Youyuan International Holdings Limited
優源國際控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2268)

2012 ANNUAL RESULTS ANNOUNCEMENT

Financial Highlights

- Revenue increased by approximately 0.4% to approximately RMB1,434.4 million
- Profit and total comprehensive income attributable to owners of the Company decreased by approximately 9.3% to RMB250.2 million
- Basic earnings per share were RMB0.250
- The Board recommended payment of a final dividend of HK5.3 cents per share

The board of directors (the "Board") of Youyuan International Holdings Limited (the "Company") is pleased to announce the annual audit consolidated results of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2012.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012

	NOTES	**2012**	2011
		RMB'000	RMB'000
Revenue	3	**1,434,379**	1,428,235
Cost of sales		**(1,007,197)**	(1,005,292)
Gross profit		**427,182**	422,943
Other income and other gains and losses		**9,996**	(4,728)
Selling and distribution expenses		**(7,410)**	(8,007)
Administrative expenses		**(66,817)**	(62,578)
Finance costs		**(36,538)**	(20,281)
Other expenses		**(32,298)**	(8,092)
Profit before tax	4	**294,115**	319,257
Income tax expense	5	**(43,875)**	(43,290)
Profit and total comprehensive income for the year attributable to the owners of the Company		**250,240**	275,967
		RMB	RMB
Earnings per share - Basic	7	**0.250**	0.276

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2012

	NOTES	**2012**	2011
		RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**1,812,118**	1,355,972
Prepaid lease payments		**372,387**	275,269
Deposits paid for acquisition of property, plant and equipment		**37,106**	177,754
Deposits paid for acquisition of land use right		**—**	60,683
		2,221,611	1,869,678
CURRENT ASSETS			
Inventories		**143,288**	237,684
Trade and other receivables	8	**330,212**	307,780
Prepaid lease payments		**7,916**	5,800
Pledged bank deposits		**45,170**	4,857
Bank balances and cash		**336,795**	98,121
		863,381	654,242
CURRENT LIABILITIES			
Trade and other payables	9	**207,491**	210,575
Income tax payables		**11,239**	9,038
Bank borrowings		**404,735**	452,120
		623,465	671,733
NET CURRENT ASSETS (LIABILITIES)		**239,916**	(17,491)
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,461,527**	1,852,187
NON-CURRENT LIABILITY			
Bank borrowings		**523,000**	80,000
		1,938,527	1,772,187
CAPITAL AND RESERVES			
Share capital		**87,680**	87,680
Reserves		**1,850,847**	1,684,507
TOTAL EQUITY		**1,938,527**	1,772,187

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

1. GENERAL

The Company was incorporated in the Cayman Islands on 12 October 2009 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 27 May 2010. Its immediate and ultimate parent is Smart Port Holdings Limited (incorporated in the British Virgin Islands) and its ultimate controlling shareholder is Mr. Ke Wentuo ("Mr. Ke"). The address of the registered office of the Company is situated at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands and its principal place of business in the People's Republic of China (the "PRC") is Xibin Industrial Zone, Jinjiang City, Fujian Province, the PRC.

The Company acts as an investment holding company. The principal activities of its subsidiaries are manufacturing and trading of double-sided machine finished ("MF") tissue paper, single-sided MF tissue paper, wall paper backing paper, copy paper and other products.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

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

New and revised Standards, Amendments and Interpretations applied in the current year

In the current year, the Group has applied the following new and revised Standards, Amendments and Interpretations.

Amendments to IFRS 7	Financial Instruments: Disclosures - Transfer of Financial Assets
Amendments to IAS 1	As part of the Annual Improvements to IFRSs 2009 - 2011 Cycle issued in 2012
Amendments to IAS 12	Deferred Tax: Recovery of Underlying Assets

The application of the above new and revised Standards, Amendments and Interpretations in current year has had no material effect on amounts reported in the consolidated financial statements and/or disclosures set out in these consolidated financial statements of the Group.

