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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)

FURTHER INDEPENDENT REVIEW AND INVESTIGATION REPORT — UPDATE OF PROGRESS

As previously announced, on 30 November 2012, the Company sent to the Stock Exchange the Report prepared by JLA Asia. Highlights from the Report are set out below.

SUSPENSION OF TRADING

At the request of the Company, trading in the shares of the Company was suspended with effect from 9:00 a.m. on 30 March 2011. It will remain suspended until further notice.

The Company will apply to the Stock Exchange for the resumption of trading in the shares of the Company as soon as practicable and make further announcement as and when appropriate.

The Company refers to its announcements relating to the internal control review and follow-up review report and independent review and investigation report from Zhonglei dated 11 July 2011 and 22 July 2011 and its announcement relating to the progress of further independent review and investigation report from JLA Asia dated 2 November 2011, 24 October 2012, 30 January 2013 and 1 March 2013.

BACKGROUND

In addressing the Audit Issues, the Audit Committee has set up the Investigation Task Force on 20 March 2011 to conduct an investigation into the Audit Issues and has separately appointed Zhonglei and JLA Asia to conduct independent review and investigations. Both Zhonglei and JLA Asia have submitted their respective investigation reports to the Audit Committee and the Stock Exchange on 22 July 2011 and 30 November 2012 respectively.

SCOPE AND OBJECTIVES OF THE FURTHER INVESTIGATION

JLA Asia was engaged by the Audit Committee to perform the further Investigation and prepare the Report in respect of the Audit Issues raised by the Company's former auditors in the course of their audit on the financial statements of the Group for the year ended 31 December 2010. The scope of the Further Investigation includes the following:

- (a) to obtain a detailed understanding of the Audit Issues;
- (b) to investigate the transactions with the Identified Customers and Identified Suppliers;
- (c) to investigate relevant acquisition of fixed assets of Qunxing pertaining to the Audit Issues; and
- (d) to investigate bank records pertaining to the Audit Issues.

KEY FINDINGS OF THE FURTHER INVESTIGATION

Based on the Report prepared by JLA Asia, the key findings of JLA Asia are summarised as follows:

Identified Customers' and Identified Suppliers' confirmation of certain transactions and their balances with Qunxing

JLA Asia has met with respective representatives from the Finance Departments of the Identified Customers and Identified Suppliers. During JLA Asia's meetings with the representatives, JLA Asia requested them to confirm the 2009 and 2010 purchases/sales with Qunxing and their respective balances. JLA Asia were able to match all purchases and sales, confirmed by the respective representatives, to Qunxing's accounts receivable/accounts payable ledgers.

In view of the above, the Audit Committee considers that there has already been adequate clarification of the relevant Audit Issue through the Further Investigation.

Discrepancies in the bank statements and bank advices

JLA Asia has independently visited and asked the staff members of the relevant banks the reason for the discrepancies in the specific bank statements and bank advices. The respective staff members of the banks have provided JLA Asia with their written explanation and stamped with the respective bank's chop.

Based on the relevant findings of JLA Asia and the evidence they received, the Audit Committee considers that there has already been adequate clarification of the relevant Audit Issue through the Further Investigation.

Identified Customers' and Identified Suppliers' principal place of business, registered office address and meeting place

All visits to the Identified Customers and Identified Suppliers conducted by JLA Asia were entirely independent without any interference.

JLA Asia was unable to confirm the existence and operation of 5 of the Identified Customers and 2 of the Identified Suppliers. The Audit Committee considers that the main reason for this was that the meeting places of these customers and suppliers were not their respective principal place of business or registered office. All these customers and suppliers have explained this clearly to JLA Asia during their respective meetings with JLA Asia. JLA Asia later sent letters to all the Identified Customers and Identified Suppliers so as to obtain further confirmation. JLA Asia has received replies from all the Identified Customers and Suppliers.

Identities of the respective representatives of the Identified Customers and Identified Suppliers which the former auditors met with

JLA Asia has met with the representatives of those Identified Customers and Identified Suppliers that the former auditors of the Company had met with. JLA Asia noted that the respective representatives were able to provide their business cards and specific supporting documents JLA Asia requested and they signed the meeting notes prepared by JLA Asia and stamped with the company's chop.

As mentioned, JLA Asia sent letters to all Identified Customers and Identified Suppliers and have subsequently received replies in respect of all Identified Customers and Identified Suppliers. All these replies have shown that they were sent from the respective representatives that JLA Asia had previously met with and were stamped with the relevant company's chop.

