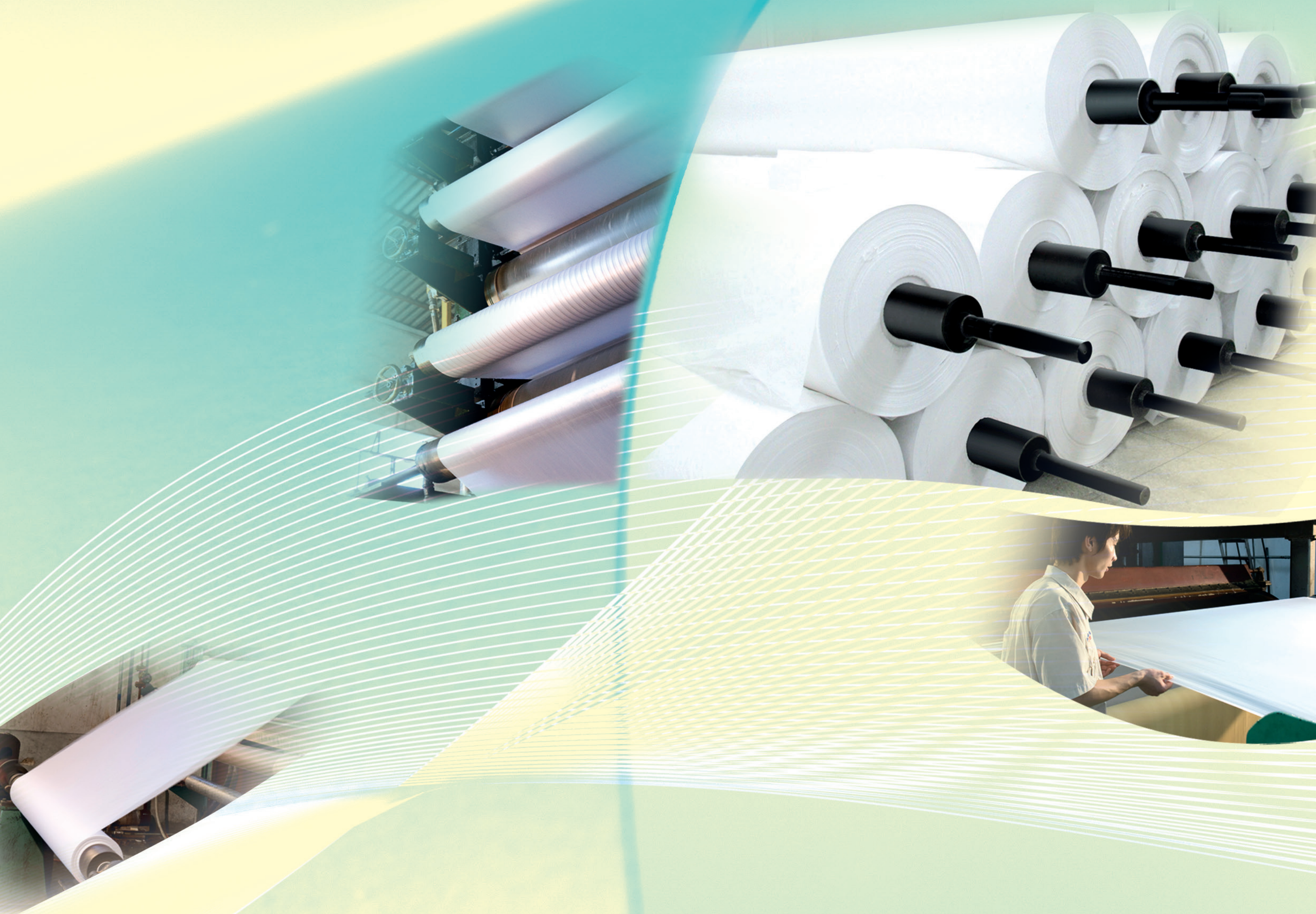
优源
YOUYUAN

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)



2017
INTERIM REPORT

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr Ke Wentuo (柯文托)
Mr Ke Jixiong (柯吉熊)
Mr Cao Xu (曹旭)
Mr Zhang Guoduan (張國端)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Prof. Zhang Daopei (張道沛)
Prof. Chen Lihong (陳禮洪)
Mr Chow Kwok Wai (周國偉)

AUDIT COMMITTEE

Mr Chow Kwok Wai *(Chairman)*
Prof. Zhang Daopei
Prof. Chen Lihong

REMUNERATION COMMITTEE

Prof. Chen Lihong *(Chairman)*
Prof. Zhang Daopei
Mr Ke Wentuo

NOMINATION COMMITTEE

Prof. Zhang Daopei *(Chairman)*
Prof. Chen Lihong
Mr Ke Wentuo

COMPANY SECRETARY

Mr Wong Yat Sum, *FCCA, FCPA*

AUTHORISED REPRESENTATIVES

Mr Ke Wentuo
Mr Wong Yat Sum

CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
3rd Floor, Royal Bank House
24 Shedden Road, PO Box 1586
Grand Cayman KY1-1110
Cayman Islands

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

REGISTERED OFFICE

Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEADQUARTERS IN THE PRC

Xibin Industrial Zone
Jinjiang City
Fujian Province
The People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1601, 16th Floor
Bonham Trade Centre
50 Bonham Strand
Sheung Wan, Hong Kong

COMPANY'S WEBSITE

www.youyuan.com.hk

PLACE OF LISTING AND STOCK CODE

The Stock Exchange of Hong Kong Limited
2268

PRINCIPAL BANKERS

In Hong Kong:

