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 ANNUAL RESULTS ANNOUNCEMENT

Financial Highlights

- Revenue increased by approximately 46.6% to approximately RMB2,638.8 million
- Profit and total comprehensive income attributable to owners of the Company increased by approximately 209.7% to RMB962.0 million
- Basic earnings per share was RMB0.799
- The Board does not recommend declaration and payment of any final dividend

The board of directors (the "Board") of Youyuan International Holdings Limited (the "Company") is pleased to announce the audited and consolidated annual results of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2017.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	**2017** *RMB'000*	2016 *RMB'000*
Revenue	4	**2,638,825**	1,799,488
Cost of sales		**(1,747,505)**	(1,244,966)
Gross profit		**891,320**	554,522
Other income and other gains and losses		**463,410**	(65,919)
Share of profit of an associate		**67,000**	94,000
Selling and distribution expenses		**(64,023)**	(10,603)
Administrative expenses		**(125,693)**	(82,479)
Finance costs		**(94,853)**	(72,032)
Other expenses		**(56,190)**	(30,241)
Profit before tax	5	**1,080,971**	387,248
Income tax expense	6	**(90,848)**	(76,615)
Profit and total comprehensive income for the year		**990,123**	310,633
Attributable to:			
Owners of the Company		**961,981**	310,633
Non-controlling interests		**28,142**	—
		990,123	310,633
		RMB	RMB
Earnings per share			
Basic	8	**0.799**	0.262
Diluted	8	**0.775**	0.262

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2017

	Notes	**2017**	2016
		RMB'000	*RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**2,807,588**	2,296,248
Prepaid lease payments		**529,603**	325,504
Goodwill		**613,498**	—
Intangible assets		**230,292**	—
Other prepayments		**106,439**	—
Deposits paid for acquisition of property, plant and equipment		**206,604**	110,143
Deposits paid for acquisition of prepaid lease payments		**49,966**	39,855
Deposit paid for acquisition of non-controlling interests		**33,150**	—
Investment in an associate		**—**	627,000
Derivative financial assets		**—**	7,969
		4,577,140	3,406,719
CURRENT ASSETS			
Inventories		**117,274**	74,662
Trade and other receivables	9	**1,754,689**	740,072
Prepaid lease payments		**12,865**	8,229
Bank balances and cash		**846,343**	465,179
		2,731,171	1,288,142
CURRENT LIABILITIES			
Trade and other payables	10	**465,525**	248,629
Income tax payables		**63,285**	19,231
Bank borrowings		**660,140**	519,631
Convertible bonds		**262,127**	—
Derivative component of convertible bonds		**12,880**	—
Derivative financial liabilities		**4,307**	—
		1,468,264	787,491
NET CURRENT ASSETS		**1,262,907**	500,651
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,840,047**	3,907,370

	Notes	**2017**	2016
		RMB'000	*RMB'000*
NON-CURRENT LIABILITIES			
Bank borrowings		**789,790**	1,161,467
Unsecured notes		**433,580**	—
Deferred consideration		**375,907**	—
Deferred taxation		**67,597**	24,500
		1,666,874	1,185,967
NET ASSETS		**4,173,173**	2,721,403
CAPITAL AND RESERVES			
Share capital		**108,397**	102,501
Reserves		**3,683,795**	2,618,902
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**3,792,192**	2,721,403
Non-controlling interests		**380,981**	—
TOTAL EQUITY		**4,173,173**	2,721,403

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

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

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

The Company acts as an investment holding company. The principal activities of its subsidiaries are manufacturing and trading of wrapping tissue paper, wall paper products, copy paper and other products.

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"). IFRSs comprise International Financial Reporting Standards ("IFRS"); International Accounting Standards ("IAS"); and Interpretations. The consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and with the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622).