New and revised Standards, Amendments and Interpretations issued but not yet effective

The Group has not early applied the following new and revised Standards, Amendments and Interpretations that have been issued but are not yet effective:

Amendments to IFRSs	Annual Improvements to IFRSs 2009 - 2011 Cycle, except for the amendments to IAS 1[1]
Amendments to IFRS 7	Disclosures - Offsetting Financial Assets and Financial Liabilities[1]
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures[2]
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities[4]
IFRS 9	Financial Instruments[2]
IFRS 10	Consolidated Financial Statements[1]
IFRS 11	Joint Arrangements[1]
IFRS 12	Disclosure of Interests in Other Entities[1]
IFRS 13	Fair Value Measurement[1]
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income[3]
IAS 19 (as revised in 2011)	Employee Benefits[1]
IAS 27 (as revised in 2011)	Separate Financial Statements[1]
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities[4]
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine[1]

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

IFRS 9 Financial Instruments

IFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9 are described as follows:

- All recognised financial assets that are within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that 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 recognition 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. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors of the Company anticipate the adoption of IFRS 9 in the future will not have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities based on an analysis of the financial instruments as at 31 December 2012.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 Presentation of Items of Other Comprehensive Income introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income' and an 'income statement' is renamed as a 'statement of profit or loss'. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis - the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

Amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012, with earlier application permitted.

The directors of the Company anticipate that the application of the other new and revised Standards and Interpretations issued but not yet effective will have no material effect on amounts reported in the consolidated financial statements and/or disclosures set out in these consolidated financial statements of the Group.

3. SEGMENT INFORMATION

(a) Products within each operating segment

Information reported to the Chief Executive Officer of the Company, being the chief operating decision maker, for the purposes of resources allocation and assessment of segment performance focuses on types of goods delivered. This is also the basis upon which the Group is organised. No operation segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's operating segments under IFRS 8 are as follows:

- Double-sided MF tissue paper - manufacturing for sale of double-sided MF tissue paper;
- Single-sided MF tissue paper - manufacturing for sale of single-sided MF tissue paper;
- Copy paper - manufacturing for sale of copy paper;
- Wall paper backing paper - manufacturing for sale of wall paper backing paper;
- Other products - manufacturing for sale of paper towels and ivory boards.

During the year ended 31 December 2012, the wall paper backing paper operation is reported as a separate operating segment to the Chief Executive Officer of the Company for the purposes of resource allocation and performance assessment. The production facilities of the wall paper backing paper operation is still under construction and planned to commence operation in the first half of 2013.

(b) Segment revenue and segment results

	Segment revenue		**Segment results**	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Double-sided MF tissue paper	**735,415**	667,347	**238,915**	212,914
Single-sided MF tissue paper	**283,546**	385,683	**90,822**	127,185
Copy paper	**245,919**	189,353	**78,476**	55,457
Wall paper backing paper	**—**	—	**—**	—
Other products	**169,499**	185,852	**18,969**	27,387
	1,434,379	1,428,235	**427,182**	422,943
Other income and other gains and losses			**9,996**	(4,728)
Selling and distribution expenses			**(7,410)**	(8,007)
Administrative expenses			**(66,817)**	(62,578)
Finance costs			**(36,538)**	(20,281)
Other expenses			**(32,298)**	(8,092)
Profit before tax			**294,115**	319,257

Revenue reported above represents revenue generated from external customers. There were no intersegment sales during both years.

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment results represent the gross profit of each operating segment. This is the measure reported to Chief Executive Officer for the purposes of resources allocation and performance assessment.

(c) Segment assets

	2012	2011
	RMB'000	RMB'000
Double-sided MF tissue paper	**489,083**	438,019
Single-sided MF tissue paper	**107,876**	92,086
Copy paper	**144,212**	133,760
Wall paper backing paper	**178,711**	24,043
Other products	**127,618**	83,784
Total segment assets	**1,047,500**	771,692
Unallocated		
- Property, plant and equipment	**796,954**	617,271
- Prepaid lease payments	**380,303**	281,069
- Deposit paid for acquisition of property, plant and equipment	**37,106**	177,754
- Deposit paid for acquisition of land use right	**—**	60,683
- Inventories	**110,952**	204,693
- Trade and other receivables	**330,212**	307,780
- Pledged bank deposits	**45,170**	4,857
- Bank balances and cash	**336,795**	98,121
Consolidated assets	**3,084,992**	2,523,920

Segment assets include certain property, plant and equipment and inventories used specifically for the production of different products.

