

## Court varies interim injunction against Qunxing Paper

23 Jan 2014

The Court of First Instance today varied an interim injunction obtained by the Securities and Futures Commission (SFC) in the proceedings against Qunxing Paper Holdings Company Limited (Qunxing) and its subsidiary, Best Known Group Limited (Best Known) (Note 1).

On 12 December 2013, the SFC commenced proceedings against Qunxing and Best Known alleging that Qunxing's prospectus for its initial public offer in 2007 and the announcements of its annual results for 2007 to 2011 contained materially false or misleading information. On the same day, the SFC obtained an interim injunction freezing assets of up to \$1,968,000,000.

The SFC has located approximately \$150 million held by the defendants in Hong Kong which is frozen by the interim order. Qunxing and Best Known made an application for a variation of the interim injunction order for withdrawing money to pay their operational expenses and legal costs out of the funds that have been located in Hong Kong (Note 2).

The SFC opposed the application because Qunxing has other means of meeting its Hong Kong liabilities because its most recent interim consolidated financial reports show that the Qunxing group has cash and cash equivalents in the amount of RMB655,317,000, most of which is held by the defendants' wholly-owned Mainland-based subsidiary, Shandong Qunxing. Past auditor's reports in respect of Shandong Qunxing also show that it has undistributed profits in the amount of RMB1,301,939,950.02 (as at 31 December 2010), and it is both administratively and legally possible for Mainland funds held by a wholly-owned subsidiary to be remitted to Hong Kong to meet the defendants' expenses.

While taking this argument into account, the court exercised its discretion today to vary the interim injunction order to allow Qunxing and Best Known to withdraw about \$4,410,000 for operational expenses (Note 3) and \$6,600,000 for legal costs, covering the period until end of April 2014 (Note 4).

End

Notes:

1. Please refer to the SFC's press release dated [20 December 2013](#).
2. Before the hearing of the application, the court has varied the interim injunction order to allow Qunxing and Best Known to withdraw about \$2,298,000 to meet certain operational expenses due in December 2013 and January 2014 and legal costs.
3. This amount includes \$2.7 million for debts already owed by the defendants and \$560,000 per month until the end of April 2014.
4. The court also permitted Qunxing to pay legal expenses of \$1.5 million per month (it was seeking \$2.125 million per month) and Best Known to pay legal expenses of \$150,000 per month (it was seeking \$300,000 per month) until the end of April 2014.

Page last updated : 23 Jan 2014