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)

2013 INTERIM REPORT

CONTENTS

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 Lihui (陳禮輝)
Mr Chow Kwok Wai (周國偉)

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

Mr Wong Yat Sum, *ACCA, HKICPA*

AUTHORISED REPRESENTATIVES

Mr Ke Wentuo
Mr Wong Yat Sum

CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands
(effective from 26 January 2013)

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

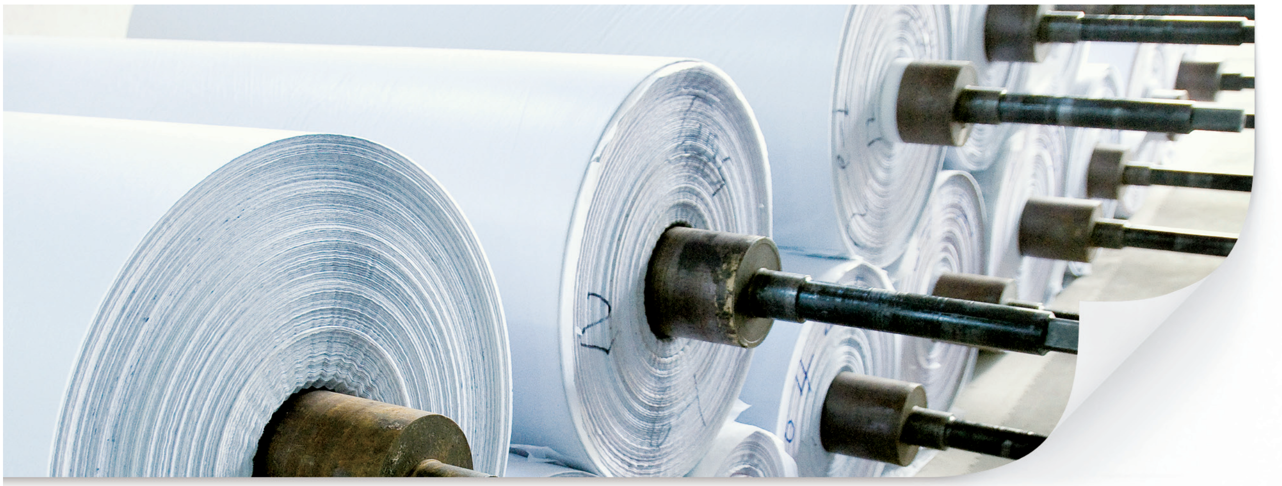
Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

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

Bank of China, Quanzhou Branch
China Merchants Bank, Quanzhou Branch
China CITIC Bank, Quanzhou Branch
China CITIC Bank International Limited

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

LEGAL ADVISORS

Hong Kong law:

Orrick, Herrington & Sutcliffe

PRC law:

King & Wood Mallesons

Cayman Islands law:

Conyers Dill & Pearman

INVESTORS AND MEDIA RELATIONS

iPR Ogilvy Ltd.

BUSINESS REVIEW AND OUTLOOK

BUSINESS REVIEW

During the first half of 2013, while the United States economy has been broadly on course for a sustainable recovery, a much-sought-after factor that is expected to drive revival of the global economy, the surprised announcement by the Federal Reserve Bureau of the United States to gradually terminate its quantitative easing policies later this year sent global financial markets to a tailspin. That to an extent also dampened the still fragile economic recovery momentum in other parts of the world outside of the United States.

Despite the apparent hiccups in the pace of recovery of China's economy as suggested by periodic releases of economic growth and export figures, the country was still growing at a relatively rapid pace by world standards. The export-related sectors were still awaiting revival momentum in the key overseas markets, yet the domestic consumption continued to be relatively robust, driven by the country's ongoing urbanization policy that helped boost the population base that adopt urban lifestyles and lent support to consumption of consumer goods.

According to statistics released by the China Paper Association, until 30 June 2013 the paper and paper products making industry saw its revenue grow 8.94% year on year, while the industry's total asset size grew 10.10% year on year, indicating that the industry is on track for a stable recovery.