China CITIC Bank International Limited
Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited
Nanyang Commercial Bank Limited

In the PRC:

Bank of China
Industrial and Commercial Bank of China Limited

AUDITOR

RSM Hong Kong
Certified Public Accountants

LEGAL ADVISORS

Hong Kong law:

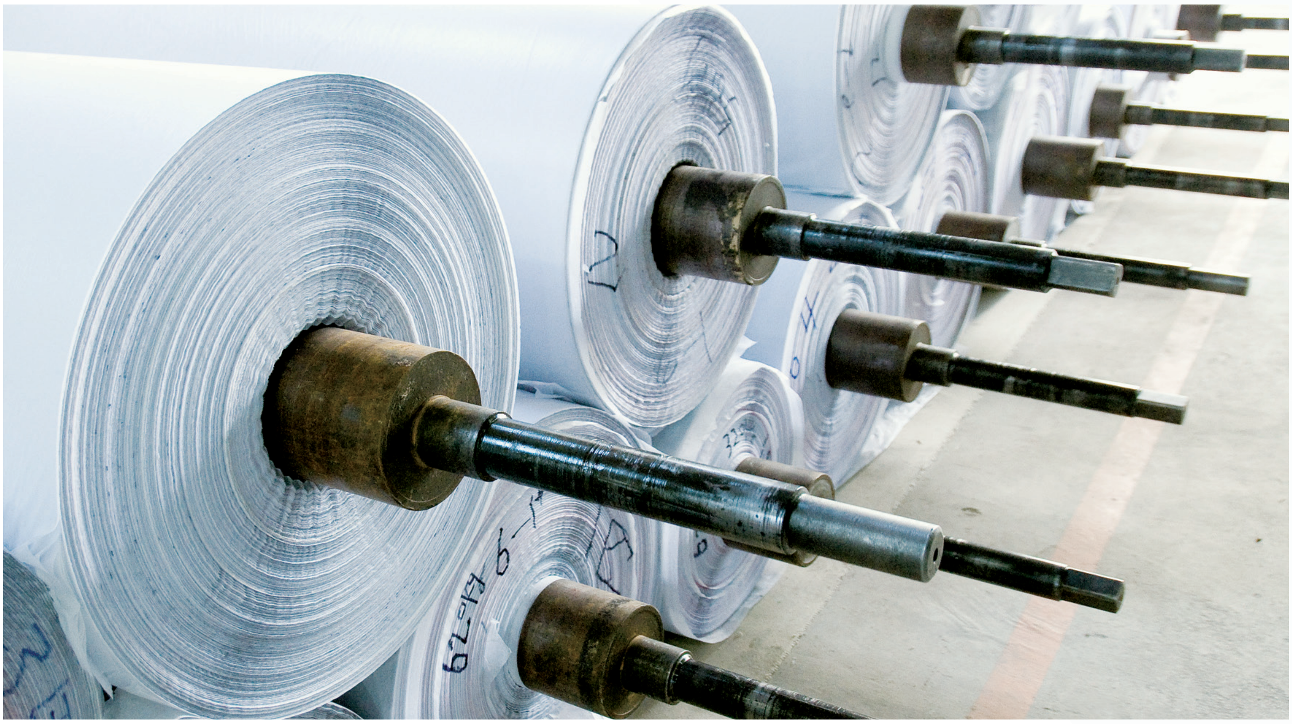
Luk & Partners
In Association with Morgan, Lewis & Bockius

Cayman Islands law:

Conyers Dill & Pearman

INVESTORS AND MEDIA RELATIONS

iPR Ogilvy Ltd



BUSINESS REVIEW AND OUTLOOK

BUSINESS REVIEW

China's paper and paper products industry kept on increasing its output level to satisfy the country's steadily growing demand for the first half of 2017. The increase was partly boosted by the demand for paper packaging, which was steadily driven up by the increasingly popular and rapidly growing online shopping and e-commerce, which led to an increase in demand for paper packaging for delivery of goods to consumers. In addition, the growth of investment in China's property development stimulated demand for wall paper products.

The vibrancy of the country's paper and paper products industry was also reflected in the robust growth of import of paper pulps, which are the raw materials used in the manufacture of paper.

On the supply side, China's paper manufacturing industry has been consolidated as part of the ongoing nationwide campaign to restructure the supply side of the national economy. Moreover, the government's tougher environmental policies also helped to force the out-dated and contaminating paper-making capacity out of the market.

The country's steadily increasing demand for paper and paper products exceeded supply, creating a favourable enviornment to the country's paper and paper products industry. The board of Directors (the "Board") believes the industry will continue to see growth in revenue and profit.

Investment in Wall Paper Business

In February 2016, Xi Yuan Paper Limited ("Xi Yaun BVI", a wholly owned subsidiary of the Company) completed its acquisition of 41.0% equity interest in Xin Wing Enterprises Limited ("Xin Wing"). Xin Wing and its subsidiaries (together with Xin Wing, the "Xin Wing Group") are principally engaged in manufacturing and trading of wall paper in China of its own branded wall paper and also on OEM basis.

On 24 April 2017, Xi Yuan BVI entered into share purchase agreements with Ms. Ke Jinzhen and Cathay Capital Holdings III. L.P., for the acquisition of 39.0% and 20.0% equity interest in Xin Wing, respectively. The acquisitions, on an aggregated basis, constituted a major and connected transaction of the Company under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The acquisitions were approved by the independent shareholders at the extraordinary general meeting held on 15 June 2017. As at the date of this report, the acquisitions have not been completed.