Judging from the fact that all the replies received by JLA Asia have shown that they were sent from the respective representatives that JLA Asia had previously met with, the Audit Committee considers that such evidence sufficiently substantiates the existence of the relevant customers and suppliers.

Discrepancies between the names shown in the VAT Invoices and the names shown in the VAT Invoices under the PRC tax bureau record of VAT invoices

JLA Asia has obtained confirmation from the National Tax Bureau that all specified VAT invoices were tax deductible for Qunxing. As to the inconsistencies noted in the names as shown in several VAT invoices, it's the issuers' own business and has nothing to do with the Group.

In respect of the nature and validity of the underlying transactions, JLA Asia has performed procedures such as seeking evidence including examining documents such as purchase contracts, purchase orders, warehouse warrants, VAT invoices, bank payment vouchers, bank statements, paying independent visits to the relevant banks and suppliers and

obtaining confirmation of the transactions in physical meetings and through sending letters to all the Identified Customers and Identified Suppliers independently.

Based on the relevant findings of JLA Asia and the evidence they received, the Audit Committee is of the view that all the underlying transactions are genuine. However, in order to further safeguard the interests of the Company and to reinforce the Group's risk management, the Audit Committee has reminded the Company to carefully verify all VAT invoices it receives via websites. The Company has promptly implemented the above procedure in verifying the VAT invoices.

Fixed assets purchased by Qunxing

The Company has engaged an international firm specializing in valuation to assess the fixed assets pertinent to the Audit Issues and to issue a valuation report. JLA Asia noted from the valuation report dated 20 June 2011 prepared by the independent valuer that the value of the fixed assets concerned as at 31 December 2010 was higher than the purchase price paid by Qunxing.

The Audit Committee is of the view that as the valuation report proved that value of such fixed assets was higher than the purchase price paid by Qunxing, no impairment is required to be made for diminution in the value of such fixed assets.

GENERAL

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

At the meeting of the Audit Committee held on 22 November 2012, the Audit Committee discussed and adopted the Report and JLA Asia confirmed to the Audit Committee that they had found no evidence of manipulation of the Group's revenue, profit and cash position, falsification of the Group's books and records and misappropriation of the Group's assets during the course of their investigation. The investigation report of Zhonglei and the audits subsequent to the year ended 31 December 2010 have also found no evidence of manipulation, falsification, misappropriation or other irregularities.

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

The Company's shareholders and investors have been barred from trading the Company's shares in the market due to the prolonged suspension of trading of the Company's shares. Besides, the continuous investigations have adversely affected both business and financial performance of the Group. In view of the above, the Board considers that it is in the interests of the Company and its shareholders for the suspension of trading in the Company's shares to be uplifted. The Company will apply to the Stock Exchange for the resumption of trading in the shares of the Company as soon as practicable and make further announcement as and when appropriate.

SUSPENSION OF TRADING

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DEFINITIONS

In this announcement the following terms have the meanings set opposite them:—

“Audit Committee”	the audit committee of the Board
“Audit Issue(s)”	certain audit issues raised by KPMG, the former auditors of the Company, in the course of their audit on the financial statements of the Group for the year ended 31 December 2010
“Board”	the board of directors of the Company
“Company”	Qunxing Paper Holdings Company Limited (群星紙業控股有限公司), a company incorporated in the Cayman Islands with limited liability, and the issued shares of which are listed on the Main Board of the Stock Exchange
“Further Investigation ”	the further independent review and investigation in respect of the Audit Issues conducted by JLA Asia
“Group”	the Company and its subsidiaries
“Identified Customers and Identified Suppliers”	certain customers and suppliers of Qunxing specified in the KPMG Letter
“Investigation Task Force”	an independent investigation team comprising all members of the Audit Committee
“JLA Asia”	JLA Asia Limited
“KPMG Letter”	a letter from KPMG to the Audit Committee dated 7 April 2011

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	The People’s Republic of China, which for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Qunxing”	Shandong Qunxing Paper Limited (山東群星紙業有限公司), a limited liability company established in the PRC and wholly-owned subsidiary of the Company
“Report”	an independent investigation report dated 20 November 2012 prepared by JLA Asia
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Zhonglei”	ZHONGLEI Risk Advisory Services Limited
“VAT”	Value Added Tax

By Order of the Board
ZHU Yu Guo
Chairman

Shandong, the PRC, 22 April 2013

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