Prices of raw pulp and finished paper products of various categories, meanwhile, stayed relatively firm with slight increases during the reporting period. Meanwhile, the specialty paper segment, which the Group focuses on, maintained a steady growth momentum, albeit not as rapid as in the previous years, as China's domestic consumption continued a reasonable pace of growth. These helped maintain the Group's capacity utilization at high levels, despite the consolidation of capacities within the paper manufacturing segment started early last year had come to a staged conclusion.

In June, a new production facility for wall paper backing paper with an annual production capacity of 35,000 tonnes commenced operation at the Group's production base in Longhai city. The Group believes that the gradual improvement of home furnishings of the average household in China in the last few years has seen increasing popularity of wall paper being used in residential units as a substitute for paints. This represents a major development from the previous concept among consumers in China that the usage of wall paper is restricted to hotels, lodge houses and other public venues. Consumers in China nowadays require wall paper products to be long lasting, environmental friendly, visually-pleasing yet not prohibitively costly to change frequently so as to accommodate their changing preferences. That will fuel demand for the Group's wall paper backing paper products.

SEGMENTAL ANALYSIS

Wrapping tissue paper

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

Revenue generated from wrapping tissue paper was RMB531.3 million, contributed to approximately 71.7% of the Group's revenue for the reporting period.

Copy paper

Revenue generated from copy paper was RMB121.3 million, representing an increase of 5.3% when compared with that of the six months ended 30 June 2012, and contributed to approximately 16.3% of the Group's revenue.

Wall paper backing paper

During the reporting period, the wall paper backing paper production line with a designed annual production capacity of 35,000 tonnes was undergoing a period of trial operation.

Other products

Other products, comprising paper towel and ivory boards, generated revenue of RMB88.8 million during the period and contributed to approximately 12.0% of the Group's revenue for the reporting period.

GEOGRAPHICAL ANALYSIS

The entire Group's revenue was generated from mainland China. Eastern China and Southern China were the largest markets of the Group (by breakdown of locations from which sales were originated), with over 92% of Group's revenue for the reporting period.

OPERATIONAL ANALYSIS

As at 30 June 2013, the Group operated 33 production lines with designed annual production capacities aggregating 320,000 tonnes, including 195,000 tonnes for wrapping tissue paper, 44,000 tonnes for copy paper, 35,000 tonnes for wall paper backing paper and 46,000 tonnes for other products.

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

PROSPECTS

Looking ahead, the Board's view on a rather broad-based recovery to have been emerged in China's consumer sectors remains intact, a development that will be relatively detached from the country's export performance for the remainder of the year. This will help support demand for the Group's wrapping tissue paper business, which tends to be closely related to the level of activities in the domestic consumption sectors.

Meanwhile, as prices of raw pulp bottomed out from their lows in the fourth quarter last year and hovered steadily at around RMB4,200 to 4,300 per tonne, this will allow modest room for the Group to leverage its edge in the increased use of self-manufactured de-inked pulp and other recycled materials to improve its overall margin further. The Group envisages raw pulp prices to continue to stay firm at these levels over the medium term.

The first batch of the Group's production facilities for wall paper backing paper has been under trial operation since June 2013. While it still takes some time for the facilities to teeth in to reach full utilization, the Group has already secured certain orders and this business will start making positive contribution to the Group in the second half of the year.

As explained earlier, the Group believes that domestically manufactured wall paper products that can match the quality of imported products, yet being economically-affordable to most consumers in China, will see tremendous potential. This should help the Group broaden the development of its wall paper backing paper business further in the future.

RESULTS

Revenue of the Group for the six months ended 30 June 2013 was RMB741.4 million, representing an increase of approximately 9.2% from RMB679.2 million for the six months ended 30 June 2012. Profit and total comprehensive income attributable to owners of the Company increased by approximately 6.8% from RMB122.7 million for the six months ended 30 June 2012 to RMB131.1 million for the six months ended 30 June 2013. The increases in profit and total comprehensive income attributable to owners of the Company were a result of an increase in the overall average selling price of the Group's products and an increase in sale volume of approximately 10,000 tonnes during the reporting period, the impact of which was partly offset by the higher income tax expenses charged during this period.

