total cost of sales for the respective periods. The decrease was mainly due to the combined effect of (i) the decrease in usage of titanium dioxide powder as a result of the decreased sales volume in decorative base paper products; and (ii) the decrease in the average purchase price (value added tax inclusive) of titanium dioxide powder by approximately 14.1% from approximately RMB17,735 per tonne in 2012 to approximately RMB15,228 per tonne in 2013.

Utilities and steam expenses

Our electricity and steam expenses decreased by approximately 11.9% from RMB79.8 million in the six months ended 30 June 2012 to RMB70.3 million in the six months ended 30 June 2013, which was mainly due to the decrease in production volume as a result of decrease in sales. The electricity and steam expenses accounted for approximately 9.3% and 10.5% of the total cost of sales for the respective periods.

Depreciation charges

Our depreciation charges included in cost of sales increased by approximately 9.5% from RMB110.1 million in the six months ended 30 June 2012 to RMB120.6 million in the six months ended 30 June 2013, which was mainly due to the commercial operation of rebuilt Production lines nos. 1 to 2 since March 2012. The depreciation charges accounted for approximately 12.8% and 17.9% of the total cost of sales for the respective periods.

Gross profit and gross profit margin

The gross profit of our Group decreased by approximately 10.1% from RMB117.1 million for the six months ended 30 June 2012 to RMB105.3 million for the six months ended 30 June 2013.

The following table sets forth the gross profit margin of each category of the products for the six months ended 30 June 2012 and 2013:

	For the six months ended 30 June	
	2013	2012
Products		
Decorative base paper products	**14.6%**	12.5%
Printing paper product	**1.2%**	7.0%
Overall	**13.6%**	12.0%

The increase in overall gross profit margin of our decorative base paper products in 2013 was mainly attributable to the decrease in the average purchase costs of raw materials in 2013. As a result, the average unit cost for decorative base paper products was comparative lower in the six months ended 30 June 2013.

The gross profit margin of printing paper product decreased from 7.0% in 2012 to 1.2% in 2013 mainly due to the low economies of scale in operating the printing paper product segment under the decrease in sales of printing paper products. The Group continues to make its utmost effort in soliciting new customers with an aim to effectively utilize the resources of the Group to maximize the returns for shareholders.

Nonetheless, our overall gross profit margin improved from approximately 12.0% for the six months ended 30 June 2012 to approximately 13.6% for the six months ended 30 June 2013.

Other revenue and other net loss

Other revenue, which represented the interest income earned from bank deposits, decreased by approximately 23.1% from RMB1.3 million for the six months ended 30 June 2012 to RMB1.0 million for the six months ended 30 June 2013 mainly due to the persistent low bank deposit interest rates during the period.

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

Selling expenses

As at 30 June 2013, our Group had 43 sales and marketing staff to carry out various promotional activities in an attempt to solicit new customer in the six designated sales regions in the PRC. The selling expenses decreased by approximately 58.2% from RMB13.4 million for the six months ended 30 June 2012 to RMB5.6 million for the six months ended 30 June 2013 and represented approximately 1.4% and 0.7% as a percentage of turnover for the six months ended 30 June 2012 and 2013 respectively.

Administrative expenses

The administrative expenses consist primarily of administrative and management staff salaries and benefi ts, depreciation of non-production related fixed assets, research and development costs, and pension contributions.

Administrative expenses decreased by approximately 13.2% from RMB32.6 million for the six months ended 30 June 2012 to RMB28.3 million for the six months ended 30 June 2013 mainly due to the payment of approximately RMB7.6 million during the six months ended 30 June 2012 to an investigation team to investigate audit issues raised by the Group's preceding former auditors. No such costs incurred during the six months ended 30 June 2013 since the investigation was completed and the investigation report was submitted to the Stock Exchange on 30 November 2012.

Finance costs

Our Group did not incur any finance costs during the six months ended 30 June 2012 and 2013.

Income tax

Members of the Group are incorporated in different jurisdictions, with different taxation requirements. Shandong QX, our principal operating subsidiary in the PRC, is liable to pay PRC income tax at the applicable tax rate of 25%.

No provision has been made for Hong Kong Profits Tax as the Group did not earn assessable profits subject to Hong Kong Profits Tax for the six months ended 30 June 2012 and 2013.

Liquidity and financial resources

Current and quick ratio

The current ratio of the Group decreased from 6.4 as at 31 December 2012 to 5.3 as at 30 June 2013 and the quick ratio of the Group decreased from 6.0 as at 31 December 2012 to 5.0 as at 30 June 2013, respectively, which was mainly due to the 2012 final dividends approved but not yet paid as at 30 June 2013.

