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)

2016 INTERIM RESULTS ANNOUNCEMENT

Financial Highlights

- Revenue increased by approximately 6.2% to RMB826.3 million
- Profit and total comprehensive income attributable to owners of the Company increased by approximately 18.8% to RMB133.0 million
- Basic earnings per share were RMB0.112
- The Board does not recommend declaration and payment of any interim dividend.

The board of directors (the "Board") of Youyuan International Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the six months ended 30 June 2016. The Company's audit committee has reviewed the results and the unaudited condensed consolidated interim financial information of the Group for the six months ended 30 June 2016 before recommending them to the Board for approval.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016

		Six months ended 30 June	
		2016	2015
		RMB'000	RMB'000
	NOTE	**(unaudited)**	(unaudited)
Revenue	4	**826,292**	778,161
Cost of sales		**(568,283)**	(547,404)
Gross profit		**258,009**	230,757
Selling and distribution expenses		**(5,081)**	(5,290)
Administrative expenses		**(41,960)**	(40,188)
Other income and other gains and losses		**(23,059)**	4,771
Share of profits of an associate		**33,000**	—
Finance costs		**(34,137)**	(35,309)
Other expenses		**(13,384)**	(15,069)
Profit before tax		**173,388**	139,672
Income tax expense	5	**(40,434)**	(27,781)
Profit and total comprehensive income for the period attributable to owners of the Company	6	**132,954**	111,891
		RMB	RMB
Earnings per share - Basic	8	**0.112**	0.094

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2016

	NOTE	**At 30 June 2016 RMB'000 (unaudited)**	At 31 December 2015 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**2,197,861**	2,138,911
Prepaid lease payments		**329,651**	334,110
Investments in an associate	9	**566,000**	—
Deposits paid for acquisition of property, plant and equipment		**106,645**	74,092
Deposits paid for acquisition of prepaid lease payments		**39,855**	39,855
		3,240,012	2,586,968
CURRENT ASSETS			
Inventories		**150,155**	115,643
Trade and other receivables	10	**682,620**	704,053
Prepaid lease payments		**8,229**	7,916
Bank balances and cash		**459,349**	735,222
		1,300,353	1,562,834
CURRENT LIABILITIES			
Trade and other payables	11	**491,363**	235,757
Tax liabilities		**26,815**	16,077
Bank borrowings		**405,622**	873,226
		923,800	1,125,060
NET CURRENT ASSETS		**376,553**	437,774
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,616,565**	3,024,742
NON-CURRENT LIABILITIES			
Bank borrowings		**1,048,999**	590,130
Deferred taxation		**17,500**	17,500
		1,066,499	607,630
NET ASSETS		**2,550,066**	2,417,112
CAPITAL AND RESERVES			
Share capital		**102,501**	102,501
Reserves		**2,447,565**	2,314,611
TOTAL EQUITY		**2,550,066**	2,417,112

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" issued by the International Accounting Standards Board (the "IASB") and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

These condensed consolidated financial statements should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2015. The accounting policies and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2015, except as stated below.

Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether the Group has significant influence. In assessing whether a potential voting right contributes to significant influence, the holder's intention and financial ability to exercise or convert that right is not considered.

Investment in an associate is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of the investment over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group's share of an associate's post-acquisition profits or losses and other comprehensive income is recognised in consolidated statement of profit or loss and other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current period, the Group has adopted all the new and revised International Financial Reporting Standards ("IFRSs") issued by the IASB that are relevant to its operations and effective for its accounting period beginning on 1 January 2016. IFRSs comprise International Financial Reporting Standards ("IFRS"); International Accounting Standards; and Interpretations. The adoption of these new and revised IFRSs did not have any significant effect on the condensed consolidated financial statements.

3. FAIR VALUE MEASUREMENTS

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the condensed consolidated statement of financial position approximate their respective fair values.

4. SEGMENT INFORMATION

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 operating segments identified by the chief operation decision maker have been aggregated in arriving at the reporting segments of the Group.

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

- Wrapping tissue paper - manufacturing for sale of wrapping 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.

The following is an analysis of the Group's revenue and results by reportable and operating segments:

	Segment revenue		Segment results	
	Six months ended 30 June		Six months ended 30 June	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Wrapping tissue paper	**625,700**	585,294	**210,121**	189,674
Copy paper	**74,152**	81,829	**23,222**	23,850
Wall paper backing paper	**54,519**	37,347	**14,530**	6,836
Other products	**71,921**	73,691	**10,136**	10,397
	826,292	778,161	**258,009**	230,757
Selling and distribution expenses			**(5,081)**	(5,290)
Administrative expenses			**(41,960)**	(40,188)
Other income and other gains and losses			**(23,059)**	4,771
Share of profits of an associate			**33,000**	—
Finance costs			**(34,137)**	(35,309)
Other expenses			**(13,384)**	(15,069)
Profit before tax			**173,388**	139,672

Segment revenue and segment results reported above represent revenue and gross profit generated from external customers, respectively. There were no intersegment sales during both periods.