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Application of new and revised IFRSs

International Accounting Standard Board has issued a number of new and revised IFRSs that are first effective for annual periods beginning on or after 1 January 2017. Of these, the following new or revised IFRSs are relevant to the Group:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

New and revised IFRSs in issue but not yet effective

The Group has not early applied new and revised IFRSs that have been issued but are not yet effective for the financial year beginning 1 January 2017. These new and revised IFRSs include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
IFRS 9 Financial Instruments	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 16 Leases	1 January 2019
IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. The assessment has been substantially completed for IFRS 9 and IFRS 15, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ending 30 June 2018. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that interim financial report.

4. SEGMENT INFORMATION

(a) Products within each operating segment

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

Specifically, the Group's operating segments under IFRS 8 "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 products - manufacturing for sale of wall paper and wall papers backing paper; and
- Other products - manufacturing for sale of paper towels, ivory boards and core boards.

(b) **Segment revenue and segment results**

	Segment revenue		Segment results	
	2017	2016	**2017**	2016
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Wrapping tissue paper	**1,684,849**	1,347,405	**549,221**	444,140
Copy paper	**217,371**	166,085	**63,878**	52,979
Wall paper products	**535,290**	131,652	**250,752**	35,376
Other products	**201,315**	154,346	**27,469**	22,027
	2,638,825	1,799,488	**891,320**	554,522
Other income and other gains and losses			**463,410**	(65,919)
Share of profit of an associate			**67,000**	94,000
Selling and distribution expenses			**(64,023)**	(10,603)
Administrative expenses			**(125,693)**	(82,479)
Finance costs			**(94,853)**	(72,032)
Other expenses			**(56,190)**	(30,241)
Profit before tax			**1,080,971**	387,248

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

(c) **Geographical information**

The Group principally operates in the PRC (country of domicile of the operating subsidiaries). All non-current assets of the Group are located in the PRC.

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

5. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

	2017 *RMB'000*	2016 *RMB'000*
Employee benefits expenses (including directors):		
Salaries, wages and other benefits	**75,229**	65,279
Retirement benefit scheme contributions	**5,924**	3,240
	81,153	68,519
Depreciation of property, plant and equipment	**130,216**	108,049
Amortisation of prepaid lease payments	**12,952**	8,293
Amortisation of intangible assets	**8,924**	—
Total depreciation and amortisation expenses	**152,092**	116,342
Auditors' remuneration	**3,324**	2,998
Research and development cost recognised as an expense (included in other expenses)	**56,190**	30,241
Cost of inventories recognised as expenses	**1,747,505**	1,244,966

6. INCOME TAX EXPENSE

	2017 *RMB'000*	2016 *RMB'000*
Current tax		
Charge for the year	**86,036**	69,615
Deferred tax		
Charge for the year	**4,812**	7,000
	90,848	76,615

The Company and those subsidiaries incorporated in the Cayman Islands or British Virgin Islands are not subject to income tax.

Those subsidiaries incorporated in Hong Kong have had no assessable profit subject to Hong Kong Profits Tax for both years.

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

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

Certain PRC subsidiaries obtained the high and new technology enterprise certificate to entitle to a preferential tax rate of 15% for three years period, subject to annual review by the relevant authority. In current year, the preferential tax rate of 15% has applied to Xiyuan, Youlanfa and Senry.

7. DIVIDENDS

On 22 March 2018, the Board does not recommend declaration and payment of any final dividend in respect of the year ended 31 December 2017 (2016: Proposed final dividend of Nil).

8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	2017	2016
	RMB'000	*RMB'000*
Earnings		
Earnings for the purpose of calculating basic earnings per share	**961,981**	310,633
Finance cost saving on conversion of convertible bonds outstanding	**12,952**	—
Fair value gain on derivative component of convertible bonds reversed	**(25,811)**	—
Exchange gain on liabilities and derivative components of convertible bonds reversed	**(5,521)**	—
Earnings for the purpose of calculating diluted earnings per share	**943,601**	310,633

	2017	2016
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,203,994,648**	1,186,072,075
Effect of dilutive potential ordinary shares arising from convertible bonds outstanding	**13,168,899**	—
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,217,163,547**	1,186,072,075

9. TRADE AND OTHER RECEIVABLES

	2017	2016
	RMB'000	*RMB'000*
Trade receivables	**1,620,046**	730,241
Other prepayments	**112,952**	—
Other receivables	**9,059**	993
Other tax recoverable	**12,632**	8,838
	1,754,689	740,072

The Group allows an average credit period from 120 to 180 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:

	2017	2016
	RMB'000	*RMB'000*
0 to 60 days	**771,624**	388,308
61 to 120 days	**662,872**	341,933
121 to 180 days	**185,550**	—
	1,620,046	730,241

As at 31 December 2017 and 2016, no trade receivable balance was past due nor impaired. The Group does not hold any collateral over the trade balances.