(d) Segment liabilities

Segment liabilities are not presented as liabilities are generally incurred for all operating segments and not reported separately to the Chief Executive Officer.

(e) Other segment information

	Double-sided MF tissue paper RMB'000	Single-sided MF tissue paper RMB'000	Copy paper RMB'000	Wall paper backing paper RMB'000	Other products RMB'000	Unallocated RMB'000	Total RMB'000
Amounts included in the measure of segment profit or loss or segment assets:							
Year ended 31 December 2012							
Addition to property, plant and equipment and prepaid lease payments	45,030	8,410	7,834	154,668	42,285	360,711	618,938
Depreciation and amortisation	16,609	3,978	6,856	—	8,016	28,037	63,496
Loss on disposal of property, plant and equipment	—	—	—	—	—	62	62
Year ended 31 December 2011							
Addition to property, plant and equipment and prepaid lease payments	99,727	391	10,059	24,043	49,756	246,819	430,795
Depreciation and amortisation	15,753	4,531	5,150	—	3,396	21,058	49,888
Loss on disposal of property, plant and equipment	—	—	—	—	—	5,234	5,234

(f) Geographical information

The Group principally operates in the PRC (country of domicile of the operating subsidiaries). Nearly all non-current assets of the Group are located in the PRC except for insignificant non-current assets (such as office equipment in Hong Kong office and certain furniture in staff quarter) are located in Hong Kong.

All of the Group's revenue from external customers is attributed to the group entities' countries of domicile (i.e. the PRC).

(g) Information about major customers

During the year, there are no individual customers with sales of 10% or more of the Group's total revenue.

4. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging (crediting):

	2012	2011
	RMB'000	RMB'000
Employee benefits expenses (including directors):		
Salaries and other benefits	**59,132**	58,830
Retirement benefits scheme contributions	**2,210**	2,030
	61,342	60,860
Depreciation of property, plant and equipment	**56,899**	44,066
Release of prepaid lease payments	**6,597**	5,822
Total depreciation and amortisation expenses	**63,496**	49,888
Auditors' remuneration	**2,263**	2,250
Reversal of overprovision of listing expenses (included in other expenses) (Note 1)	**—**	(3,092)
Research and development cost recognised as an expense (included in other expenses) (Note 2)	**32,298**	11,184
Cost of inventories recognised as expenses	**1,007,197**	1,005,292

Notes:

(1) The amount represents the reversal of overprovision of professional fees and other expenses related to the listing of the shares of the Company on the Stock Exchange.

(2) The amount represents research and development expenses on energy conservation, consumption reduction, environment protection system and application of recycled materials as raw materials across productions (the "Research"). The amount is recognised as an expense in profit or loss as the management of the Company considers that the Research has not yet been technically feasible for use.

5. INCOME TAX EXPENSE

	2012	2011
	RMB'000	RMB'000
Income tax expense charge for the year	**43,875**	43,290

The Company and Xi Yuan Paper Limited were incorporated in the Cayman Islands and British Virgin Islands, respectively, and are not subject to income tax.

Sunwell Trading (HK) Company Limited was incorporated in Hong Kong and has had no assessable profit subject to Hong Kong Profits Tax for both years.

The income tax expense for the year represents the PRC Enterprise Income Tax ("EIT") which is calculated at the prevailing tax rate on the taxable income of the group entities in the PRC.

Quanzhou Huaxiang Paper Industry Co., Ltd. ("Huaxiang"), Fujian Xiyuan Paper Co., Ltd. ("Xiyuan") and Youlanfa Paper Co., Ltd. Fujian ("Youlanfa") (collectively referred as the "PRC Subsidiaries") are Foreign Investment Enterprises registered in the PRC and are subject to the PRC statutory EIT tax rate of 25% for both years.

Pursuant to the relevant laws and regulations in the PRC, Huaxiang and Xiyuan are entitled to an exemption from EIT for two years starting from their first exemption year, followed by a 50% tax relief for the following three years. Years 2008 and 2009 were the exemption years, and years 2010 to 2012 are subject to 50% reduced tax rate of 12.5%.

