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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)

PROPOSED ISSUE OF 6.5% GUARANTEED NOTES IN THE AGGREGATE PRINCIPAL AMOUNT OF US\$25,000,000 DUE 2019 AND DISCLOSURE PURSUANT TO RULE 13.18 OF THE LISTING RULES

PROPOSED ISSUE OF NOTES

On 26 October 2017 (after trading hours), the Company entered into the Subscription Agreement with the Investors, with the Guarantor joined in as guarantor, pursuant to which the Investors conditionally agreed to subscribe, and the Company conditionally agreed to issue the Notes in the aggregate principal amount of US\$25,000,000, upon satisfaction or waiver of the Conditions Precedent on the principal terms and conditions set out below.

The Notes will bear interest at the rate of 6.5% per annum on the outstanding principal amount of the Notes.

The Company intends to use the net proceeds from the issue of the Notes for or in connection with the acquisition of the equity interest in Xin Wing Enterprises Limited as disclosed in the circular of the Company dated 25 May 2017 and/or as general working capital of the Group.

Mr. Ke Wentuo, who is the Chairman, an executive Director and a controlling shareholder of the Company, agreed to guarantee in favour of the Investors, the due and punctual performance of all obligations of the Company under the Transaction Documents.

No application will be made for the listing of the Notes on the Stock Exchange or any other stock exchange.

The Subscription is conditional upon satisfaction or waiver of the Conditions Precedent, brief particulars of which are set out in “**The Subscription Agreement — Conditions Precedent**” in this announcement.

The Subscription may or may not proceed to completion. Shareholders and potential investors should exercise caution when dealing in the Shares.

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THE SUBSCRIPTION AGREEMENT

Date: 26 October 2017.

Parties:

- (1) the Company, as issuer of the Notes;
- (2) the Investors, as subscribers of the Notes; and
- (3) the Guarantor, as guarantor.

To the best of the knowledge, information and belief of the Directors and having made all reasonable enquiry, the Investors and its ultimate beneficial owner are Independent Third Parties.

Subscription of the Notes:

Pursuant to the Subscription Agreement, the Company will, subject to the Conditions Precedent, issue the Notes to the Investors in the aggregate principal amount of US\$25,000,000 for cash, as to US\$18,000,000 to Investor 1 and as to the remaining US\$7,000,000 to Investor 2. The subscription of the Notes by Investor 1 and Investor 2 is inter-conditional upon completion of the other.

Conditions Precedent

Closing of the subscription and issuance of the Notes is conditional upon fulfilment of the following principal conditions no later than the Long Stop Date:

- (1) the Investors having performed and completed its due diligence review, checking and approval;
- (2) the representations, warranties and covenants of the Company and the Guarantor contained in the Transaction Documents being true, complete, accurate and not misleading and they having performed all their obligations under the Subscription Agreement to be performed on or before the Closing Date;
- (3) there shall not have been (i) any suspension of the trading of the Shares on the Stock Exchange for any reason during the period between the date of the Subscription Agreement and the Closing Date for five (5) consecutive Trading Days or more, or (ii) cessation of trading of the Shares on the Stock Exchange for any reason;
- (4) from the date of the Subscription Agreement to the Closing Date, there being no change in the principal business, operations, properties, conditions (financial or otherwise) or prospects of the Group, nor the happening of any events which may have a Material Adverse Effect;
- (5) the Guarantor is and remains the single largest shareholder of the Company, the chairman of the Board, the executive Director, and at all times, directly or indirectly holding no less than 30% of the Shares then outstanding which are free from any encumbrance and carry no less than 30% of the voting rights in the Company; and

(6) the equity attributable to owners of the Company (“**Equity Attributable to Shareholders**”) and the ratio of the total asset value of the Company to the Equity Attributable Shareholders shall not be lower than RMB2,800,000,000 and more than 2.7:1, respectively, as shown in its unaudited financial statements of the Company for the interim period of six months ended 30 June 2017.

Closing

Closing of the subscription and issuance of the Notes shall take place on the Closing Date after the fulfilment or waiver of the Conditions Precedent.