10. TRADE AND OTHER PAYABLES

	2017	2016
	RMB'000	*RMB'000*
Trade payables	**309,911**	175,641
Other payables for acquisition of plant and equipment	**11,616**	22,883
Other tax payables	**51,126**	28,896
Accrued staff costs and employee social security fund	**11,828**	7,436
Accrued electricity expenses	**7,448**	5,761
Other accrued expenses	**73,596**	8,012
	465,525	248,629

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

	2017	2016
	RMB'000	*RMB'000*
Within 30 days	**175,935**	80,140
31 to 90 days	**133,976**	95,501
	309,911	175,641

BUSINESS REVIEW

During 2017, the paper manufacturing industry in China remained as a large beneficiary of China's undergoing supply side reform and maintained a healthy development. In light of the deepening supply-side reform and new demand derived from thriving electronic commerce in China, as well as an improving economic outlook in the United States, supply and demand became more balanced on rising utilisation.

In spite of the balanced supply and demand dynamics, industry consolidation gathered pace in 2017. As China tightens its grip on pollution problems, unqualified and inefficient players will gradually be winnowed out of the paper industry, leaving an increasingly concentrated marketplace boding well for industry leaders with strong muscle in capital, technologies and equipment. The Group with superior bargaining power gained market shares from small plants.

Prices of raw pulp continued to remain steady partly attributed to the stringent environmental control that eliminated outdated capacities and disciplined supply. Similarly, prices of imported recycled pulp climbed up driven by China shaking off dependence on waste paper import, and yet the use of self-manufactured de-inked pulp mitigated such pressure.

As for finished paper products, the stable macroeconomic conditions in China and the expected income growth maintained prices of finished paper products at favourable level. Per capita consumption of paper products is expected to increase continuously.

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 RMB1,684.8 million, contributed to approximately 63.9% of the Group's revenue for this reporting period.

Copy paper

Revenue generated from copy paper remained relatively stable at RMB217.4 million, contributed to approximately 8.2% of the Group's revenue for this reporting period.

Wall paper products

Wall paper products including Polyvinyl Chloride ("PVC") wall paper, non-woven wall paper fabric wall covering and wall paper backing paper.

Total revenue generated from wall paper products was RMB535.3 million, contributed to approximately 20.3% of the Group's revenue for this reporting period.

Other products

Other products, comprising paper towel, ivory boards and core boards, generated revenue of RMB201.3 million, and contributed to approximately 7.6% 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 are the largest markets of the Group (in term of locations from which sales were originated), with over 87.6% of Group's revenue for the reporting period was derived from these two regions.

Operational Analysis

As at 31 December 2017, the Group operated 37 production lines with a designed annual production capacities of 418,000 tonnes in aggregate, including 225,000 tonnes for wrapping tissue paper, 52,000 tonnes for copy paper, 35,000 tonnes for wall paper backing paper and 106,000 tonnes for other products. In addition, the Group operated 14 production lines with a designed annual production capacities of 27 million rolls for wall paper products.