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current tax:		
Charge for the period	**40,434**	27,781

The income tax expense for the period 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., Fujian Xiyuan Paper Co., Ltd. ("Xiyuan") and Youlanfa Paper Co., Ltd. Fujian ("Youlanfa") are Foreign Investment Enterprises registered in the PRC and are subject to the PRC statutory EIT tax rate of 25% for both periods.

Xiyuan obtained a high and new technology enterprise certificate in 2013 and was approved in 2014 to entitle to a preferential tax rate of 15% for three year period from 2013 to 2015, subject to annual review by the relevant tax authority. This certificate expired at the end of 2015.

Youlanfa obtained a high and new technology enterprise certificate in 2015 and was entitled to a preferential tax rate of 15% for three year period from 2015 to 2017, subject to annual review by the relevant tax authority.

In current period, the preferential tax rate of 15% has applied to Youlanfa, which is subject to annual review in 2017.

6. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging (crediting) the following items:

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Amortisation of prepaid lease payments	**4,146**	4,115
Depreciation of property, plant and equipment	**52,369**	46,332
Total depreciation and amortisation	**56,515**	50,447
Bank interest income	**(1,338)**	(5,638)
Loss on disposal of property, plant and equipment	**—**	116
Research and development expenditure (included in other expenses)	**13,384**	15,069
Cost of inventories recognised as expenses	**568,283**	547,404
Net foreign exchange loss	**25,478**	891

7. DIVIDENDS

During the six months period ended 30 June 2015, a final dividend of HK8.0 cents per share in respect of the year ended 31 December 2014 was approved by shareholders at annual general meeting of the Company. Shareholders were given an option to elect to receive the final dividend in the form of newly issued shares, in lieu of cash (the "Scrip Dividend Scheme"). Pursuant to the Scrip Dividend Scheme, 436,339 shares at market price of HK$1.94 per share, amounting to HK$847,000 (equivalent to approximately RMB683,000), were issued and allotted and cash dividend of approximately HK$85,393,000 (equivalent to approximately RMB68,817,000) was paid.

The Board does not recommend declaration and payment of any interim dividend in respect of the six months ended 30 June 2016.

8. EARNINGS PER SHARE - BASIC

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

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purpose of the basic earnings per share calculation	**132,954**	111,891

	Six months ended 30 June	
	2016	2015
	(unaudited)	(unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share calculation	**1,186,236,339**	1,185,838,571

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

9. INVESTMENTS IN AN ASSOCIATE

	At 30 June	At 31 December
	2016	2015
	RMB'000	RMB'000
	(unaudited)	(audited)
Xin Wing Enterprises Limited ("Xin Wing")	**566,000**	—

10. TRADE AND OTHER RECEIVABLES

Trade and other receivables mainly represent trade receivables of approximately RMB680,464,000 (As at 31 December 2015: approximately RMB702,496,000).

The Group allows an average credit period of 120 days to its trade customers. The ageing of trade receivables presented based on the invoice date, which approximated the respective revenue recognition dates, at the end of the reporting period is as follows:

	At 30 June	At 31 December
	2016	2015
	RMB'000	RMB'000
	(unaudited)	(audited)
0 to 30 days	**155,213**	194,276
31 to 60 days	**175,770**	189,485
61 to 90 days	**184,205**	171,323
91 to 120 days	**165,276**	147,412
	680,464	702,496

11. TRADE AND OTHER PAYABLES

	At 30 June 2016 RMB'000 (unaudited)	At 31 December 2015 RMB'000 (audited)
Trade payables	**170,595**	186,789
Consideration payables for acquisition of an associate	**266,500**	—
Other payables for acquisition of plant and equipment	**16,905**	10,136
Other tax payables	**14,657**	19,030
Other payables and accrued operating expenses	**22,706**	19,802
	491,363	235,757

Other payables and accrued operating expenses mainly represent accrued staff costs and utilities expenses.