Termination

The Subscription Agreement will be terminated if the Conditions Precedent are not fulfilled or (as the case may be) waived in accordance with the Subscription Agreement by the Long Stop Date. Upon termination of the Subscription Agreement in accordance with its terms, the parties to the Subscription Agreement shall be released and discharged from their respective obligations under the Subscription Agreement save for any rights or obligations (including payment obligations) which may accrue prior to the date of such termination.

Guarantee by the Guarantor

The obligations of the Company under the Transaction Documents are guaranteed by the Guarantor.

Use of proceeds

The net proceeds from the issue of the Notes shall be used by the Company for or in connection with the acquisition of equity interest in Xin Wing Enterprises Limited and/or as general working capital of the Group.

PRINCIPAL TERMS OF THE NOTES

The principal terms of the Notes are summarised below:

Principal amount:	US\$25,000,000.
Issue price:	100% of the principal amount of the Notes.
Form and denomination:	The Notes will be issued in registered form and in the denomination of US\$1,000,000 each.

Maturity Date: The second anniversary of the Issue Date (“**First Maturity Date**”).

The First Maturity Date may be extended to the third anniversary of the Issue Date (“**Extended Maturity Date**”) if agreed to by the Company and the Noteholders in writing at least 60 days in advance prior to the First Maturity Date.

Interest: 6.5% per annum on the principal amount of the Notes from time to time outstanding, payable once every six months in arrears accruing from the Issue Date on the basis of a 360-day year, with the last payment of interest to be made on the First Maturity Date or if extended, the Extended Maturity Date.

Default Interest: An additional interest of 18% per annum on all amount overdue from the due date for payment up to and including the date of full payment.

An additional interest of 18% per annum on the principal amount of the Notes outstanding from the date of occurrence of an Event of Default (other than failure by the Company to pay any sum in respect of the Notes when the same becomes due and payable) until the date when the relevant Event of Default has been fully remedied.

Redemption: **No early redemption:**

The Notes may not be redeemed by the Company at any time prior to the First Maturity Date or if extended, the Extended Maturity Date.

Redemption at Maturity:

Unless previously redeemed, purchased or cancelled, the Company shall redeem the Notes on the First Maturity Date at:

- the outstanding principal amount of the Notes on the First Maturity Date or if extended, the Extended Maturity Date;

- all accrued and unpaid interest from the Issue Date up to the First Maturity Date or if extended, the Extended Maturity Date and unpaid default interests (if any); and
- all other outstanding amount (if any) payable by the Company to the Noteholders under the Transaction Documents.

Redemption upon Event of Default:

If an Event of Default exists and a written notice is served by a Noteholder on the Company to demand payment of all or such part of the outstanding principal amount of the relevant Note, the Company shall redeem the relevant Note at:

- the outstanding principal amount of the relevant Note;
- all accrued and unpaid interest from the Issue Date up to the date of full payment of all amount payable by the Company upon redemption and unpaid default interests (if any);
- such amount as would result in an internal rate of return of 24.5% per annum on the outstanding principal amount of the Notes from the Issue Date to the date of full payment of all amount payable by the Company upon redemption (taking into account all paid interest and other payment payable to the Noteholder); and
- any other outstanding amount (if any) payable by the Company to the Noteholder under the Transaction Documents.

Events of Default:

Among other customary events of default provisions as provided in the Notes, set out below are the principal events of default under the Notes:

- (1) if the trading of the Shares on the Stock Exchange is suspended for thirty (30) consecutive Trading Days or more, unless approved by the Majority Noteholders;

- (2) the Shares cease to be listed or admitted to trading on the Stock Exchange or the Company fails to satisfy the minimum public float requirement of 25% as set out in Rule 8.08(1)(a) of the Listing Rules;
- (3) there is a Change of Control;
- (4) the Equity Attributable to Shareholders and the ratio of the total asset value of the Company to the Equity Attributable Shareholders shall not be lower than RMB2,800,000,000 and more than 2.7:1; or
- (5) any occurrence of events which may have a Material Adverse Effect.

Ranking of the Notes: The Notes constitute direct, unsubordinated, unconditional and guaranteed obligations of the Company and shall at all times rank pari passu and without any preference or priority among themselves. The payment obligations of the Company under the Notes shall at all times rank at least equally with all of the Company's other present and future direct, unsubordinated, unconditional and guaranteed obligations.

Transferability of the Notes: The Notes may not be assigned or transferred by any Noteholder to any connected persons of the Company.

