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## **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)**

### **MAJOR TRANSACTION**

#### **FURTHER ACQUISITION OF EQUITY INTEREST IN XIN WING**

Reference is made to the Circular of the Company dated 31 December 2015 in relation to the acquisition of equity interest in Xin Wing. Unless otherwise stated, terms defined in the Circular shall have the same meaning when used in this announcement.

#### **FURTHER ACQUISITION**

As at the date of this announcement, Xin Wing is owned as to 41.0%, 20.0% and 39.0% by Xi Yuan, Cathay Fund and Ms. Ke, respectively. The Board is pleased to announce that, on 26 July 2016, Xi Yuan issued the Offer to purchase the equity interest of 20.0% in Xin Wing held by Cathay Fund at a total consideration of USD76.06 million and the Offer has been accepted by Cathay Fund on the same date.

#### **LISTING RULES IMPLICATIONS**

As one or more of the applicable percentage ratios exceeds 25% but all of the applicable percentage ratios do not exceed 100%, the Further Acquisition constitute major transaction for the Company and are subject to the reporting, announcement and Shareholders' approval requirements as set out in Chapter 14 of the Listing Rules.

The EGM will be convened and held for the Shareholders to consider and, if thought fit, approve the Further Acquisition. At the EGM, Cathay Special Paper and its associates shall abstain from voting.

The Board contemplates that Xi Yuan and Cathay Fund shall enter into definitive sale and purchase agreement and related documents to formalize the Further Acquisition. As Xi Yuan and Cathay Fund would require more time to negotiate and prepare the definitive sale and purchase agreement and related documents, the circular containing, among others, further details of the Further Acquisition and notice convening the EGM, is currently expected to be despatched to the Shareholders on or before 30 September 2016.

**As completion of the Further Acquisition is subject to fulfillment of the condition precedent and may or may not proceed, Shareholders and potential investors of the Company are urged to exercise caution when dealing in the Shares.**

Reference is made to the circular (“**Circular**”) of Youyuan International Holdings Limited (the “**Company**”) dated 31 December 2015 in relation to the acquisition of equity interest in Xin Wing. Unless otherwise stated, terms defined in the Circular shall have the same meaning when used in this announcement.

## **FURTHER ACQUISITION**

As at the date of this announcement, Xin Wing is owned as to 41.0%, 20.0% and 39.0% by Xi Yuan, Cathay Fund and Ms. Ke, respectively. The Board is pleased to announce that, on 26 July 2016, Xi Yuan issued a notice of offer (“**Offer**”) to purchase the equity interest of 20.0% in Xin Wing held by Cathay Fund at a total consideration of USD76.06 million (“**Further Acquisition**”) and the Offer has been accepted by Cathay Fund on the same date.

The Board contemplates that Xi Yuan and Cathay Fund shall enter into definitive sale and purchase agreement and related documents to formalize the Further Acquisition.

### **Interest to be acquired**

Pursuant to the Offer, Xi Yuan, a wholly-owned subsidiary of the Company, conditionally agreed to purchase from Cathay Fund 2,000 Class B Ordinary Shares, representing 20.0% of the equity interest in Xin Wing. Upon completion of the Further Acquisition, Xin Wing shall be owned as to 61.0% and 39.0% by Xi Yuan and Ms. Ke, respectively. Xin Wing shall become a non-wholly owned subsidiary of the Company and the financial results of Xin Wing shall be consolidated into that of the Company.

Xi Yuan further agreed that an appropriate number of Class B Ordinary Shares shall be under the safe keeping of a mutually agreed custodian in Hong Kong until the full payment of the consideration has been settled by Xi Yuan in accordance with the payment schedule as set out in the section headed “Consideration” below.

### **Consideration**

The total consideration payable by Xi Yuan shall be USD76.06 million, which shall be paid in two tranches:

- the first tranche of not less than USD38.03 million shall be paid in cash on or before 17 February 2017; and
- the second tranche of the balance of the consideration shall be paid in cash on or before 15 July 2017.

The consideration payable by Xi Yuan will be funded by internal resources and external borrowings. The consideration has been arrived at on an arm’s length basis under normal commercial terms pursuant to negotiations between the parties after taking into account, the net asset values of the Target Group as at 31 December 2015, the Net Profit for the year ended 31 December 2015, and the unaudited net profit after taxation of the Target Group for the six months ended 30 June 2016.

### **Conditions Precedent**

The obligation of Xi Yuan to purchase shall be conditional upon Xi Yuan having secured all approval required to enter into and giving effect to the purchase of the 2,000 Class B Ordinary Shares, including but not limited to any approval by the Shareholders (the “**Approval**”) as required under the Listing Rules.

If Xi Yuan shall fail to obtain the Approval on or before 15 January 2017 (or such later date as agreed between the Xi Yuan and Cathay Fund), unless otherwise agreed between the parties in writing, the Offer shall be automatically withdrawn absolutely forthwith and have no force and effect with immediate effect. The parties shall not be obliged to perform any of the obligations and have no rights, claims, interests, causes of actions, liabilities, and costs and expenses of whatever nature under the Offer against each other.

### **Completion**

Completion of the Further Acquisition shall take place on or before 17 February 2017 or otherwise agreed between the parties.