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

	At 30 June 2016 RMB'000 (unaudited)	At 31 December 2015 RMB'000 (audited)
0 to 30 days	**83,467**	99,618
31 to 90 days	**87,128**	87,171
	170,595	186,789

12. EVENTS AFTER THE REPORTING PERIOD

On 26 July 2016, Xi Yuan Paper Limited ("Xi Yuan BVI", a wholly owned subsidiary of the Company), issued a notice of offer ("Offer") to purchase the equity interests of 20.0% in Xin Wing held by Cathay Capital Holdings III, L.P. ("Cathay Fund") at a total consideration of USD76.06 million ("Further Acquisition") and the Offer has been accepted by Cathay Fund on the same day.

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

The Further Acquisition constituted a major transaction of the Company under the Rule Governing the Listing of Securities on the Stock Exchange. For further details of the Further Acquisition, please refer to the announcement of the Company dated 26 July 2016.

BUSINESS REVIEW

During the first half of 2016, the paper manufacturing industry in China had gotten ready to reap initial benefits from years of adjustments and consolidation. While consumption of paper products remained broadly flat, industry participants who survived through the consolidation in general experienced improvements in business prospects and revival of orders due to less intense competition.

Prices of raw pulp stayed flat at low levels due to persistent weaknesses in demand from around the world, allowing prices of finished paper products to stay low to sustain demand while protecting the profit margin of the surviving industry participants.

China's enactment of new laws and regulations on environmental protection and sewage treatment became more stringent during the six months under review. Cases of participants receiving fine tickets were on the rise.

As for sales, electronic commerce remained the strongest demand driver for package-use paper products, sustained demand for both machine-finished tissue paper and cardboard paper.

These are in agreement with the headline economic figures of the country during the year. Retail sales for the first half of 2016 in China rose 10.3% year on year, according to the National Bureau of Statistics. Yet retail sales via electronic commerce rose 26.6% year on year during the same period.

As far as the market of MF tissue paper is concerned, the Group received benefits from the delayed post-Chinese New Year production resumption of a major arch-rival during the first half, resulting in steady growths in revenue and profit, while average selling prices remained stable. Meanwhile, the Group's newly acquired wall paper business made solid contribution to its share of profits of an associate.

Segmental Analysis

Wrapping tissue paper

Wrapping tissue paper include double-sided machine-finished ("MF") tissue paper, single-sided MF tissue paper, food wrapping tissue paper, semi-transparent wrapping tissue paper and colour wrapping tissue paper.

Total revenue generated from wrapping tissue paper was RMB625.7 million, contributed to approximately 75.7% of the Group's revenue for this reporting period.

Copy paper

Revenue generated from copy paper was RMB74.2 million, contributed to approximately 9.0% of the Group's revenue for this reporting period. One production line with a designed annual production capacity of 19,000 tonnes was suspended from operation for maintenance and upgrade works during this reporting period. The works represent part of the regular maintenance routine for the facilities to support product quality at high levels and improve efficiency.

Wall paper backing paper

Revenue generated from wall paper backing paper was RMB54.5 million, contributed to approximately 6.6% of the Group's revenue for this reporting period.

Other products

Other products, comprising paper towel and ivory boards, generated revenue of RMB71.9 million during this reporting period and contributed to approximately 8.7% of the Group's revenue for this reporting period.

Geographical Analysis

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

Operational Analysis

As at 30 June 2016, the Group operated 34 production lines with designed annual production capacities aggregating 345,000 tonnes, including 215,000 tonnes for wrapping tissue paper, 49,000 tonnes for copy paper, 35,000 tonnes for wall paper backing paper and 46,000 tonnes for other products.

The Group is also equipped with 3 in-house de-inked pulp production lines with designed annual production capacities aggregating 150,000 tonnes for its own use.

Investment in Wall Paper Business

On 5 February 2016, Xi Yuan Paper Limited ("Xi Yuan BVI", a wholly owned subsidiary of the Company) completed its acquisition of a 41.0% equity interests in

Xin Wing Enterprises Limited ("Xin Wing") and its subsidiaries (together with Xin Wing, the "Xin Wing Group"). The Xin Wing Group is principally engaged in manufacturing and trading of wall paper in China under its own branded wall paper and also on an OEM basis.

For the six months ended 30 June 2016, the total revenue of Xin Wing Group was approximately RMB354.2 million and the net profit of Xin Wing Group was approximately RMB101.6 million. The share of profits of Xin Wing Group as an associate of the Group from the date of acquisition to the six months ended 30 June 2016 was approximately RMB33.0 million and was credited to profit and loss of the Group during this reporting period.

PROSPECTS

Looking ahead into the second half of 2016, demand for paper products in general will remain flat, echoing the slow economic growth in China. Yet, since the paper manufacturing industry represents a pioneer among other sectors in implementing supply-side reforms by eliminating obsolete and non-environmental friendly capacities since many years ago, the surviving participants will see persisting improvements in the operating environment.