Basic earnings per share for the six months ended 30 June 2013 increased to RMB0.119 per share when compared with RMB0.112* per share for the six months ended 30 June 2012, based on the profit attributable to owners of the Company of RMB131.1 million (For the six months ended 30 June 2012: RMB122.7 million) and the weighted average of 1,100,000,000 shares (For the six months ended 30 June 2012: 1,100,000,000 shares*) in issue during the reporting period.

Gross profit

Gross profit of the Group increased modestly to RMB241.3 million for the six months ended 30 June 2013 from RMB202.0 million for the six months ended 30 June 2012. The overall gross profit margin of the Group slightly improved from 29.7% for the six months ended 30 June 2012 to 32.5% for the six months ended 30 June 2013.

Other income and other gains and losses

Other income and other gains and losses of the Group increased from a net gain of RMB0.8 million for the six months ended 30 June 2012 to a net gain of RMB6.4 million for the six months ended 30 June 2013, mainly due to a net foreign exchange gain of RMB3.0 million arising from appreciation of the RMB against other currencies.

Selling and distribution costs

Selling and distribution costs of the Group increased by approximately 9.0% from RMB4.1 million for the six months ended 30 June 2012 to RMB4.5 million for the six months ended 30 June 2013, representing approximately 0.6% of the Group's revenue for both reporting periods.

Administrative expenses

Administrative expenses of the Group increased by approximately 16.1% from RMB31.5 million for six months ended 30 June 2012 to RMB36.6 million for the six months ended 30 June 2013, representing approximately 4.6% and 4.9% of the Group's revenue for the reporting periods, respectively. The increase was primarily due to an increase in depreciation charges for property, plant and equipment, property tax and employee benefits expenses.

Finance costs

Finance costs of the Group increased by approximately 29.4% from RMB14.9 million for the six months ended 30 June 2012 to RMB19.3 million for the six months ended 30 June 2013, primarily due to an increase in the average bank borrowings during the reporting period.

Interest rates of bank loans ranged from 1.91% to 8.31% for the six months ended 30 June 2013, compared with 3.70% to 8.86% for the six months ended 30 June 2012.

* *Adjusted for the bonus issue in 2013*

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 83.2% from RMB22.4 million for the six months ended 30 June 2012 to RMB41.0 million for six months ended 30 June 2013, primarily due to the higher tax rate applied to the Group's subsidiaries in mainland China starting from 2013. The Group's effective tax rates for the six months ended 30 June 2012 and 2013 were 15.4% and 23.8%, respectively. The increase in the effective tax rate was mainly due to the expiry of the preferential tax rate for two of the Group's subsidiaries in mainland China.

Profit and total comprehensive income attributable to owners of the Company

Profit and total comprehensive income attributable to owners of the Company increased from RMB122.7 million for the six months ended 30 June 2012 to RMB131.1 million for the six months ended 30 June 2013. The ratio of profit and total comprehensive income attributable to owners of the Company to revenue decreased slightly from approximately 18.1% for the six months ended 30 June 2012 to approximately 17.7% for the six months ended 30 June 2013.

Inventories, trade receivables and payables turnover cycle

The Group's inventories mainly comprise raw materials including wood pulp and recovered paper for de-inked pulp production. For the six months ended 30 June 2013, the inventory turnover cycle was approximately 50.9 days (For the year ended 31 December 2012: 69.0 days).

The turnover cycle for trade receivables for the six months ended 30 June 2013 lengthened to 83.1 days (For the year ended 31 December 2012: 75.2 days) primarily due to slightly longer credit periods granted to customers. The Group's standard credit term to customers is 60 days.

The turnover cycle for trade and bills payables for the six months ended 30 June 2013 narrowed to 56.3 days (For the year ended 31 December 2012: 57.0 days), which was within the 60-day credit period granted by the Group's suppliers.