Youlanfa obtained a high and new technology enterprise certificate during the year ended 31 December 2010 and was entitled to a preferential tax rate of 15% for three year period from 2009 to 2011, subject to annual review by the relevant tax authority. Youlanfa is subject to a tax rate at 25% in current year.

The tax charge for the year can be reconciled to the profit before tax per consolidated statement of comprehensive income as follows:

	2012	2011
	RMB'000	RMB'000
Profit before tax	**294,115**	319,257
Tax at the PRC statutory EIT rate of 25%	**73,529**	79,814
Effect of tax exemptions and tax concession	**(30,691)**	(39,677)
Tax effect of expenses not deductible for tax purpose	**1,643**	3,500
Others	**(606)**	(347)
	43,875	43,290

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by the PRC Subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated distributable profits of the PRC Subsidiaries amounting to RMB1,098,064,000 at 31 December 2012 (2011: RMB820,468,000), as the Company is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Other than above, the Group has no significant provided or unprovided deferred tax at the end of the reporting periods.

6. DIVIDENDS

	2012	2011
	RMB'000	RMB'000
Dividends recognised as distribution during the year:		
2011 final dividend of HK$0.068 per share (2010: Nil)	**55,200**	—
2012 interim dividend of HK$0.035 per share (2011: Nil)	**28,700**	—
	83,900	**—**
Proposed final dividend of HK$0.053 per share (2011: HK$0.068 per share)	**42,500**	55,200

On 26 February 2013, the Board proposed payment of a final dividend in respect of the year ended 31 December 2012 of HK$53,000,000, representing HK$0.053 per share. Such dividend is to be approved by the shareholders of the Company at the forthcoming annual general meeting. These financial statements do not reflect this dividend payable.

7. EARNINGS PER SHARE - BASIC

The calculation of basic earnings per share attributable to the owners of the Company is based on the following data:

	2012	2011
	RMB'000	RMB'000
Earnings		
Profit for the year attributable to owners of the Company for the purpose of basic earnings per share	**250,240**	275,967

	2012	2011
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,000,000,000**	1,000,000,000

No diluted earnings per share are presented as there were no potential ordinary shares outstanding during both years.

8. TRADE AND OTHER RECEIVABLES

	2012	2011
	RMB'000	RMB'000
Trade receivables	**309,901**	281,212
Prepayments to suppliers	**—**	6,985
Other prepayments	**1,920**	1,265
Other tax recoverable	**18,371**	18,227
Others	**20**	91
	330,212	307,780

The Group allows an average credit period of 60 days to its trade customers. The ageing of trade receivables presented based on the invoice dates, which approximated the respective revenue recognition dates, at the end of the reporting period is as follows:

	2012	2011
	RMB'000	RMB'000
0 to 30 days	**144,901**	135,612
31 to 60 days	**148,492**	119,431
61 to 90 days	**16,508**	26,169
	309,901	281,212

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed annually.

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The customers with balances that are neither past due nor impaired have good repayment histories and no impairment is considered necessary.

Included in the Group's trade receivables are debtors with aggregate carrying amount of RMB16,508,000, ageing 0 to 30 days (2011: RMB26,169,000, ageing 0 to 30 days), based on the past due date, which are past due as at year end date for which the Group has not provided for impairment loss. No impairment is considered necessary for this balance because it has been fully settled after the end of the reporting period. The Group does not hold any collateral over these balances.

It is the Group's policy to provide fully for any receivables aged over two years because they are considered not recoverable. As at 31 December 2012 and 2011, the Group has neither provided any allowance for doubtful debts nor impaired any trade receivables.

9. TRADE AND OTHER PAYABLES

	2012	2011
	RMB'000	RMB'000
Trade payables	**155,880**	139,630
Notes payables	**—**	19,103
	155,880	158,733
Other payables for acquisition of plant and equipment	**13,890**	18,057
Other tax payables	**12,887**	7,737
Accrued staff costs	**6,851**	5,152
Accrued employee social security fund	**5,086**	7,134
Accrued electricity expenses	**6,914**	7,732
Other accrued expenses	**5,983**	6,030
	207,491	210,575

The following is an ageing analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2012	2011
	RMB'000	RMB'000
Within 30 days	**84,601**	87,010
31 to 90 days	**71,279**	52,620
	155,880	139,630

The following is an ageing analysis of notes payables presented based on the invoice date at the end of the reporting period:

	2012	2011
	RMB'000	RMB'000
Within 30 days	**—**	6,842
31 to 90 days	**—**	—
91 to 120 days	**—**	12,261
	—	19,103

Trade payables and notes payables principally comprise amounts outstanding for purchase of goods. The average credit period for purchase of goods is 30 to 180 days. The Group has financial risk management policies in place to ensure that all payables are within the credit time frame.