Meanwhile, the persistent weakness in demand for the industry as a whole will contain revival of prices for finished products.

As far as the Group's business is concerned, the Group has reinforced its presence in the traditional areas of wrapping tissue paper as ongoing industry consolidation had decommissioned capacities of some of the Group's arch-rivals. Meanwhile, the continuing boom in electronic commerce and the fresh income stream from the newly acquired wall paper business will contribute to better resilience of the Group's revenue and profit for the rest of the year.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

Revenue of the Group for the six months ended 30 June 2016 was RMB826.3 million, representing an increase of approximately 6.2% from RMB778.2 million for the six months ended 30 June 2015. The increase in revenue was primarily due to increase in sales volume. Profit and total comprehensive income attributable to owners of the Company increased by approximately 18.8% from RMB111.9 million for the six months ended 30 June 2015 to RMB133.0 million for the six months ended 30 June

2016. The increases in profit and total comprehensive income attributable to owners of the Company were attributable to share of profits of associate and increase in sales volume of the Group's products, the effect of which was partly set off by the foreign exchange loss due to appreciation of USD against RMB.

Basic earnings per share for the six months ended 30 June 2016 increased to RMB0.112 per share when compared with RMB0.094 per share for the six months ended 30 June 2015, based on the profit attributable to owners of the Company of RMB133.0 million (For the six months ended 30 June 2015: RMB111.9 million) and the weighted average of 1,186,236,339 shares (For the six months ended 30 June 2015: 1,185,838,571 shares) in issue during the reporting period.

Gross profit

Gross profit of the Group increased modestly to RMB258.0 million for the six months ended 30 June 2016 from RMB230.8 million for the six months ended 30 June 2015. Overall gross profit margin of the Group slightly increased from 29.7% for the six months ended 30 June 2015 to 31.2% for the six months ended 30 June 2016.

Other income and other gains and losses

Other income and other gains and losses of the Group changed from a net gain of RMB4.8 million for the six months ended 30 June 2015 to a net loss of RMB23.1 million for the six months ended 30 June 2016, mainly due to an increase in a net foreign exchange losses as a result of the appreciation of USD against RMB for the bank borrowings denominated in USD and a decrease in bank interest income.

Share of profits of an associate

Share of profits of an associate of the Group was approximately RMB33.0 million for the six months ended 30 June 2016.

Selling and distribution costs

Selling and distribution costs of the Group decreased by approximately 4.0% from RMB5.3 million for the six months ended 30 June 2015 to RMB5.1 million for the six months ended 30 June 2016, representing approximately 0.7% and 0.6% of the Group's revenue for the reporting periods, respectively.

Administrative expenses

Administrative expenses of the Group increased by approximately 4.4% from RMB40.2 million for the six months ended 30 June 2015 to RMB42.0 million for the six months ended 30 June 2016, representing approximately 5.2% and 5.1% of the Group's revenue for the reporting periods, respectively.

Finance costs

Finance costs of the Group decreased by approximately 3.3% from RMB35.3 million for the six months ended 30 June 2015 to RMB34.1 million for the six months ended 30 June 2016, primarily due to a decrease in the average interest rates of bank borrowings during the reporting period.

Interest rates of bank loans ranged from 1.50% to 8.0% for the six months ended 30 June 2016, compared with 1.63% to 8.12% for the six months ended 30 June 2015.

Other expenses

Other expenses mainly comprised 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 increased by approximately 45.5% from RMB27.8 million for the six months ended 30 June 2015 to RMB40.4 million for the six months ended 30 June 2016. The Group's effective tax rates for the six months ended 30 June 2015 and 2016 were 19.9% and 23.3%, respectively. The increase in tax charge was mainly due to expiry of the preferential tax rate of one of the Group's subsidiaries in mainland China.

Profit and total comprehensive income attributable to owners of the Company

Profit and total comprehensive income attributable to owners of the Company increased from RMB111.9 million for the six months ended 30 June 2015 to RMB133.0 million for the six months ended 30 June 2016. The ratio of profit and total comprehensive income attributable to owners of the Company to revenue increased slightly from approximately 14.4% for the six months ended 30 June 2015 to approximately 16.1% for the six months ended 30 June 2016.

Inventories, trade receivables and payables turnover cycle

The Group's inventories mainly comprised raw materials including wood pulp, recovered paper for de-inked pulp production. For the six months ended 30 June 2016, the inventory turnover cycle was approximately 41.0 days (For the year ended 31 December 2015: 34.8 days).