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

Investment in wall paper business

In February 2016, Xi Yuan Paper Limited ("Xi Yuan 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 products in China of its own branded wall paper products 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. ("Cathay Fund"), 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 of Hong Kong Limited (the "Listing Rules"). The acquisitions were approved by the independent shareholders at the extraordinary general meeting held on 15 June 2017. On 31 August 2017, the Group completed the acquisition of 39.0% of equity interest in Xin Wing from Ms. Ke Jinzhen and Xin Wing became a non-wholly owned subsidiary of the Group and its results, assets and liabilities will be consolidated into the accounts of the Group. As at the date of this announcement, the acquisitions of 20.0% from Cathay Fund 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, 31 July 2017 and 31 August 2017 and circular of the Company dated 25 May 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

Revenue of the Group for the year ended 31 December 2017 was RMB2,638.8 million, representing an increase of approximately 46.6% from RMB1,799.5 million for the year ended 31 December 2016. Profit and total comprehensive income attributable to owners of the Company increased by approximately 209.7% from RMB310.6 million for the year ended 31 December 2016 to RMB962.0 million for the year ended 31 December 2017. The increases in profit and total comprehensive income attributable to owners of the Company were attributable to the increase in sales volume and average selling price of the Group's products, consolidating the results of Xin Wing Group since 1 September 2017, gain on deemed disposal of an associate and net foreign exchange gain due to depreciation of USD against RMB, the impact of which was partly set off by a result of higher income tax charged and high finance cost during the year.

Basic earnings per share for the year ended 31 December 2017 increased by 205.0% to RMB0.799 per share when compared with the RMB0.262 per share for the year ended 31 December 2016, based on the profit and total comprehensive income attributable to owners of the Company of RMB 962.0 million (For the year ended 31 December 2016: RMB310.6 million) and the weighted average of 1,203,994,648 shares (For the year ended 31 December 2016: 1,186,072,075 shares) in issue during this reporting period.

Gross profit

Gross profit of the Group increased modestly to RMB891.3 million for the year ended 31 December 2017 from RMB554.5 million for the year ended 31 December 2016. Overall gross profit margin of the Group increased from 30.8% for the year ended 31 December 2016 to 33.8% for the year ended 31 December 2017.

Other income and other gains and losses

Other income and other gains and losses of the Group changed from a net loss of RMB65.9 million for the year ended 31 December 2016 to a net gain of RMB463.4 million for the year ended 31 December 2017, mainly due to gain on deemed disposal on of an associate and the foreign exchange gain as a results of the depreciation of USD against RMB for the bank borrowings which were denominated in USD,

Share of profit of an associate

Share of profit of an associate of the Group was RMB67.0 million for the year ended 31 December 2017. On 31 August 2017, the Group completed the acquisition of 39.0% equity interest in Xin Wing Group, the results of Xin Wing Group was fully consolidated in the profit and loss of the Group since then.

Selling and distribution expenses

Selling and distribution expenses of the Group increased by approximately 503.8% from RMB10.6 million for the year ended 31 December 2016 to RMB64.0 million for the year ended 31 December 2017, representing approximately 0.6% and 2.4% of the Group's revenue for the reporting periods, respectively.

Administrative expenses

Administrative expenses of the Group increased by approximately 52.4% from RMB82.5 million for the year ended 31 December 2016 to RMB125.7 million for the year ended 31 December 2017, representing approximately 4.6% and 4.8% of the Group's revenue for the reporting periods, respectively. The increase was primarily due to increases in professional fees, depreciation charges for property, plant and equipment and other tax.

Finance costs

Finance costs of the Group increased by approximately 31.7% from RMB72.0 million for the year ended 31 December 2016 to RMB94.9 million for the year ended 31 December 2017, primarily due to an increase in the average balance of bank borrowings and loan balances, unsecured notes and convertible bonds and a reduction of the amount of capitalised interest for qualifying assets during this reporting period.

Interest rates of bank borrowings and loans ranged from 3.35% to 5.46% for the year ended 31 December 2017, compared with 2.13% to 8.00% for the year ended 31 December 2016.

Other expenses

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

Taxation

Tax charge increased by approximately 18.6% from RMB76.6 million for the year ended 31 December 2016 to RMB90.8 million for year ended 31 December 2017. The increase in tax charge was mainly due to increase in profit from operating subsidiaries in the PRC. The Group's effective tax rates for the years ended 31 December 2016 and 2017 were 19.8% and 8.4%, 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 RMB310.6 million for the year ended 31 December 2016 to RMB962.0 million for the year ended 31 December 2017. The ratio of profit and total comprehensive income attributable to owners of the Company to revenue increased from approximately 17.3% for the year ended 31 December 2016 to approximately 36.5% for the year ended 31 December 2017.