BUSINESS REVIEW

A staged progress in resolving the European sovereign debt crisis, marked by release of a new round of borrowings to Greece, coupled with the launch by the United States of round three of quantitative easing in September 2012, did help to restore confidence and stem further deterioration of consumer confidence around the world. The smooth leadership transition following the conclusion of the 18th National Congress of the Communist Party of China in November 2012 and the rebound of China's purchasing manager index since the beginning of the fourth quarter of 2012 confirmed that China's ongoing recovery is gaining momentum.

Though headline figures still suggested that China's paper-making industry was struggling in a low-growth cycle, sentiment of industry participants had been bottoming out and a consensus for limited downside down the road had been receiving widespread support. Within the specialty paper segment of the industry, in particular, the impact from the commencement of operation of new capacities had been mitigated by the accelerated phasing out of obsolete, low-efficiency and non-environmental-friendly capacities. Softening of prices of raw pulp and recovered paper appeared to be slowing down. While the segment as a whole continued to experience volume output growth at lower prices, the downward adjustment pressure on prices was diminishing.

According to statistics released by China Paper Association, the capacity utilization rate of the paper making industry as a whole had been gradually picking up, from 97.3% in June 2012 to 97.9% in December 2012. Prices of raw pulp and finished paper products of various categories had been exhibiting signs of bottoming out. Meanwhile, the specialty paper segment, which the Group focuses on, continued to exhibit stronger resilience than other segments.

The release of a full list of key industrial operations that require pollution containment re-engineering works within the Twelve Five-Year Plan period by the State Council in October 2012 identified a number of key paper-making plants. This has been an added layer of endorsement to advances made by industry participants who had already invested in environmental friendly production facilities, including the Group. This will help the Group secure its leading position as a high-efficiency environmental friendly paper manufacturer.

While persisting in its core competences in wrapping tissue paper businesses, the Group made notable progresses in constructing capacities for high-end wall-paper backing paper. Based on the current schedule, the new de-inking line will commence in first half of 2013. By then, the Group's total de-inking capacity will increase to 150,000 tonnes. In June 2012, the Group also acquired a land plot adjacent to its existing facilities in the Xiyuan production base to be part of its land reserves to support future development.

Segmental Analysis

Double-sided and single-sided machine-finished tissue paper

Revenues generated from double-sided and single-sided machine-finished ("MF") tissue paper were RMB735.4 million and RMB283.5 million, contributed to approximately 51.3% and 19.8% of the Group's revenue for 2012, respectively.

Selected dryer equipment had been installed on two production lines of single-sided MF tissue paper with planned annual production capacities of 7,000 tonnes each, a move which enhanced the quality of products up to the same level as double-sided MF tissue paper.

One single-sided and one double-sided MF tissue paper production line with planned annual production capacities of 8,000 and 25,000 tonnes, respectively, commenced operation during the year under review.

Copy paper

During the year under review, revenue generated from copy paper was RMB245.9 million, representing an increase of 29.9% compared with that of the year ended 31 December 2011, and contributed to approximately 17.1% of the Group's revenue.

Wall paper backing paper

As at 31 December 2012, a new wall paper backing paper production line with a planned annual production capacity of 35,000 tonnes was under construction and has been scheduled to commence operation in the first half of 2013.

Other products

Other products, comprising paper towel and ivory boards, generated a revenue of RMB169.5 million during the period and contributed to approximately 11.8% of the Group's revenue for the year under review.

Geographical Analysis

The entire Group's revenue was generated from mainland China. Eastern China and Southern China are the largest markets of the Group (by breakdown of locations from which sales were originated), with over 93% of Group's revenue for the year under review being derived from these two regions.