Borrowings

As at 30 June 2013, the Group's bank borrowings balance amounted to RMB998.4 million, of which RMB544.4 million will be due for repayment within the next twelve months (As at 31 December 2012: RMB927.7 million, of which RMB404.7 million will be due for repayment within the next twelve months).

As at 30 June 2013, the Group's bank borrowings amounted to RMB171.0 million, carried at fixed interest rates (As at 31 December 2012: RMB171.0 million).

As at 30 June 2013, the Group's net gearing ratio, which was calculated on the basis of total borrowings less bank balances and cash and pledged bank deposits as a percentage of shareholder equity, was 28.5% (As at 31 December 2012: 28.2%).

Pledge of assets

As at 30 June 2013, the Group pledged certain of its property, plant and equipment, land use rights and bank deposits with aggregate carrying value of RMB545.0 million (As at 31 December 2012: RMB528.0 million) as collaterals for the credit facilities granted to the Group.

Capital expenditure

For the six months ended 30 June 2013, the Group invested RMB152.0 million (For the six months ended 30 June 2012: RMB134.1 million) in construction of production facilities and equipment and prepaid lease payments.

BONUS ISSUE OF SHARES

On 26 February 2013, the Board had resolved to recommend a bonus issue of one new share credited as fully paid for every ten shares held by the shareholders of the Company (the "Shareholders") whose names appear on the register of members of the Company on 13 May 2013. The bonus issue was approved by the Shareholders at the annual general meeting held on 3 May 2013 and the relevant certificates for the bonus shares have been dispatched to the Shareholders on 28 May 2013.

DIVIDEND

The Board has resolved to declare payment of an interim dividend for the six months ended 30 June 2013 of HK3.9 cents per share (For the six months ended 30 June 2012: HK3.5 cents per share), totaling HK$42,900,000, amounted to approximately RMB34,000,000. It is expected that the interim dividend will be paid on or about 30 September 2013 to the Shareholders whose names appear on the register of members of the Company on 13 September 2013.

CLOSURE OF REGISTER OF MEMBER

The register of members of the Company will be closed from 10 September 2013 to 13 September 2013 (both days inclusive), during which period no transfer of shares will be registered. In order to establish entitlement to the interim dividend (payable on or about 30 September 2013), all transfers of shares 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 9 September 2013 for registration of transfer.

HUMAN RESOURCES MANAGEMENT

As at 30 June 2013, the Group employed 1,867 staff (As at 30 June 2012: 2,006 staff) and the total remuneration for the six months ended 30 June 2013 amounted to approximately RMB34.4 million (For the six months ended 30 June 2012: RMB32.1 million). The Group's remuneration packages are commensurate with the 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 shareholder of the Company 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 to our Group, rewarding them for their past contributions, attracting, retaining or otherwise maintaining on-going relationships with such eligible person 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 2013, 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 2013, 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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Name of director	Capacity/Nature of interest	Number of Shares	Approximate percentage of interest in our Company
Mr Ke Wentuo	Interest in controlled corporation and interest of spouse[1]	631,125,000	57.38%
Mr Ke Jixiong	Interest in controlled corporation[2]	36,300,000	3.30%

Note 1: The interest in 631,125,000 Shares comprise of:

(i) 605,055,000 Shares held by Smart Port Holdings Limited ("Smart Port"), which is wholly owned by Mr Ke Wentuo; and

(ii) 26,070,000 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 26,070,000 Shares held by Denron.

Note 2: The interest in 36,300,000 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 2013, 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	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding
Smart Port	Beneficial interest[1]	605,055,000	55.01%
Ms Cai Lishuang	Interest in controlled corporation and interest of spouse[2]	631,125,000	57.38%
Cathay Special Paper Limited	Beneficial interest[3]	97,185,000	8.84%

Note 1: 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.

Note 2: 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.

Note 3: 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 2013, 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.