## FINANCIAL INFORMATION ABOUT XIN WING

Set forth below is the net profit (before and after tax) of Xin Wing for the years ended 31 December 2014 and 2015 according to the unaudited consolidated financial statements of Xin Wing:

	<b>For the year ended 31 December 2014</b>	<b>For the year ended 31 December 2015</b>
	<i>RMB million</i>	<i>RMB million</i>
Net profit before taxation	137.2	250.0
Net profit after taxation	113.1	205.9

As at 31 December 2015, the consolidated total net assets of Xin Wing is approximately RMB335.0 million, according to the unaudited consolidated management accounts of Xin Wing.

## REASONS FOR AND BENEFITS OF THE FURTHER ACQUISITION

The Group is principally engaged in the business of manufacturing and wholesale distribution of wrapping tissue paper, copy paper and other specialty paper products. In 2014, the Group diversified its business and ventured into the manufacturing of high quality wall paper backing paper, leveraging its expertise in specialty paper manufacturing and capitalizing on the growing demand for premium home refurbishment products. Customers of the Group's high quality wall paper backing paper are primarily manufacturers of high quality wall paper products who the Group believes have been seeking local suppliers for sourcing of high quality wall paper backing paper, substituting overseas suppliers.

The Target Group is principally engaged in the manufacturing and distribution of wallpaper products with manufacturing facilities located in Zhangzhou, Fujian, the PRC. The Target Group principally sells their own branded wallpapers to distributors primarily located in Fujian, Beijing, Shanghai, Chengdu and Guangzhou. In addition, the Target Group is also engaged in the manufacture of wallpaper for its OEM customers.

Our Directors believe that the Further Acquisition allows the Group to further leverage its experience and expertise in manufacturing of high quality wall paper backing paper to expand the product offerings of the Group to cover high quality wall paper finished products, thus enabling the Group to move up its market position in the paper industry value chain. As at the date of this announcement, the Group did not enter into any transactions with the Target Group. Subject to the Group's

production line of wall paper backing paper running at optimal level, the Group may in the future sell the wall paper backing paper to the Target Group, which the Target Group can utilize to produce high quality wall paper finished products for selling to its customers and/or cross selling to customers of the Group.

The Further Acquisition represents the Group's efforts in gradually expanding its product portfolio, which at present predominantly comprises industrial products and the target customers of which are other manufacturers, to cover consumer end-products targeting at end-users. The Directors consider that, on the basis that the Xin Wing shall become a non-wholly owned subsidiary of the Company upon completion of the Further Acquisition and the Group can exert control over Xin Wing, the Group can enjoy the benefit of its strategy to expand product portfolio through its equity interest in the Target Group and exercise its control over Xin Wing to ensure that the Target Group is consistent with such long term strategies of the Group.

On the basis as set out above, the Board considers that the Further Acquisition and the terms of the Offer are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

## **BACKGROUND INFORMATION OF THE GROUP, CATHAY FUND AND THE TARGET GROUP**

The Group is principally engaged in the business of manufacturing and trading of wrapping tissue paper, copy paper and other specialty paper products.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Cathay Fund is a private equity fund and a limited partnership which is principally engaged in the business of investment holding with direct investment in the PRC and managed by the general partner named Cathay Capital III Master GP. Ltd. As of the date of this announcement, Cathay Special Paper, a Shareholder holding approximately 8.58% of the issued share capital of the Company, is 100.0% held by Cathay Capital Holdings II, L.P., which is managed its general partner, Cathay Master GP. Ltd. The ultimate beneficial owners of Cathay Master GP. Ltd are the same as the ultimate beneficial owners of Cathay Capital III Master GP. Ltd, the general partner of Cathay Fund. Save as disclosed, Cathay Fund and its ultimate beneficial owner is an independent third party of the Company and its connected persons.

The Target Group is principally engaged in the manufacturing and distribution of wallpaper in PRC with manufacturing facilities located in Zhangzhou, Fujian, the PRC and is owned as to 41.0%, 20.0% and 39.0% by Xi Yuan, Cathay Fund and Ms. Ke, respectively, as of the date of this announcement. As of the date of this

announcement, the Target Group principally sells their own branded wallpapers to distributors primarily located in Fujian, Beijing, Shanghai, Chengdu and Guangzhou. In addition, the Target Group is also engaged in the manufacture of wallpaper for its OEM customers.

Ms. Ke is the daughter of Chairman Ke, the Chairman, executive Director and Controlling Shareholder of the Company, and the sister of Mr. Ke Jixiong, the Chief Executive Officer and executive Director.

## **LISTING RULES IMPLICATIONS**

As one or more of the applicable percentage ratios exceeds 25% but all of the applicable percentage ratios do not exceed 100%, the Further Acquisition constitute major transaction for the Company and are subject to the reporting, announcement and Shareholders' approval requirements as set out in Chapter 14 of the Listing Rules.

An extraordinary general meeting of the Company (“EGM”) will be convened and held for the Shareholders to consider and, if thought fit, approve the Further Acquisition. At the EGM, Cathay Special Paper and its associates shall abstain from voting.

The Board contemplates that Xi Yuan and Cathay Fund shall enter into definitive sale and purchase agreement and related documents to formalize the Further Acquisition. As Xi Yuan and Cathay Fund would require more time to negotiate and prepare the definitive sale and purchase agreement and related documents, the circular containing, among others, further details of the Further Acquisition and notice convening the EGM, is currently expected to be despatched to the Shareholders on or before 30 September 2016.

**As completion of the Further Acquisition is subject to fulfillment of the condition precedent and may or may not proceed, Shareholders and potential investors of the Company are urged to exercise caution when dealing in the Shares.**

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

Hong Kong, 26 July 2016

*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 Lihong and Mr. Chow Kwok Wai.*