Operational Analysis

As at 31 December 2012, the Group operated 32 production lines with designed annual production capacities aggregating 285,000 tonnes, including 195,000 tonnes for double-sided and single-sided MF tissue paper, 44,000 tonnes for copy paper, 26,000 tonnes for paper towel and 20,000 tonnes for ivory boards.

The Group is also equipped with two de-inked pulp production lines with designed annual production capacities aggregating 90,000 tonnes for its own use at the Huaxiang factory. A new de-inked pulp production line with a designed annual production capacity of 60,000 tonnes at the Xiyuan factory will commence operation in the first half of 2013. This expansion of in-house de-inked pulp production capacity allows the Group to reap further benefits on cost.

All the future expansion of production capacities will be surrounding the Group's existing three production bases. The Group acquired a piece of land during the year under review to support future development in the Xiyuan factory.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

Revenue of the Group for the year ended 31 December 2012 was RMB1,434.4 million, representing an increase of approximately 0.4% from RMB1,428.2 million for the year ended 31 December 2011. Profit and total comprehensive income attributable to owners of the Company decreased by approximately 9.3% from RMB276.0 million for the year ended 31 December 2011 to RMB250.2 million for the year ended 31 December 2012. The decrease in profit and total comprehensive income attributable to owners of the Company was a result of the decrease in the overall average selling price of the Group's products, the impact of which was partly offset by an increase in sales volume of approximately 18,000 tonnes during the year under review.

Basic earnings per share for the year ended 31 December 2012 edged slightly down to RMB0.250 per share when compared with RMB0.276 per share for the year ended 31 December 2011, based on the profit attributable to owners of the Company of RMB250.2 million (For the year ended 31 December 2011: RMB276.0 million) and the weighted average of 1,000,000,000 shares (For the year ended 31 December 2011: 1,000,000,000 shares) in issue during the year under review.

Gross profit

Gross profit of the Group slightly increased from RMB422.9 million for the year ended 31 December 2011 to RMB427.2 million for the year ended 31 December 2012. Overall gross profit margin of the Group slightly improved from 29.6% for the year ended 31 December 2011 to 29.8% for the year ended 31 December 2012.

Other income and other gains and losses

Other income and other gains and losses of the Group turned around from a net loss of RMB4.7 million for the year ended 31 December 2011 to a net gain of RMB10.0 million for the year ended 31 December 2012, mainly due to a turnaround from net foreign exchange losses to net foreign exchange gains and there was loss on disposal of property, plant and equipment of RMB5.2 million for the year ended 31 December 2011.

Selling and distribution costs

Selling and distribution costs of the Group decreased by approximately 7.5% from RMB8.0 million for the year ended 31 December 2011 to RMB7.4 million for the year ended 31 December 2012, representing approximately 0.6% and 0.5% of the Group's revenue for the reporting periods, respectively.

Administrative expenses

Administrative expenses of the Group increased by approximately 6.8% from RMB62.6 million for the year ended 31 December 2011 to RMB66.8 million for the year ended 31 December 2012, representing approximately 4.4% and 4.7% of the Group's revenue for the reporting periods, respectively. The increase was primarily due to increases in depreciation charges for property, plant and equipment, and the effect of releases of prepaid lease payments, property tax and employee benefits expenses.

Finance costs

Finance costs of the Group increased by approximately 80.2% from RMB20.3 million for the year ended 31 December 2011 to RMB36.5 million for the year ended 31 December 2012, primarily due to an increase in the average bank borrowings and higher average interest rates during the year under review.

Interest rates of bank loans ranged from 2.73% to 7.54% for the year ended 31 December 2012, compared with 4.78% to 7.87% for the year ended 31 December 2011.

Other expenses

Other expenses mainly comprise research and development expenses on energy conservation, consumption reduction, environmental protection system and application of recycled materials as raw materials across the production process.

Taxation

Tax charge slightly increased by approximately 1.4% from RMB43.3 million for the year ended 31 December 2011 to RMB43.8 million for year ended 31 December 2012, primarily due to the higher tax rate applied to the Group's subsidiaries in mainland China. The Group's effective tax rates for the year ended 31 December 2011 and 2012 were 13.6% and 14.9%, respectively. The increase in the effective tax rate was mainly due to expiry of the preferential tax rate of 15% for one of the Group's subsidiaries in mainland China on 31 December 2011.