CORPORATE GOVERNANCE CODE

Our 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. For the six months ended 30 June 2013, the Directors consider that our Company has complied with all the code provisions as set out in the Code.

Our Directors are committed to upholding the corporate governance of our Company to ensure that formal and transparent procedures are in place to protect and maximise the interests of the shareholders of our Company.

MODEL CODE FOR SECURITIES TRANSACTIONS

Our Company has adopted 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 our Company. Having made specific enquiry to all our Directors, all our Directors confirmed that they have complied with the required standard of dealings as set out in the Model Code throughout the reporting period.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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

For the six months ended 30 June 2013, neither our Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of our Company.

AUDIT COMMITTEE

The Company has established an audit committee on 30 April 2010 with written terms of reference in compliance with the 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 30 June 2013, the audit committee comprises Mr Chow Kwok Wai, Prof. Zhang Daopei and Prof. Chen Lihui, being the three independent non-executive Directors. Mr Chow Kwok Wai is the chairman of our audit committee.

The members of audit committee reviewed the Company's financial reporting system and internal control system and the Group's audited financial statements for the year ended 31 December 2012 and interim report for the six months ended 30 June 2013 in conjunction with the Company's external auditor. They were of the opinion that these statements had complied with the applicable accounting standards, rules and regulations, and that adequate disclosures had been made.

NOMINATION COMMITTEE

Our Company established a nomination committee on 22 December 2011 with written terms of reference in compliance with the Code. As at 30 June 2013, the nomination committee comprised Mr. Prof. Zhang Daopei, Prof. Chen Lihui and Mr Ke Wentuo. Prof. Zhang Daopei is the chairman of the nomination committee. The nomination committee considers and recommends to the Board suitably 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 on 30 April 2010 with written terms of reference in compliance with the Code. As at 30 June 2013, the remuneration committee comprised, Prof. Zhang Daopei, Prof. Chen Lihui and Mr Ke Wentuo. Prof. Chen Lihui 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.

USE OF NET PROCEEDS FROM INITIAL PUBLIC OFFERING

The Shares were listed on 27 May 2010 on the Main Board of the Stock Exchange. The total net proceeds from the listing after the issue of the Shares amounted to approximately RMB510.5 million, which had been intended to be applied as set out in the section headed "Use of Proceeds" of the Prospectus of the Company dated on 14 May 2010. As at 30 June 2013, RMB492.8 million have been used in the manner as described in the Prospectus and RMB17.7 million remained unutilized.

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 2013.

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, Deloitte Touche Tohmatsu, 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, 8 August 2013

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

TO THE BOARD OF DIRECTORS OF
YOUYUAN INTERNATIONAL HOLDINGS LIMITED
優源國際控股有限公司
(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Youyuan International Holdings Limited (the "Company" and its subsidiaries (collectively referred to as the "Group") set out on pages 15 to 28, which comprises the condensed consolidated statement of financial position as of 30 June 2013 the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing 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"). The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements 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 these condensed consolidated financial statements consists of making inquiries, 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 condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
8 August 2013

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2013

	NOTES	Six months ended 30 June 2013 RMB'000 (unaudited)	2012 RMB'000 (unaudited)
Revenue	3	**741,437**	679,222
Cost of sales		**(500,158)**	(477,265)
Gross profit		**241,279**	201,957
Selling and distribution expenses		**(4,451)**	(4,083)
Administrative expenses		**(36,600)**	(31,518)
Other income and other gains and losses	4	**6,353**	790
Finance costs	5	**(19,334)**	(14,942)
Other expenses		**(15,156)**	(7,088)
Profit before tax		**172,091**	145,116
Income tax expense	6	**(41,014)**	(22,383)
Profit and total comprehensive income for the period attributable to owners of the Company	7	**131,077**	122,733
Earnings per share - Basic (RMB)	9	**0.119**	0.112*