For further details of the acquisitions, please refer to the announcements of the Company dated 26 July 2016, 10 August 2016, 21 September 2016, 24 April 2017, 15 June 2017 and 31 July 2017 and circular of the Company dated 25 May 2017.

For the six months ended 30 June 2017, the total revenue of Xin Wing Group was approximately RMB442.1 million (For the six months ended 30 June 2016: RMB354.2 million) and the net profit of Xin Wing Group was approximately RMB110.9 million (For the six months ended 30 June 2016: RMB101.6 million). The share of profit of Xin Wing Group as an associate of the Group was approximately RMB45.0 million (For the six months ended 30 June 2016: RMB33.0 million) and was credited to profit and loss of the Group during this reporting period.

SEGMENTAL ANALYSIS

Wrapping tissue paper

Wrapping tissue paper includes 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 RMB725.2 million, contributing to approximately 73.8% of the Group's revenue for this reporting period.

Copy paper

Revenue generated from copy paper was RMB97.4 million, contributing to approximately 9.9% of the Group's revenue for this reporting period.

Wall paper backing paper

Revenue generated from wall paper backing paper was RMB69.2 million, contributing to approximately 7.1% of the Group's revenue for this reporting period.

Other products

Other products, comprising paper towels, ivory boards and core boards, generated revenue of RMB90.5 million during this reporting period and contributed to approximately 9.2% of the Group's revenue for this reporting period.

GEOGRAPHICAL ANALYSIS

The entire Group's revenue was generated from mainland China. Eastern China and Southern China were the largest markets for the Group (by locations from which sales were originated), with over 91% of Group's revenue for the reporting period being derived from these two regions.

OPERATIONAL ANALYSIS

As at 30 June 2017, the Group operated 37 production lines with designed annual production capacities totaling 418,000 tonnes, including 225,000 tonnes of wrapping tissue paper, 52,000 tonnes of copy paper, 35,000 tonnes of wall paper backing paper and 106,000 tonnes of other products.

The Group is also equipped with 3 in-house de-inked pulp production lines with designed annual production capacities totaling 176,000 tonnes for its own use.

PROSPECTS

The growth momentum of China's paper and paper products industry in the first half of 2017 is expected to continue well into the second half of the year supported by the robust and continuous growth in online shopping, e-commerce and property market.

On the supply side, the industry continues to benefit from the country's ongoing supply-side restructuring and tougher environmental policies which have the combined effect of eliminating outdated or contaminating production capacity.

The Board is of the view that the ongoing consolidation of the industry will lead to slower growth in the supply side, creating a market vaccum as a result of elimination of outdated and contaminating production capacity. Accordingly, stronger paper and paper products companies are poised to gain more market shares. The higher market concentration and slower growth in supply, compounded by the steadily growing demand, would help stabilize the prices of the finished paper products at a reasonable level.

To capitalize on the current situation, the Group has reinforced the strategic importance of its wrapping tissue paper business and has been developing an additional stream of income from the partial acquisition of Xin Wing that was completed in February 2016. The acquisition of the remaining equity interest in Xin Wing was also underway as of 30 June 2017. (For further details, please refer to the paragraph headed "Investment in Wall Paper Business" section above) The acquisition will add impetus to the Group's development in the future.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

Revenue of the Group for the six months ended 30 June 2017 was RMB982.3 million, representing an increase of approximately 18.9% from RMB826.3 million for the six months ended 30 June 2016. 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 65.3% from RMB133.0 million for the six months ended 30 June 2016 to RMB219.8 million for the six months ended 30 June 2017. The increase in profit and total comprehensive income attributable to owners of the Company was attributable to the increase in share of profit from an associate of the Group, the increase in sales volume of the Group's products and the foreign exchange gain due to depreciation of US Dollars ("USD") against Renminbi ("RMB").

Basic earnings per share for the six months ended 30 June 2017 increased to RMB0.186 per share when compared with RMB0.112 per share for the six months ended 30 June 2016, based on the profit attributable to owners of the Company of RMB219.8 million (For the six months ended 30 June 2016: RMB133.0 million) and the weighted average of 1,178,917,564 shares (For the six months ended 30 June 2016: 1,186,236,339 shares) in issue during the reporting period.

Gross profit

Gross profit of the Group increased modestly to RMB278.0 million for the six months ended 30 June 2017 from RMB258.0 million for the six months ended 30 June 2016. Overall gross profit margin of the Group decreased from 31.2% for the six months ended 30 June 2016 to 28.3% for the six months ended 30 June 2017.

Other income and other gains and losses

Other income and other gains and losses of the Group changed from a net loss of RMB23.1 million for the six months ended 30 June 2016 to a net gain of RMB26.7 million for the six months ended 30 June 2017, mainly due to increase in net foreign exchange gains as a result of the depreciation of USD against RMB for the bank borrowings denominated in USD.

Share of profit of an associate

Share of profit of an associate of the Group increased to RMB45.0 million for the six months ended 30 June 2017 from RMB33.0 million for the six months ended 30 June 2016.

Selling and distribution expenses

Selling and distribution expenses of the Group decreased by approximately 2.2% from RMB5.1 million for the six months ended 30 June 2016 to RMB5.0 million for the six months ended 30 June 2017, representing approximately 0.6% and 0.5% of the Group's revenue for the reporting periods, respectively.

Administrative expenses

Administrative expenses of the Group decreased by approximately 5.8% from RMB42.0 million for six months ended 30 June 2016 to RMB39.5 million for the six months ended 30 June 2017, representing approximately 5.1% and 4.0% of the Group's revenue for the reporting periods, respectively.