Profit attributable to owners of the Company

Profit and total comprehensive income attributable to owners of the Company decreased from RMB276.0 million for the year ended 31 December 2011 to RMB250.2 million for the year ended 31 December 2012. The ratio of profit attributable to owners the Company to revenue narrowed from approximately 19.3% for the year ended 31 December 2011 to approximately 17.4% for the year ended 31 December 2012, mainly due to the decrease in the overall average selling price of the Group's products.

Inventories, trade receivables and payables turnover cycle

The Group's inventories mainly comprise raw materials including wood pulp, recovered paper for de-inked pulp production. For the year ended 31 December 2012, the inventory turnover cycle was approximately 69.0 days (For the year ended 31 December 2011: 69.7 days).

The turnover cycle for trade receivables for the year ended 31 December 2012 lengthened to 75.2 days (For the year ended 31 December 2011: 67.2 days) primarily due to slightly longer credit periods granted to customers. The Group's standard credit term to customers is 60 days.

The turnover cycle for trade and bills payables was lengthened to 57.0 days (For the year ended 31 December 2011: 56.0 days), which is within the 60-day credit period granted by the Group's suppliers.

Borrowings

As at 31 December 2012, the Group's bank borrowings balance amounted to RMB927.7 million, of which RMB404.7 million will be due for repayment within the next twelve months (As at 31 December 2011: RMB532.1 million, of which RMB452.1 million will be due for repayment within the next twelve months).

As at 31 December 2012, the Group's bank borrowings amounted to RMB171.0 million, carried at fixed interest rates (As at 31 December 2011: RMB193.0 million).

As at 31 December 2012, the Group's net gearing ratio, which was calculated on the basis of total borrowings less bank balances and cash and pledged bank deposits as a percentage of shareholder equity, was 28.2% (As at 31 December 2011: 24.2%).

Pledge of assets

As at 31 December 2012, the Group pledged certain of its property, plant and equipment, land use rights and bank deposits with aggregate carrying value of RMB208.1 million, RMB274.7 million and RMB45.2 million respectively (As at 31 December 2011: RMB460.1 million, RMB262.9 million and RMB4.9 million respectively) as collaterals backing the credit facilities granted to the Group.

Capital expenditure

For the year ended 31 December 2012, the Group invested RMB618.9 million (For the year ended 31 December 2011: RMB430.8 million) in construction of production facilities and equipment and prepaid lease payments.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Human resources management

As at 31 December 2012, the Group employed 1,877 staff (As at 31 December 2011: 2,134 staff) and the total remuneration for the year ended 31 December 2012 amounted to approximately RMB61.3 million (For the year ended 31 December 2011: RMB60.9 million). The Group's remuneration packages commensurate with the experience and qualifications of individual employees and general market conditions. Bonuses are linked to the Group's financial results as well as individual performances. The Group also ensures that all employees are provided adequate training and professional development opportunities to satisfy their career development needs.

Prospects

Looking ahead, the Board believes that while the general demand dynamics for the Group's products remain challenging, the Group will continue to benefit from its leading industry position, large-scale production and ability to establish pricing benchmarks for other participants in the industry.

The Board envisages that a rather broad-based recovery has emerged in China's consumer sectors. Signs of revival were seen in both consumer necessities like groceries and daily perishable goods, as well as goods that consumers bought with their discretionary earnings, thereby averting the broader downtrend in prices, volumes and margins seen in the three preceding quarters. These observations were in agreement with the bottoming-out of wood-pulp prices since the fourth quarter in the paper making industry. These had in turn brightened the outlook for the Group's product prices, and more importantly, the profit margins as the Group's cost advantages from its deinking facilities start to kick in again.

Production for the first batch of the Group's production facilities for wall paper backing paper is expected to commence in the first half of 2013. The Group believes that in 2013, its business will continue to derive benefits from the ongoing industry consolidation and migration of China's domestic consumption sector towards usage of more environmental friendly packaging materials. The Group's scale and cost advantages will continue to strengthen as more new production and deinking capacities commence operation. These will help create better value for shareholders of the Company.