* *Adjusted for bonus issue in 2013*

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2013

	NOTES	At 30 June 2013 RMB'000 (unaudited)	At 31 December 2012 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10	1,933,364	1,812,118
Prepaid lease payments		368,372	372,387
Deposits paid for acquisition of property, plant and equipment		32,034	37,106
		2,333,770	2,221,611
CURRENT ASSETS			
Inventories	11	137,718	143,288
Trade and other receivables	12	373,472	330,212
Prepaid lease payments		7,954	7,916
Pledged bank deposits		45,170	45,170
Bank balances and cash		376,263	336,795
		940,577	863,381
CURRENT LIABILITIES			
Trade and other payables	13	226,454	207,491
Tax liabilities		26,639	11,239
Bank borrowings	14	544,400	404,735
		797,493	623,465
NET CURRENT ASSETS		143,084	239,916
TOTAL ASSETS LESS CURRENT LIABILITIES		2,476,854	2,461,527
NON-CURRENT LIABILITY			
Bank borrowings	14	454,000	523,000
		2,022,854	1,938,527
CAPITAL AND RESERVES			
Share capital	15	95,580	87,680
Reserves		1,927,274	1,850,847
TOTAL EQUITY		2,022,854	1,938,527

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2013

	Attributable to owners of the Company				
	Share capital	**Share premium**	**Other reserves**	**Accumulated profits**	**Total**
	RMB'000	RMB'000	RMB'00	RMB'000	RMB'000
At 1 January 2012 (audited)	87,680	396,269	421,233	867,005	1,772,187
Profit and total comprehensive income for the period	—	—	—	122,733	122,733
Dividends recognised as distribution	—	—	—	(55,200)	(55,200)
Transferred to accumulated profits (Note)	—	(28,700)	—	28,700	—
At 30 June 2012 (unaudited)	87,680	367,569	421,233	963,238	1,839,720
At 1 January 2013 (audited)	**87,680**	**325,069**	**446,703**	**1,079,075**	**1,938,527**
Profit and total comprehensive income for the period	—	—	—	**131,077**	**131,077**
Bonus issue	**7,900**	**(7,900)**	—	—	—
Dividends recognised as distribution (Note 8)	—	—	—	**(46,750)**	**(46,750)**
Transferred to accumulated profits (Note)	—	**(38,250)**	—	**38,250**	—
At 30 June 2013 (unaudited)	**95,580**	**278,919**	**446,703**	**1,201,652**	**2,022,854**

Note: Pursuant to board resolutions of directors, the directors were authorised, and resolved, to transfer RMB38,250,000 (2012: RMB28,700,000) from share premium account to accumulated profits. Under the Companies Law of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business of the Company.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2013

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(unaudited)	(unaudited)
NET CASH FROM OPERATING ACTIVITIES	**176,058**	189,413
INVESTING ACTIVITIES		
Payments for property, plant and equipment	**(135,318)**	(125,231)
Payments for prepaid lease payments	—	(12,533)
Increase in deposits paid for acquisitions of prepaid lease payments	—	(16,000)
Withdrawal of pledged bank deposits	—	4,124
Placement of pledged bank deposits	—	(45,175)
Interest received	**2,639**	448
NET CASH USED IN INVESTING ACTIVITIES	**(132,679)**	(194,367)
FINANCING ACTIVITIES		
Dividend paid	**(46,593)**	(55,016)
New bank borrowings raised	**427,450**	591,990
Repayments of bank borrowings	**(356,785)**	(281,120)
Interest paid	**(27,983)**	(19,404)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(3,911)**	236,450
NET INCREASE IN CASH AND CASH EQUIVALENTS	**39,468**	231,496
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**336,795**	98,121
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**376,263**	329,617

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 ("IAS 34"), Interim Financial Reporting and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2013 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2012.

In the current interim period, the Group has applied, for the first time, the following new and revised Standards, Amendments and Interpretations to International Financial Reporting Standards ("IFRSs").