Finance costs

Finance costs of the Group decreased by approximately 9.7% from RMB34.1 million for the six months ended 30 June 2016 to RMB30.8 million for the six months ended 30 June 2017, primarily due to a decrease in the average balance of bank borrowings during the reporting period.

Interest rates of bank loans ranged from 2.1% to 5.7% for the six months ended 30 June 2017, compared to 1.5% to 8.0% for the six months ended 30 June 2016.

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 decreased by approximately 14.6% from RMB40.4 million for the six months ended 30 June 2016 to RMB34.5 million for the six months ended 30 June 2017. The Group's effective tax rates for the six months ended 30 June 2016 and 2017 were 23.3% and 13.6%, respectively.

Profit and total comprehensive income attributable to owners of the Company

Profit and total comprehensive income attributable to owners of the Company increased from RMB133.0 million for the six months ended 30 June 2016 to RMB219.8 million for the six months ended 30 June 2017. The ratio of profit and total comprehensive income attributable to owners of the Company to revenue increased from approximately 16.1% for the six months ended 30 June 2016 to approximately 22.4% for the six months ended 30 June 2017.

Inventories, trade receivables and payables turnover cycle

The Group's inventories mainly comprised raw materials including wood pulp and recovered paper for de-inked pulp production. For the six months ended 30 June 2017, the inventory turnover cycle was approximately 31.1 days (For the year ended 31 December 2016: 27.9 days).

The turnover cycle of trade receivables for the six months ended 30 June 2017 was 144.6 days (For year ended 31 December 2016: 145.3 days). With thorough understanding of its customers, the Group does not envisage any acute deterioration of the credit quality of its trade receivables.

The turnover cycle for the Group's trade payables for the six months ended 30 June 2017 increased to 55.9 days (For the year ended 31 December 2016: 53.1 days), which was within the 60 days credit period granted by the Group's suppliers.

Borrowings

As at 30 June 2017, the Group's bank borrowings amounted to RMB1,462.0 million, of which RMB504.6 million will be due for repayment within the next twelve months (As at 31 December 2016: RMB1,681.1 million, of which RMB519.6 million would be due for repayment within the next twelve months).

As at 30 June 2017, the Group's bank borrowings amounted to RMB1,442.0 million, carried at variable interest rates (As at 31 December 2016: RMB1,570.2 million).

As at 30 June 2017, 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 43.1% (As at 31 December 2016: 44.7%).

Pledge of assets

As at 30 June 2017, the Group pledged certain property, plant and equipment and land use rights with an aggregate carrying value of RMB139.2 million (As at 31 December 2016: RMB237.9 million) as collaterals for the credit facilities granted to the Group.

Capital expenditure

For the six months ended 30 June 2017, the Group invested RMB167.0 million (For the six months ended 30 June 2016: RMB134.6 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 2017 (For the six months ended 30 June 2016: Nil).

HUMAN RESOURCES MANAGEMENT

As at 30 June 2017, the Group employed approximately 1,600 staff (As at 30 June 2016: approximately 1,500 staff) and the total remuneration for the six months ended 30 June 2017 amounted to approximately RMB35.2 million (For the six months ended 30 June 2016: RMB33.7 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.

SHARE OPTION SCHEME

Pursuant to the written resolutions passed by all the shareholders of the Company ("Shareholders") on 30 April 2010, the Company approved and adopted a share option scheme (the "Scheme") for the purpose of giving eligible persons an opportunity to have a personal stake in our Company, motivating them to optimise their future performance and efficiency in our Group, rewarding them for their past contributions, attracting, retaining or otherwise maintaining on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of our Group, and additionally in the case of executives, to enable our Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

As at 30 June 2017, no options had been granted or agreed to be granted under the Scheme.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES AND UNDERLYING SHARES AND DEBENTURES OF OUR COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 June 2017, the interests of each Director and chief executive of our Company in the shares of the Company with a nominal value of HK$0.10 each (the "Shares"), underlying Shares and debentures of our Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to our Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules, were as follows:

Name of director	Position	Capacity/Nature of interest	Number of Shares	Approximate percentage of interest in the Company
Mr Ke Wentuo	L[1]	Interest in controlled corporation and interest of spouse[2]	694,237,500	58.89%
	S[1]	Interest in controlled corporation and interest of spouse[2]	165,000,000	14.00%
Mr Ke Jixiong	L[1]	Interest in controlled corporation[3]	41,930,000	3.56%

Notes

1: L: Long position; S: Short position.

2: The interest in 694,237,500 Shares comprise of:

(i) 665,560,500 Shares held by Smart Port Holdings Limited ("Smart Port"), which is wholly owned by Mr Ke Wentuo; and

(ii) 28,677,000 Shares held by Denron International Limited ("Denron"), which is wholly beneficially owned by Ms Cai Lishuang. Mr Ke Wentuo, being the spouse of Ms Cai Lishuang, is deemed to be interested in the said 28,677,000 Shares held by Denron.

3: The short position in 165,000,000 Shares refers to the short position in the same number of Shares held by Smart Port.

4: The interest in 41,930,000 Shares refers to the same block of Shares held by Everproud International Limited, which is wholly owned by Mr Ke Jixiong.

Except as disclosed above, none of the Directors nor the chief executives of our Company or their associates had any interest or short positions in any of the Shares, underlying Shares or debentures of our Company or any of its associated corporations as defined in the SFO.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

The register of substantial shareholders required to be kept by our Company under Section 336 of Part XV of the SFO shows that as at 30 June 2017, in addition to the interests disclosed under the paragraph headed "Directors and Chief Executives' Interests in the Shares and Underlying Shares and Debentures of our Company or any Associated Corporation", our Company was notified of the following substantial shareholders' interests and short positions in the Shares and underlying Shares, being interests of 5% or more.