Listing: No application has been or will be made for the listing of the Notes on the Stock Exchange or any other stock exchange.

REASON FOR, AND BENEFITS OF, THE ISSUE OF THE NOTES

The principal activity of the Company is investment holding, and through its subsidiaries, is principally engaged in the business of manufacturing and trading of wrapping tissue paper, wall paper backing paper, copy paper and other specialty paper products, and manufacturing and distribution of wallpaper products.

Given (i) no security is required other than the Guarantee by the Guarantor; and (ii) the issue of the Notes represented an opportunity for the Company to strengthen its financial position by providing flexibility to the Group in its deployment of working capital for other business operation, the Directors consider that the terms and

conditions of the Subscription Agreement and the transactions contemplated thereunder (including the issue of the Notes), which were arrived at after arm's length negotiations between the Company and the Investors, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

USE OF PROCEEDS

The gross proceeds from the Subscription would be up to US\$25,000,000.

The net proceeds from the Subscription, after deducting all fees and expenses, including professional fees, are estimated to be approximately US\$24,400,000 (equivalent to approximately HK\$190,320,000). The net proceeds of the Subscription are intended to be used by the Company for or in connection with the acquisition of equity interest in Xin Wing Enterprises Limited as disclosed in the circular of the Company dated 25 May 2017, the subsidiaries of which are engaged in the manufacturing and distribution of wallpaper products and/or as general working capital of the Group.

INFORMATION OF THE INVESTORS

Investor 1 is an exempted company incorporated with limited liability under the laws of the Cayman Islands. It is principally engaged in investment holding.

Investor 2 is an open-ended exempted segregated portfolio company incorporated with limited liability under the laws of the Cayman Islands. It is principally engaged in investment holding.

THE GUARANTEE — LISTING RULES' REQUIREMENTS AND DISCLOSURE PURSUANT TO RULE 13.18 OF THE LISTING RULES

Listing Rules' requirements

Mr. Ke Wentuo, agreed to guarantee in favour of the Investors, the due and punctual performance of all obligations of the Company under the Transaction Documents. The giving of the Guarantee by the Guarantor, who is an executive Director and a controlling shareholder of the Company and a connected person of the Company, in favour of the Investors for securing the obligations of the Company constitutes financial assistance by a connected person for the benefit of the Company under Chapter 14A of the Listing Rules. The Company will not provide any security to the Guarantor for the Guarantee. The Directors considered that the provision of the Guarantee by the Guarantor is on normal commercial terms or better and is fully exempt from the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Disclosure pursuant to Rule 13.18 of the Listing Rules

Under the Transaction Documents, Mr. Ke Wentuo, as the guarantor, will undertake to maintain his status as the single largest shareholder of the Company holding not less than 30% Shares in the Company and remain as a Director and the chairman of the Board and at all times during the subsistence of the Transaction Documents (collectively, the “**Specific Performance Obligations**”). A breach of the Specific Performance Obligations will constitute an event of default under the Notes which would entitle the Noteholders to require the Company to redeem the Notes.

The Company will make continuing disclosure in its subsequent interim and annual reports for so long as the Specific Performance Obligation continues to exist pursuant to the requirements of Rule 13.21 of the Listing Rules.

The Subscription is conditional upon satisfaction or waiver of the Conditions Precedent, brief particulars of which are set out in “**The Subscription Agreement — Conditions Precedent**” in this announcement.

The Subscription may or may not proceed to completion. Shareholders and potential investors should exercise caution when dealing in the Shares.

DEFINITIONS

In this announcement, unless the context otherwise required, the following terms and expressions have the following meanings when used herein.