Amendments to IFRSs	Annual Improvements to IFRSs 2009 - 2011 Cycle
Amendments to IFRS 1	Government Loans
Amendments to IFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income
IAS 19 (Revised 2011)	Employee Benefits
IAS 27 (Revised 2011)	Separate Financial Statements
IAS 28 (Revised 2011)	Investments in Associates and Joint Ventures
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Amendments to IAS 34 *Interim Financial Reporting*

(as part of the Annual Improvements to HKFRSs 2009-2011 Cycle)

The Group has applied the amendments to IAS 34 Interim Financial Reporting as part of the Annual Improvements to IFRSs 2009 - 2011 Cycle for the first time in the current interim period. The amendments to IAS 34 clarify that the total assets and total liabilities for a particular reportable segment would be separately disclosed in the interim financial statements only when the amounts are regularly provided to the chief executive officer ("CEO") and there has been a material change from the amounts disclosed in the last annual financial statements for that reportable segment.

Since the total assets and liabilities for the reporting segments have no material change from the amounts disclosed in the last annual financial statements, such information was not included as part of the segment information.

Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income*

The amendments to IAS 1 introduce new terminology for statement of comprehensive income and income statement. Under the amendments to IAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income. In addition, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the existing option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes.

Except as described above, the application of the other new or revised Standards, Amendments and Interpretations to IFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

3. SEGMENT INFORMATION

Information reported to the CEO 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 operation segments identified by the chief operation decision maker have been aggregated in arriving at the reportable segments of the Group.

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

- Wrapping tissue paper – manufacturing for sale of wrapping tissue paper;
- Copy paper – manufacturing for sale of copy paper;
- Wall paper backing paper – manufacturing for sale of wall paper backing paper;
- Other products – manufacturing for sale of paper towels and ivory boards.

3. SEGMENT INFORMATION (Continued)

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	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Wrapping tissue paper	**531,340**	483,095	**192,299**	157,225
Copy paper	**121,280**	115,198	**36,151**	36,521
Wall paper backing paper	**—**	—	**—**	—
Other products	**88,817**	80,929	**12,829**	8,211
	741,437	679,222	**241,279**	201,957
Selling and distribution expenses			**(4,451)**	(4,083)
Administrative expenses			**(36,600)**	(31,518)
Other income and other gains and losses			**6,353**	790
Finance costs			**(19,334)**	(14,942)
Other expenses			**(15,156)**	(7,088)
Profit before tax			**172,091**	145,116

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

4. OTHER INCOME AND OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Bank interest income	**2,639**	448
Loss on disposal of property, plant and equipment	**(5)**	(58)
Net foreign exchange gain (losses)	**3,032**	(316)
Government grants (note)	**593**	646
Others	**94**	70
	6,353	790

Note: Government grants represented incentives granted by the local authorities to the Group's subsidiaries located in the People's Republic of China ("PRC") for developing innovative production technology and maintaining a good reputation in the business community. There are no unfulfilled conditions and other contingencies attaching to such grants.

5. FINANCE COSTS

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest on:		
Bank borrowings wholly repayable within five years	**30,191**	20,088
Less: Amounts capitalised	**(10,857)**	(5,146)
	19,334	14,942

During the six months ended 30 June 2013, the borrowing costs RMB10,857,000 (six months ended 30 June 2012: RMB5,146,000) capitalised are attributable to funds borrowed specifically for the purpose of obtaining particular qualifying assets such as its production facilities.

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current tax:		
PRC Enterprise Income Tax	**41,014**	22,383

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

Quanzhou Huaxiang Paper Industry Co., Ltd. ("Huaxiang"), Fujian Xiyuan Paper Co., Ltd. ("Xiyuan") and Youlanfa Paper Co., Ltd. Fujian ("Youlanfa") (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.

Youlanfa obtained a high and new technology enterprise certificate during the six months ended 30 June 2013 and was entitled to a preferential tax rate of 15% for three year period from 2012 to 2014, subject to annual review by the relevant tax authority. Youlanfa is subject to tax rate at 15% in current period.