Name	Position	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding
Smart Port	L[1]	Beneficial owner[2]	665,560,500	56.46%
	S[1]	Beneficial owner[2]	165,000,000	14.00%
Ms Cai Lishuang	L[1]	Interest in controlled corporation and interest of spouse[3]	694,237,500	58.89%
	S[1]	Interest in controlled corporation and interest of spouse[3]	165,000,000	14.00%
Cathay Special Paper Limited	L[1]	Beneficial owner[4]	101,747,500	8.63%

Notes

1: L: Long position; S: Short position.

2: Mr Ke Wentuo is deemed to be interested in the Shares held by Smart Port by virtue of Smart Port being wholly owned by Mr Ke Wentuo.

3: Ms Cai Lishuang is deemed to be interested in the Shares held by Denron by virtue of Denron being wholly owned by Ms Cai Lishuang. In addition, she is deemed to be interested in the Shares held by Smart Port, which is wholly owned by Mr Ke Wentuo, by virtue of her being the spouse of Mr Ke Wentuo.

4: Cathay Special Paper Limited is wholly owned by Cathay Capital Holdings II, L.P., a limited liability partnership.

Except as disclosed above, as at 30 June 2017, our Company has not been notified by any person or corporation who had interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept by our Company under Section 336 of Part XV of the SFO.

DISCLOSURE PURSUANT TO RULE 13.18 AND RULE 13.21 OF THE LISTING RULES

On 5 May 2016, the Company as borrower entered into the facility agreement with a syndicate of three banks for a 3.5-year term loan in the principal amount of US$115 million (the "Facility Agreement"). The Facility Agreement includes a condition imposing specific performance obligations on Mr Ke Wentuo, the controlling shareholder of the Company (the "Controlling Shareholder") who is interested in approximately 56.11% of the issued share capital of the Company and short position in 13.91% of the issued share capital of the Company as of the date of the Facility Agreement. Pursuant to the Facility Agreement, it will be a change of control in the event that (i) the Controlling Shareholder and his associates collectively do not or cease to own at least 30% of the, direct or indirect, beneficial shareholding interest in the issued share capital of, and carrying 30% of the voting rights in the Company, free from any security; (ii) the Controlling Shareholder and his associates collectively do not or cease to have management control of the Company; (iii) the Controlling Shareholder and his associates collectively are not or cease to be the single largest shareholder of the Company; or (iv) the Controlling Shareholder is not or ceases to be the chairman of the Board.

If a change of control occurs, the facility agent to the Facility Agreement may cancel all the available facility and declare all or part of the loans, together with all accrued interest, and all other amounts accrued or outstanding pursuant to the Facility Agreement to become due and payable, whereupon the Facility Agreement will be cancelled and all such outstanding amounts will be immediately due and payable.

CONNECTED TRANSACTION

On 24 April 2017, Xi Yuan Paper Limited ("Xi Yuan BVI", a wholly owned subsidiary of the Company) and Ms Ke Jinzhen ("Ms. Ke", the daughter of Mr Ke Wentuo, the chairman and executive Director of the Company, a connected person of the Company) entered into Share Purchase Agreement I, pursuant to which Xi Yuan BVI conditionally agreed to purchase 3,900 Class A Ordinary Shares from Ms. Ke, representing 39.0% of the equity interests of Xin Wing Enterprises Limited ("Xin Wing") and its subsidiaries (together with Xin Wing, the "Target Group"); and Xi Yuan BVI and Cathay Capital Holdings III, L.P. ("Cathay Fund") entered into Share Purchase Agreement II, pursuant to which Xi Yuan BVI conditionally agreed to purchase 2,000 Class B Ordinary Shares from Cathay Fund, representing 20.0% of the equity interests of Xin Wing ("Proposed Acquisitions").

The Proposed Acquisitions constituted a major and connected transaction of the Company under the Listing Rules. For further details of the Proposed Acquisitions, please refer to the announcements of the Company dated 26 July 2016, 10 August 2016, 21 September 2016, 24 April 2017 and 31 July 2017 and the circular of the Company dated 25 May 2017.

Upon completion of the Proposed Acquisitions, Xin Wing will become an indirect wholly-owned subsidiary of the Company and its results, assets and liabilities will be consolidated into the accounts of the Group.

The Proposed Acquisition was approved by the independent shareholders of the Company at the extraordinary general meeting of the Company held on 15 June 2017 and up to the date of this report, the Proposed Acquisition have not been completed.

CORPORATE GOVERNANCE CODE

The Company has adopted the Corporate Governance Code (the "Code") as set out in Appendix 14 to the 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, except for a deviation from code provision A.6.7.

Under code provision A.6.7, independent non-executive directors and other non-executive directors shall attend general meetings and develop a balanced understanding of the view of the Shareholders. Due to other pre-arranged business commitments, Prof. Zhang Daopei and Prof. Chen Lihong, both independent non-executive Directors, were not able to attend the annual general meeting of the Company held on 25 May 2017 and Prof. Zhang Daopei and Prof. Chen Lihong, both independent non-executive Directors, were not able to attend the extraordinary general meeting of the Company held on 15 June 2017.

The Directors are committed to upholding a high standard of corporate governance of the Company to ensure that formal and transparent procedures are in place to protect and maximize interests of the Shareholders.