Bonus issue of shares

On 26 February 2013, the Board has resolved to make a bonus issue of one new share credited as fully paid for every ten shares held by shareholders whose names appear on the register of members of the Company on 15 March 2013. The relevant certificates for the bonus shares will be posted on or about 2 April 2013.

The above proposed bonus shares are entitle to the recommended final dividend for 2012. For further details, please refer to the separate announcement for the Company relating to the bonus issue dated 26 February 2013.

Dividend

The Board has resolved to recommend payment of a final dividend for the year ended 31 December 2012 of HK5.3 cents per share (For the year ended 31 December 2011: HK6.8 cents per share), totaling HK$53,000,000, approximately amounted to RMB42,500,000. As the new shares to be issued under the bonus issue will be entitled to the said proposed final dividend, it is expected that, upon completion of the bonus issue, the total amount of dividend payable will be increased to HK$58,300,000. It is expected that the final dividend will be paid on or about 22 May 2013 to shareholders whose names appear on the register of members of the Company on 13 May 2013.

Closure of register of members

The register of members of the Company will be closed during the following periods:

(i) From 13 March 2013 to 15 March 2013 (both days inclusive), during which period no transfer of shares will be registered. In order to establish entitlement to the proposed issue of bonus shares (which are expected to be issued on or about 2 April 2013), all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 pm on 12 March 2013 for registration of transfer.

(ii) From 29 April 2013 to 3 May 2013 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the right to attend and vote at the annual general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 pm on 26 April 2013 for registration of transfer.

(iii) From 9 May 2013 to 13 May 2013 (both days inclusive), during which period no transfer of shares will be registered. In order to establish entitlement to the proposed final dividend (payable on or about 22 May 2013), all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 pm on 8 May 2013 for registration of transfer.

Corporate Governance Code

The Stock Exchange of Hong Kong Limited has made various amendments to the Code on Corporate Governance Practices (the "Old Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and renamed it the Corporate Governance Code (the "New Code"). The New Code took effect on 1 April 2012.

The Company has adopted the New Code as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. For the year ended 31 December 2012, the directors considered that the Company had complied with all the code provisions as set out in the Old Code for the period from 1 January 2012 to 31 March 2012, and those set out in the New Code for the period from 1 April 2012 to 31 December 2012.

The directors are committed to upholding the corporate governance of the Company to ensure that formal and transparent procedures are in place to protect and maximise interests of the shareholders of the Company.

Model code for securities transactions by directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as the code of conduct for directors in their dealings in the securities of the Company. Having made specific enquiry to all directors, all directors confirmed that they had complied with the required standard of dealings as set out in the Model Code throughout the year ended 31 December 2012.

Purchase, sale or redemption of the listed securities of our Company

For the year ended 31 December 2012, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

Audit committee

The Company established an audit committee (the "Audit Committee") on 30 April 2010 with written terms of reference based upon the provisions and recommended practices of the New Code. The primary responsibilities of the Audit Committee are to review and supervise financial reporting processes and internal control system of the Group. As at 31 December 2012, the Audit Committee comprised Mr. Chow Kwok Wai, Prof. Zhang Daopei and Prof. Chen Lihui, being the three independent non-executive directors. Mr. Chow Kwok Wai was the chairman of the Audit Committee.

The Audit Committee reviewed the Company's financial reporting and internal control systems, and the Group's consolidated financial statements for the year ended 31 December 2012 and the unaudited condensed consolidated financial statements for the six months ended 30 June 2012 in conjunction with the Company's external auditor. The Audit Committee is of the opinion that these statements had complied with the applicable accounting standards, rules and regulations, and that adequate disclosures had been made.

Publication of results announcement and annual report

This announcement is published on the websites of the Company (www.youyuan.com.hk) and The Stock Exchange of Hong Kong Limited (www.hkexnews.hk). The 2012 annual report of the Company will be dispatched to the shareholders and made available on the same websites in due course.

By Order of the Board
Youyuan International Holdings Limited
KE Wentuo
Chairman

Hong Kong, 26 February 2013

As at the date of this announcement, the executive directors of the Company are Mr. Ke Wentuo, Mr. Ke Jixiong, Mr. Cao Xu and Mr. Zhang Guoduan; and the independent non-executive directors of the Company are Prof. Zhang Daopei, Prof. Chen Lihui and Mr. Chow Kwok Wai.