Financial resources

The financial resources of the Group continued to be strong. As at 30 June 2013, shareholders' fund of the Group totalled approximately RMB3,267.8 million (31 December 2012: RMB3,234.3 million). The Group had cash and cash equivalents of approximately RMB655.3 million as at 30 June 2013 (31 December 2012: RMB539.5 million).

The Group continues to enjoy a stable and strong net cash inflow from operations. During the six months ended 30 June 2012 and 2013, the net cash generated from operations was RMB209.7 million and RMB195.5 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 30 June 2013, the Group did not have any borrowings. The Group conducts its business transactions principally in the PRC. All of the Group's turnover and cost of sales and most of the Group's monetary assets and liabilities are denominated in RMB. RMB is the functional currency of the Group's principal operating subsidiary and used as the reporting currency in the preparation of the consolidated financial statements of the Group.

As such, the fluctuation of RMB against foreign currencies during the periods did not have significant impact on the results of the Group.

Capital expenditure

During the six months ended 30 June 2013, the Group recorded aggregate additions to property, plant and equipment, prepayment for the acquisition of plant and equipment and construction in progress of approximately RMB77.9 million (six months ended 30 June 2012: RMB127.2 million).

Capital commitments and contingencies

The Group will further invest to improve the production capacity and reengineering and modify the existing production facilities to enhance production efficiency. Such capital commitments will be financed by the internal resource of the Group.

The Group has environmental contingencies under the increasingly stringent environmental protection laws and regulations in the PRC. However, as at the date hereof, the Group has not incurred any significant expenditure for environmental remediation and is currently not involved in any environmental remediation. In addition, the outcome of environmental liabilities under proposed or future environmental legislation cannot be reasonably estimated at present. As such, the Group has not accrued any amounts for environmental remediation relating to its operations. Saved as disclosed above, the Group had no material contingent liabilities as at 30 June 2013.

Human Resources

As at 30 June 2013, our Group employed approximately 1,700 employees in the PRC and Hong Kong. Key components of the Group's remuneration packages include basic salary, medical insurance, discretionary cash bonus and retirement benefit scheme. Promotion and salary increments are assessed based on a performance related basis.

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

OTHER INFORMATION

Purchase, Sale or Redemption of Shares

During the six months ended 30 June 2013, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

Corporate Governance

During the six months ended 30 June 2013, the Company has complied with the relevant code provisions (the "**Code Provision(s)**") under the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") except the following deviation:

Code Provision A.2.1: Currently, the Company does not have any person holding the title of CEO. Dr. Zhu Yu Guo, who apart from being an executive Director and a chairman of the Board, also assumed responsibilities which are comparable to those of a CEO. Dr. Zhu is responsible for overseeing and planning the business strategies of the Group as well as providing leadership and management to the Board. The role of the chairman is separated from that of the general manager of the Company. Mr. Zhu Mo Qun, an executive Director, a general manager of the Company as well as a vice-chairman of the Board, is responsible for the overall management of the Group's business operation and implementing business strategies formulated by the Board. The Board considers that this management structure can provide the Group with consistent leadership and enables the Group to make and implement the Board's decisions promptly and efficiently. The Board will regularly review the effectiveness of this structure to ensure that such structure is appropriate in view of the Group's prevailing circumstances.

Model Code for Directors' Securities Transaction

The Company has adopted a securities dealing code (the "**QX Securities Dealing Code**") regarding Directors' and employees' securities transactions on terms no less exacting than the required standard as set out in Mode Code for Securities Transactions by Directors of Listed Issuers (the "**Mode Code**") contained in Appendix 10 to the Listing Rules. The QX Securities Dealing Code also applies to the relevant employees who may be in possession of unpublished price sensitive information. Having made specific enquiry of all the Directors, the Directors confirmed that they have complied with the required standard as set out in both the QX Securities Dealing Code and the Model Code throughout the six months ended 30 June 2013.

Audit Committee

The Audit Committee currently comprises all three independent non-executive Directors. The Audit Committee has reviewed with our management, the audited consolidated interim financial statements of the Group for the six months ended 30 June 2013 and the accounting principles and practices adopted by the Group during the period.

Publication of 2013 Interim Results Announcement and Interim Report

This results announcement is published on the website of the Company at www.qxpaper.com and HKEXnews website of the Stock Exchange at www.hkexnews.hk. The Company's 2013 Interim Report will be available at both websites and will be despatched to the Company's shareholders as soon as practicable.

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

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