Due to the ongoing tightening of liquidity in China, the Group made a strategic decision to lengthen its standard credit term for customers to 120 days to allow them more leeway to arrange their capital resources in previous years. That said, the

turnover cycle of trade receivables for the six months ended 30 June 2016 was 151.5 days (For the year ended 31 December 2015: 141.7 days). With deep understandings of its customers, the Group does not envisage any acute deterioration of credit quality of its trade receivables.

The turnover cycle for the Group's trade and bills payables for the six months 30 June 2016 was lengthened to 55.2 days (For the year ended 31 December 2015: 47.9 days), which was similar to the 60 days credit period granted by the Group's suppliers.

Investments in an associate

As at 30 June 2016, the Group's investments in an associate, Xin Wing Group, amounted to RMB566.0 million, including RMB33.0 million of shares of post-acquisition results and RMB533.0 million of cost of investment.

Borrowings

As at 30 June 2016, the Group's bank borrowings amounted to RMB1,454.6 million, of which RMB405.6 million will be due for repayment within the next twelve months (As at 31 December 2015: RMB1,463.4 million, of which RMB873.2 million would be due for repayment within the next twelve months).

As at 30 June 2016, the Group's bank borrowings amounted to RMB1,428.4 million, carried at variable interest rates (As at 31 December 2015: RMB1,416.4 million).

As at 30 June 2016, the Group's net gearing ratio, which was calculated on the basis of total bank borrowings less bank balances and cash and pledged bank deposits as a percentage of shareholder equity, was 39.0% (As at 31 December 2015: 30.1%).

Pledge of assets

As at 30 June 2016, the Group pledged certain of its property, plant and equipment, land use rights and bank deposits with an aggregate carrying value of RMB450.2 million (As at 31 December 2015: RMB460.7 million) as collaterals for the credit facilities granted to the Group.

Capital expenditure

For the six months ended 30 June 2016, the Group invested RMB134.6 million (For the six months ended 30 June 2015: RMB167.9 million) in construction of production facilities and equipment.

Dividend

The Board does not recommend declaration and payment of any interim dividend for the six months ended 30 June 2016 (For the six months ended 30 June 2015: HK4.1 cents per share).

Human resources management

As at 30 June 2016, the Group employed approximately 1,500 staff (As at 30 June 2015: approximately of 1,700 staff) and the total remuneration for the six months ended 30 June 2016 amounted to approximately RMB33.7 million (For the six months ended 30 June 2015: RMB33.3 million). The Group's remuneration packages are commensurate with 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 with adequate training and professional development opportunities to satisfy their career development needs.

Corporate Governance Code

The Company has adopted the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") as its own code of corporate governance. The Directors consider that the Company had complied with all the code provisions as set out in the Code for the six months ended 30 June 2016.

The Directors are committed to upholding higher corporate governance of the Company to ensure that formal and transparent procedures are in place to protect and maximize interests of the shareholders of the Company ("Shareholders").

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 six months ended 30 June 2016.

Purchase, Sale or Redemption of the Listed Securities of our Company

For the six months ended 30 June 2016, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

Auditor

With effect from 22 June 2016, Messrs. Deloitte Touche Tohmatsu ("Deloitte") has resigned as auditor of the Company as Deloitte and the Company could not reach a consensus on the audit fees for the financial year ending 31 December 2016. Deloitte has confirmed that there were no circumstances connected with its resignation which

it considered should be brought to the attention of the Shareholders. The Board has confirmed that there is no disagreement between Deloitte and the Company, and there are no other matters in relation to the resignation of the auditor that need to be brought to the attention of the Shareholders.

Messrs. RSM Hong Kong has been appointed as auditor of the Company to fill the casual vacancy following the resignation of Deloitte and shall hold office until the conclusion of the coming annual general meeting the Company.

Audit committee

The Company established an audit committee ("Audit Committee") on 30 April 2010 with written terms of reference based upon the provisions and recommended practices of the Code. The primary responsibilities of the Audit Committee are to review and supervise financial reporting processes, risk management and internal control system of the Group. As at 30 June 2016, the Audit Committee comprised Mr. Chow Kwok Wai, Prof. Zhang Daopei and Prof. Chen Lihong, being the three independent non-executive Directors. Mr. Chow Kwok Wai is the chairman of the Audit Committee.

The Audit Committee reviewed the Company's financial reporting, risk management and internal control system and the unaudited condensed consolidated financial statements for the six months ended 30 June 2016 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 interim 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 2016 interim 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, 10 August 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.