MODEL CODE FOR SECURITIES TRANSACTIONS

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 2017.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF OUR COMPANY

On 25 October 2016, the Company announced that the Directors had approved a share buy-back program pursuant to which the Company will repurchase the Shares from the open market, with immediate effect, until expiry of the prevailing share buy-back mandate granted to the Board at the annual general meeting of the Company held on 13 May 2016 upon conclusion of the forthcoming 2017 AGM.

During the six months ended 30 June 2017, the Company repurchased a total of 3,800,000 Shares of HK$0.10 per share from the open market at an aggregate consideration of approximately RMB6,633,000 (including transaction costs) and all of the repurchased Shares were subsequently cancelled on 19 January 2017. Details of the cancelled Shares during the period are set out as follows:

Month of repurchases	Number of ordinary shares repurchased	Purchase price per share Highest HK$	Lowest HK$	Aggregate consideration paid (including expneses) RMB'000
November 2016	352,000	1.83	1.78	563
December 2016	3,319,000	2.01	1.90	5,779
January 2017	3,800,000	1.99	1.85	6,633
	7,471,000			12,975

The Directors believed that repurchases of Shares were in the best interests of the Company and the Shareholders and that such repurchases of Shares would lead to an enhancement of the earnings per share of the Company.

Save as disclosed above, neither the company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2017.

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 was amended and adopted on 27 January 2016. The primary responsibilities of the Audit Committee are to review and supervise financial reporting processes and internal control system of the Group. As at 30 June 2017, 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 was the chairman of the Audit Committee.

The Audit Committee reviewed the Company's financial reporting and internal control system, and the Group's consolidated financial statements for the year ended 31 December 2016 and the unaudited condensed consolidated financial statements for the six months ended 30 June 2017, which have been reviewed by the Company's external auditor. The Audit Committee is of the opinion that these statements have complied with the applicable accounting standards, rules and regulations, and that adequate disclosures have been made.

NOMINATION COMMITTEE

Our Company established a nomination committee ("Nomination Committee") on 22 December 2011 with written terms of reference in compliance with the Code. As at 30 June 2017, the Nomination Committee comprised Prof. Zhang Daopei, Prof. Chen Lihong and Mr Ke Wentuo. Prof. Zhang Daopei is the chairman of the Nomination Committee. The Nomination Committee considers and recommends to the Board suitable and qualified persons to become Directors and is responsible for reviewing the structure, size and composition of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategies.

REMUNERATION COMMITTEE

Our Company established a remuneration committee ("Remuneration Committee") on 30 April 2010 with written terms of reference in compliance with the Code. As at 30 June 2017, the Remuneration Committee comprised, Prof. Zhang Daopei, Prof. Chen Lihong and Mr Ke Wentuo. Prof. Chen Lihong is the chairman of the Remuneration Committee. The primary responsibilities of our Remuneration Committee are to make recommendations to the Board on the remuneration packages of the Directors and senior management personnel of our Group and to ensure that no Director or any of his associates is involved in deciding his own remuneration.

SUFFICIENCY OF PUBLIC FLOAT

Based on the publicly available information and to the best of the Directors' knowledge, information and belief and at the date of this report, our Company has maintained sufficient public float during the six months ended 30 June 2017.

REVIEW OF INTERIM RESULTS

The unaudited condensed consolidated interim financial report has been reviewed by the Company's Audit Committee and the Company's auditors, RSM Hong Kong, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

On behalf of the Board

Ke Wentuo
Chairman

Hong Kong, 17 August 2017

RSM Hong Kong

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Causeway Bay, Hong Kong

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INDEPENDENT REVIEW REPORT
TO THE BOARD OF DIRECTORS OF
YOUYUAN INTERNATIONAL HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 15 to 28 which comprises the condensed consolidated statement of financial position of the Company as at 30 June 2017 and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquires, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information are not prepared, in all material respects, in accordance with IAS 34.

RSM Hong Kong
Certified Public Accountants
Hong Kong
17 August 2017

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

		Six months ended 30 June	
		2017	2016
		RMB'000	RMB'000
	Notes	**(unaudited)**	(unaudited)
Revenue	4	**982,304**	826,292
Cost of sales		**(704,327)**	(568,283)
Gross profit		**277,977**	258,009
Other income and other gains and losses		**26,650**	(23,059)
Share of profit of an associate		**45,000**	33,000
Selling and distribution expenses		**(4,969)**	(5,081)
Administrative expenses		**(39,519)**	(41,960)
Finance costs	5	**(30,840)**	(34,137)
Other expenses		**(20,009)**	(13,384)
Profit before tax		**254,290**	173,388
Income tax expense	6	**(34,534)**	(40,434)
Profit and total comprehensive income for the period attributable to owners of the Company	7	**219,756**	132,954
		RMB	RMB
Earnings per share - Basic	9	**0.186**	0.112