Inventories, trade receivables and payables turnover cycle

The Group's inventories mainly comprise raw materials including wood pulp, recovered paper for de-inked pulp production and finished goods for wall paper products. For the year ended 31 December 2017, the inventory turnover cycle was approximately 18.9 days* (For the year ended 31 December 2016: 27.9 days). Shorter inventory turnover cycle was mainly due better control on inventory management of the Group.

The turnover cycle of trade receivables for the year ended 31 December 2017 was 158.9 days* (For the year ended 31 December 2016: 145.3 days), the credit period granted to customers was ranged from 120 to 180 days. With deep understandings in its customers, the Group does not envisage any acute deterioration of credit quality of its trade receivables.

The turnover cycle for trade payables for the year ended 31 December 2017 was shortered to 48.9 days* (For the year ended 31 December 2016: 53.1 days), the credit period granted from our suppliers was ranged from 30 to 120 days.

* the calculation had taken into account of the effect of the acquisition of Xin Wing Group at the beginning of the year

Borrowings

As at 31 December 2017, the Group's bank borrowings balance amounted to RMB1,449.9 million, of which RMB660.1 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 31 December 2017, the Group's bank borrowings amounted to RMB1,252.9 million, carried at variable interest rates (As at 31 December 2016: RMB1,570.2 million).

As at 31 December 2017, the Group's net gearing ratio, which was calculated on the basis of total borrowings, unsecured notes and convertible bonds less bank balances and cash as a percentage of shareholder equity, was 34.3% (As at 31 December 2016: 44.7%).

Unsecured notes

As at 31 December 2017, the Group's unsecured notes balance amounted to RMB433.6 million which will be due on October 2019.

Convertible bonds

On 20 October 2017, the Company issued a 4.5% guarantee convertible bonds which will be due on 19 October 2018 (extendable for one year), in the aggregate principal amount of HK$200.0 million (approximately RMB167.0 million) with an initial conversion price of HK$4.4625 per share of the Company (subject to adjustment). Unless previously redeemed, converted, purchased or cancelled (subject to redemption conditions), these bonds will be redeemed at its outstanding principal amount together with interest thereon at the rate of 5% per annum calculated from its date of issue to its first maturity date or if extended, to such extended maturity date.

On 13 November 2017, the Company issued a 4.5% guarantee convertible bonds which will be due on 12 November 2018 (extendable for 6 months), in the aggregate principal amount of US$20.0 million (approximately RMB130.4 million) with an initial conversion price of HK$4.98 per share of the Company (subject to adjustment). Unless previously redeemed, converted, purchased or cancelled (subject to redemption conditions), these bonds will be redeemed at its outstanding principal amount together with interest thereon at the rate of 3.5% per annum calculated from its date of issue to its first maturity date or if extended, to such extended maturity date.

Pledge of assets

As at 31 December 2017, the Group pledged certain of its property, plant and equipment, land use rights and bank deposits with an aggregate carrying value of RMB460.1 million (As at 31 December 2016: RMB 237.9 million) as collaterals to back the credit facilities granted to the Group.

Capital expenditure

For the year ended 31 December 2017, the Group invested RMB167.6 million (For the year ended 31 December 2016: RMB265.4 million) in construction of production facilities and equipment and prepaid lease payments.

Acquisition of subsidiary

For the year ended 31 December 2017, the Group completed a further acquisition of 39.0% equity interest in Xin Wing Group. For details of the transaction, please refer the section headed "**Investment in wall paper business**" in this announcement.

Events after reporting period

On 1 February 2018, the Company issued a 4.5% guarantee convertible bonds which will be due on 31 January 2019 (extendable for one year), in the aggregate principal amount of US$22.0 million (approximately RMB143.4 million) with an initial conversion price of HK$4.4625 per share of the Company (subject to adjustment). Unless previously redeemed, converted, purchased or cancelled (subject to redemption conditions), these bonds will be redeemed at its outstanding principal amount together with interest thereon at the rate of 5% per annum calculated from its date of issue to its first maturity date or if extended, to such extended maturity date.