“Board”	the board of Directors
“Business Day”	a day other than Saturday, Sunday and public holiday on which commercial banks are generally open for business in Hong Kong
“Change of Control”	the Guarantor (i) ceases to be the single largest shareholder of the Company, the chairman of the Board or an executive Director, and (ii) at any times, directly or indirectly holds less than 30% of the Shares then outstanding which are free from any encumbrance and carry less than 30% of the voting rights in the Company
“Closing”	completion of the subscription and the issuance of the Notes in accordance with the terms and conditions of the Subscription Agreement

“Closing Date”	the date scheduled for Closing, being the same Business Day when all the Conditions Precedent have been fulfilled or (as the case may be) waiver (or such other date as the Company and the Investors may agree in writing)
“Company”	Youyuan International Holdings Limited (優源國際控股有限公司), an exempted company incorporated under the laws of the Cayman Islands whose issued Shares are listed on the main board of the Stock Exchange
“Conditions Precedent”	the conditions precedent to Closing, brief particulars of which are set out in “ The Subscription Agreement — Conditions Precedent ” in this announcement
“connected person”	has the same meaning ascribed to it under the Listing Rules
“controlling shareholder”	has the same meaning ascribed to it under the Listing Rules
“Directors”	the directors of the Company
“Extended Maturity Date”	has the meaning as defined in “ Principal terms of the Notes — Maturity Date ” in this announcement
“Event of Default”	the event of default as specified in the terms and conditions of the Notes, the principal ones are set out in “ Principal terms of the Notes — Event of Default ” in this announcement
“First Maturity Date”	has the meaning as defined in “ Principal terms of the Notes — Maturity Date ” in this announcement
“Group”	the Company and its subsidiaries from time to time
“Guarantee”	the guarantee to be given by the Guarantor in favour of the Investors to guarantee the due and punctual performance of all obligations of the Company under the Transaction Documents
“Guarantor”	Mr. Ke Wentuo, the Chairman, an executive Director and a controlling shareholder of the Company
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China

“Independent Third Party”	party who is not a connected person of the Company and is independent of the Company and its connected persons
“Investors”	<p>(1) Haitong Global Investment SPC III acting on behalf of and for the account of Haitong Dynamic Multi-Tranche Investment Fund II S.P. (“Investor 1”), an exempted company incorporated with limited liability under the laws of the Cayman Islands and one of the Investors of the Notes; and</p> <p>(2) Haitong International Investment Fund SPC acting on behalf of and for the account of Haitong International Investment Fund SPC — Jinyuan & Haitong SP (“Investor 2”), an open-ended exempted segregated portfolio company incorporated with limited liability under the laws of the Cayman Islands and one of the Investors of the Notes</p>
“Issue Date”	the date of the issue of the Notes
“Long Stop Date”	31 October 2017 (or any other date as may be agreed between the Company and the Investors), being the date for fulfilment or (as the case may be) waiver of the Conditions Precedent
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Majority Noteholder”	one or more Noteholders holding more than 65% of the principal amount due under all outstanding Notes from time to time
“Material Adverse Effect”	a material adverse effect on (a) the assets, liabilities, financial condition, business, prospects, results of operations or properties of the Group taken as a whole, (b) the ability of the Company, the Guarantor or any Group Company or any relevant party to the Transaction Documents (other than the Investors) to perform its/his obligations under any of the Transaction Documents, or (c) the validity or enforceability of any of the Transaction Documents

“Notes”	the 6.5% guaranteed Notes in the aggregate principal amount of US\$25,000,000 due 2019 proposed to be issued by the Company to the Investors pursuant the Subscription Agreement upon Closing
“Notes Certificates”	the certificates in registered form in respect of the Notes
“Notes Instrument”	the instrument by way of deed poll to be executed by the Company and the Guarantor creating and constituting the Notes
“Noteholder”	a person who is for the time being registered as the holder a Note in the register of Noteholders maintained by the Company
“Shares”	ordinary shares of par value of HK\$0.10 each in the share capital of the Company
“Shareholder”	the holder of any one or more Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription of the Notes by the Investors in accordance with the terms of the Subscription Agreement
“Subscription Agreement”	the conditional subscription agreement dated 26 October 2017 entered into between the Company and the Investors, with the Guarantor joined in as guarantor, in respect of the subscription of the Notes
“Trading Day”	a day when the main board of the Stock Exchange is open for business of dealing in securities
“Transaction Documents”	principally, referring to the Subscription Agreement, the Notes Instrument and the Guarantee
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Reminbi, the lawful currency of the PRC

“US\$” the lawful currency of the United States of America
“%” per cent.

The translation of US\$ to HK\$ in this announcement is based on the exchange rate of US\$1 to HK\$7.8 and is provided for information purposes only.

By order of the Board
Youyuan International Holdings Limited
Ke Wentuo
Chairman

Hong Kong, 26 October 2017

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