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017

	Notes	At 30 June 2017 RMB'000 (unaudited)	At 31 December 2016 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10	**2,277,472**	2,296,248
Prepaid lease payments		**321,357**	325,504
Investment in an associate	11	**672,000**	627,000
Derivative financial assets		**6,859**	7,969
Deposits paid for acquisition of property, plant and equipment		**227,239**	110,143
Deposits paid for acquisition of prepaid lease payments		**39,855**	39,855
		3,544,782	3,406,719
CURRENT ASSETS			
Inventories		**167,632**	74,662
Trade and other receivables	12	**842,607**	740,072
Prepaid lease payments		**8,229**	8,229
Bank balances and cash		**195,835**	465,179
		1,214,303	1,288,142
CURRENT LIABILITIES			
Trade and other payables	13	**318,034**	248,629
Income tax payables		**20,041**	19,231
Bank borrowings	14	**504,630**	519,631
		842,705	787,491
NET CURRENT ASSETS		**371,598**	500,651
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,916,380**	3,907,370
NON-CURRENT LIABILITIES			
Bank borrowings	14	**957,354**	1,161,467
Deferred taxation		**24,500**	24,500
		981,854	1,185,967
NET ASSETS		**2,934,526**	2,721,403
CAPITAL AND RESERVES			
Share capital	15	**101,839**	102,501
Reserves		**2,832,687**	2,618,902
TOTAL EQUITY		**2,934,526**	2,721,403

The interim financial information on pages 15 to 28 were approved and authorised for issue by the Board of Directors on 17 August 2017 and are signed on its behalf by:

Director Director

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Attributable to owners of the Company				
	Share capital	Share premium	Other reserves	Accumulated profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016 (audited)	102,501	44,016	534,475	1,736,120	2,417,112
Total comprehensive income for the period	—	—	—	132,954	132,954
At 30 June 2016 (unaudited)	102,501	44,016	534,475	1,869,074	2,550,066
At 1 January 2017 (audited)	**102,501**	**44,016**	**563,875**	**2,011,011**	**2,721,403**
Total comprehensive income for the period	—	—	—	**219,756**	**219,756**
Shares repurchased and cancelled	**(662)**	**(12,313)**	**6,342**	—	**(6,633)**
At 30 June 2017 (unaudited)	**101,839**	**31,703**	**570,217**	**2,230,767**	**2,934,526**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(unaudited)	(unaudited)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**155,711**	168,694
INVESTING ACTIVITIES		
Payments for acquisition of property, plant and equipment	**(166,992)**	(134,596)
Payments for acquisition of an associate	—	(266,500)
Interest received	**812**	1,338
NET CASH USED IN INVESTING ACTIVITIES	**(166,180)**	(399,758)
FINANCING ACTIVITIES		
New bank borrowings raised	**87,696**	1,114,466
Repayments of bank borrowings	**(306,810)**	(1,123,201)
Interest paid	**(33,128)**	(36,074)
Payments on repurchase of shares	**(6,633)**	—
NET CASH USED IN FINANCING ACTIVITIES	**(258,875)**	(44,809)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(269,344)**	(275,873)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**465,179**	735,222
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**195,835**	459,349

1. BASIS OF PREPARATION

These 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 financial statements should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2016. 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 2016.

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 year beginning on 1 January 2017. IFRSs comprise International Financial Reporting Standards ("IFRS"); International Accounting Standards ("IAS"); 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

Except as disclosed below, 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.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs:	quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.
Level 2 inputs:	inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3 inputs:	unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

As at 30 June 2017, derivative financial assets of the Group under recurring fair value measurement were foreign currency forward contracts amounting to RMB6,859,000 (At 31 December 2016: RMB7,969,000). These foreign currency forward contacts are measured at fair value on Level 2 fair value measurement. The valuation technique used in this fair value measurement is discounted cash flows and the inputs are forward exchange rate, contract forward rates and discount rates.

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 "Operating Segments" 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; and
- Other products - manufacturing for sale of paper towels, ivory boards and core boards.

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

	Segment revenue Six months ended 30 June		Segment results Six months ended 30 June	
	2017 **RMB'000** **(unaudited)**	2016 RMB'000 (unaudited)	**2017** **RMB'000** **(unaudited)**	2016 RMB'000 (unaudited)
Wrapping tissue paper	**725,221**	625,700	**222,837**	210,121
Copy paper	**97,441**	74,152	**29,120**	23,222
Wall paper backing paper	**69,157**	54,519	**14,932**	14,530
Other products	**90,485**	71,921	**11,088**	10,136
	982,304	826,292	**277,977**	258,009
Other income and other gains and losses			**26,650**	(23,059)
Share profit of an associate			**45,000**	33,000
Selling and distribution expenses			**(4,969)**	(5,081)
Administrative expenses			**(39,519)**	(41,960)
Finance costs			**(30,840)**	(34,137)
Other expenses			**(20,009)**	(13,384)
Profit before tax			**254,290**	173,388

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. FINANCE COSTS

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest on bank borrowings	**32,073**	36,643
Less: Amount capitalised	**(1,233)**	(2,506)
	30,840	34,137

The weighted average capitalisation rate on funds borrowed generally is at a rate of 4.83% for the period (for the six months ended 30 June 2016: 6.21%).

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current tax:		
Charge for the period	**34,534**	40,434

The income tax expense for the period represents the People's Republic of China ("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 2016 and was approved in 2016 to entitle to a preferential tax rate of 15% for three years period from 2016 to 2018, subject to annual review by the relevant tax authority.

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

In current period, the preferential tax rate of 15% has been applied to both Xiyuan and Youlanfa.