Prospects

Looking ahead, with more favourable support from the deepened reform and further improvement of the market supply and demand balance, as well as improving consolidation in the industry, the advantages of large enterprises with both economies of scale and operating efficiency will become more prominent. These adjustments also continue to provide strong support to product prices in general. The Group will continue to strive for opportunities stemming from the potential growth in demand and strengthen its top market leadership position by virtue of its advanced environmental governance and existing infrastructure conditions.

The Group has entered into a new stage of development with the freshly consolidated wall paper manufacturing business while it maintains continuous efforts in enhancing its traditional wrapping tissue paper business through upgrading and improving its existing production and ancillary equipment for production output and efficiency enhancement. The Group is committed to ensuring its equipment to be stayed abreast of the most advanced technology used in the industry. These strategies will facilitate better returns for shareholders in the long run.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Human resources management

As at 31 December 2017, the Group employed approximately 1,900 staff members (As at 31 December 2016: approximately 1,500) and the total remuneration for the year ended 31 December 2017 amounted to approximately RMB81.2 million (For the year ended 31 December 2016: RMB68.5 million). The Group's remuneration packages commensurate with experiences and qualifications of individual employees and general market conditions. Bonuses are linked to the Group's financial results as well as individual performances. The Group also ensures that all employees are provided adequate training and professional development opportunities to satisfy their career development needs.

Dividend

The Board does not recommend declaration and payment of any final dividend for the year ended 31 December 2017 (For the year ended 31 December 2016: Nil).

Closure of register of members

The register of members of the Company will be closed from 17 May 2018 to 23 May 2018 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the right to attend and vote at the annual general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 pm on 16 May 2018 for registration of transfer.

Corporate governance code

Our Company has adopted the Corporate Governance Code (the "CG 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 CG Code for the year ended 31 December 2017, 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 should 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 extraordinary general meeting of the Company held on 15 June 2017.

Our Directors are committed to upholding the corporate governance standards of the Company to ensure that formal and transparent procedures are in place to protect and maximize the interests of the Shareholders of our Company ("Shareholders")

Model code for securities transactions by Directors

Our 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 our Directors, all our Directors confirmed that they had complied with the required standard of dealings as set out in the Model Code throughout the year ended 31 December 2017.

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

During the year ended 31 December 2017, the Company repurchased a total of 15,633,000 Shares of HK$0.10 per share from the open market at an aggregate consideration of approximately RMB42,933,000 (including transaction costs). Details of the repurchased Shares during the period are set out as follows:

Month of repurchases	**Number of Shares repurchased**	**Price paid per share Highest** *HK$*	**Price paid per share Lowest** *HK$*	**Aggregate consideration paid (including expenses)** *RMB'000*
January 2017	3,800,000	1.99	1.85	6,633
November 2017	2,654,000	3.65	3.54	8,170
December 2017	9,179,000	3.60	3.54	28,130
	15,633,000			42,933

As at 31 December 2017, 3,800,000 repurchased Shares was cancelled and the remaining balance of 11,833,000 repurchased Shares were subsequently cancelled on 9 February 2018.

The Directors believed that the 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 year ended 31 December 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 CG Code. The primary responsibilities of the Audit Committee are to review and supervise financial reporting processes and internal control system of the Group. As at 31 December 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 processes and internal control system, and the audited consolidated financial statements for the year ended 31 December 2017 and the unaudited condensed consolidated financial statements for the six months ended 30 June 2017 in conjunction with the Company's external auditor. The Audit Committee is of the opinion that these statements had complied with the applicable accounting standards, rules and regulations, and that adequate disclosures had been made.

Publication of results announcement and annual report

This announcement is published on the websites of the Company (www.youyuan.com.hk) and The Stock Exchange of Hong Kong Limited (www.hkexnews.hk). The 2017 annual report of the Company will be despatched 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, 22 March 2018

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.