7. PROFIT FOR THE PERIOD

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

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Amortisation of prepaid lease payments	**4,147**	4,146
Depreciation of property, plant and equipment	**59,584**	52,369
Total depreciation and amortisation expenses	**63,731**	56,515
Bank interest income	**(812)**	(1,338)
Written off of property, plant and equipment	**9**	—
Research and development expenditure (included in other expenses)	**20,009**	13,384
Cost of inventories recognised as expenses	**704,327**	568,283
Net foreign exchange (gain) loss	**(26,818)**	25,478
Unrealised fair value loss on derivative financial assets	**1,110**	—

8. DIVIDENDS

The Board does not recommend declaration and payment of any interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

9. EARNINGS PER SHARE - BASIC

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

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purpose of calculating basic earnings per share	**219,756**	132,954

	Six months ended 30 June	
	2017	2016
	(unaudited)	(unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,178,917,564**	1,186,236,339

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

10. PROPERTY, PLANT AND EQUIPMENT

	Carrying value
	RMB'000
At 1 January 2017 (audited)	**2,296,248**
Additions	**40,817**
Written off	**(9)**
Depreciation for the period	**(59,584)**
At 30 June 2017 (unaudited)	**2,277,472**

During the six months ended 30 June 2017, the Group mainly incurred approximately RMB41 million (for the six months ended 30 June 2016: RMB111 million) on the construction of new production facilities in the PRC and capitalised interest in order to enlarge its production capabilities.

11. INVESTMENT IN AN ASSOCIATE

	At 30 June 2017 RMB'000 (unaudited)	At 31 December 2016 RMB'000 (audited)
Unlisted investment:		
Cost of investment in an associate, includes goodwill	533,000	533,000
Share of post-acquisition profits and other comprehensive income	139,000	94,000
	672,000	627,000

Details of the Group's associate at 30 June 2017 are as follows:

Name	Place of incorporation	Principal place of business	Paid-up issued share capital	Percentage of ownership interest and voting power		Principal activities
				At 30 June 2017	At 31 December 2016	
Xin Wing Enterprises Limited ("Xin Wing")	British Virgin Islands	PRC	10,000 ordinary shares of US$1 each	41%	41%	Manufacturing and distribution of wallpaper in the PRC

12. TRADE AND OTHER RECEIVABLES

Trade and other receivables mainly represent trade receivables of approximately RMB838,845,000 (31 December 2016: approximately RMB730,241,000).

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 2017 RMB'000 (unaudited)	At 31 December 2016 RMB'000 (audited)
0 to 30 days	226,559	197,312
31 to 60 days	212,879	190,996
61 to 90 days	213,546	193,832
91 to 120 days	185,861	148,101
	838,845	730,241

13. TRADE AND OTHER PAYABLES

	At 30 June 2017 RMB'000 (unaudited)	At 31 December 2016 RMB'000 (audited)
Trade payables	259,393	175,641
Other payables for acquisition of plant and equipment	12,571	22,883
Other tax payables	27,681	28,896
Other payables and accrued operating expenses	18,389	21,209
	318,034	248,629

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

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

	At 30 June 2017 RMB'000 (unaudited)	At 31 December 2016 RMB'000 (audited)
Within 30 days	136,230	80,140
31 to 90 days	123,163	95,501
	259,393	175,641

14. BANK BORROWINGS

	At 30 June 2017 RMB'000 (unaudited)	At 31 December 2016 RMB'000 (audited)
Borrowings are secured by assets of the Group (Note)	20,000	102,760
Borrowings are secured by cross-guaranteed among subsidiaries of the Group	1,441,984	1,578,338
	1,461,984	1,681,098
Carrying amount repayable:		
Within one year	504,630	519,631
More than one year, but not exceeding two years	522,900	362,270
More than two years, but not exceeding five years	434,454	799,197
	1,461,984	1,681,098
Less: Amount due within one year shown under current liabilities	(504,630)	(519,631)
Amount shown under non-current liabilities	957,354	1,161,467

Note: The Group has pledged certain property, plant and equipment and prepaid lease payments to secure banking facilities granted to the Group.

15. SHARE CAPITAL

	Number of shares	Share capital HK$
Ordinary shares of HK$0.10 each		
Authorised		
At 1 January 2016, 31 December 2016, 1 January 2017 and 30 June 2017	10,000,000,000	1,000,000,000
Issued and fully paid		
At 1 January 2016, 31 December 2016 and 1 January 2017	1,186,236,339	118,623,634
Shares repurchased and cancelled (Note i)	(7,471,000)	(747,100)
At 30 June 2017	1,178,765,339	117,876,534

	At 30 June 2017 RMB'000 (unaudited)	At 31 December 2016 RMB'000 (audited)
Presented in RMB		
Share capital	**101,839**	102,501

Note:

(i) The Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchases	Number of ordinary shares of HK$0.10 each	Price paid per share Highest HK$	Price paid per share Lowest HK$	Aggregate consideration paid (Including expenses) RMB'000
November 2016	352,000	1.83	1.78	563
December 2016	3,319,000	2.01	1.90	5,779
January 2017	3,800,000	1.99	1.85	6,633
	7,471,000			12,975

The above shares were cancelled on 19 January 2017. None of the Company's subsidiaries repurchased, sold or redeemed any of the Company's shares during the period.

All shares issued rank pari passu with other shares in issue in all respects.

16. CAPITAL COMMITMENTS

	At 30 June 2017 RMB'000 (unaudited)	At 31 December 2016 RMB'000 (audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	**326,293**	241,409

17. EVENTS AFTER THE REPORTING PERIOD

On 24 April 2017, Xi Yuan Paper Limited, a wholly owned subsidiary of the Company, entered into share purchase agreements with Ms. Ke Jinzhen and Cathay Capital Holdings III. L.P., for the acquisition of 39.0% and 20.0% equity interest in Xin Wing, respectively. The acquisitions, on an aggregated basis, constituted a major and connected transaction of the Company under the Rule Governing the Listing of Securities on the Stock Exchange.

The acquisitions were approved by the independent shareholders at the extraordinary general meeting held on 15 June 2017. As at the date of this report, the acquisitions have not been completed.