For the six months ended 30 June 2012, Huaxiang and Xiyuan are entitled to an exemption from EIT for two years starting from their first exemption year, followed by a 50% tax relief for the following three years in accordance to the relevant laws and regulations in the PRC. Years 2008 and 2009 were the exemption years, and years 2010 to 2012 are subject to 50% reduced tax rate of 12.5%.

Under the EIT law, withholding tax is imposed on dividends declared in respect of profits earned by the Group's PRC Subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the condensed consolidated financial statements in respect of temporary differences attributable to accumulated distributable profits of the Group's PRC Subsidiaries amounting to RMB1,235,550,000 as at 30 June 2013 (31 December 2012: RMB1,098,064,000), as the Company is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Other than above, the Group has no significant provided or unprovided deferred tax at the end of the reporting periods.

7. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging the following item:

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Depreciation of property, plant and equipment	**31,231**	27,454
Release of prepaid lease payments	**4,357**	2,806
Total depreciation and amortisation expenses	**35,588**	30,260
Research and development cost recognised as an expense (included in other expenses)	**15,156**	7,088
Cost of inventories recognised as expenses	**500,158**	477,265

8. DIVIDEND

During the current interim period, a final dividend of HK5.3 cents per share in respect of the year ended 31 December 2012 (six months end 30 June 2012: a final dividend of HK6.8 cents per share in respect of the year ended 31 December 2011) has been declared and paid. The aggregate amount of the final dividend declared and paid in the current interim period amounted to approximately HK$58,300,000 (equivalent to approximately RMB46,750,000) and HK$58,104,000 (equivalent to approximately RMB46,593,000), respectively.

Subsequent to the end of the reporting period, the directors have recommended the payment of an interim dividend of HK3.9 cents per share for the six months ended 30 June 2013 (six months ended 30 June 2012: HK3.5 cents per share).

9. EARNINGS PER SHARE - BASIC

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

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share	**131,077**	122,733

	Six months ended 30 June	
	2013	2012
	(unaudited)	(unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,100,000,000**	1,100,000,000*

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

* *Adjusted for bonus issue in 2013*

10. PROPERTY, PLANT AND EQUIPMENT

	Carrying values RMB'000
At 1 January 2013 (audited)	1,812,118
Additions	152,482
Depreciation for the period	(31,231)
Disposals	(5)
At 30 June 2013 (unaudited)	1,933,364

During the six months ended 30 June 2013, the Group mainly incurred approximately RMB152 million (six months ended 30 June 2012: RMB132 million) on the construction of new production facilities in the PRC and capitalised interest in order to enlarge its production capabilities.

11. INVENTORIES

	At 30 June 2013 RMB'000 (unaudited)	At 31 December 2012 RMB'000 (audited)
Raw materials	92,264	110,952
Work in progress	131	142
Finished goods	45,323	32,194
	137,718	143,288

12. TRADE AND OTHER RECEIVABLES

Trade and other receivables mainly represent approximately RMB371,143,000 (31 December 2012: approximately RMB309,901,000), trade receivables.

The Group allows an average credit period of 60 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 2013 RMB'000 (unaudited)	At 31 December 2012 RMB'000 (audited)
0 to 30 days	161,525	144,901
31 to 60 days	157,369	148,492
61 to 90 days	52,249	16,508
	371,143	309,901

13. TRADE AND OTHER PAYABLES

	At 30 June 2013 RMB'000 (unaudited)	At 31 December 2012 RMB'000 (audited)
Trade payables	155,456	155,880
Other payables for acquisition of plant and equipment	19,075	13,890
Other tax payables	24,479	12,887
Other payables and accrued operating expenses	27,444	24,834
	226,454	207,491

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

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

	At 30 June 2013 RMB'000 (unaudited)	At 31 December 2012 RMB'000 (audited)
Within 30 days	85,401	84,601
31 to 90 days	70,055	71,279
	155,456	155,880

14. BANK BORROWINGS

	At 30 June 2013 RMB'000 (unaudited)	At 31 December 2012 RMB'000 (audited)
Secured bank borrowings	486,500	443,625
Unsecured bank borrowings	511,900	484,110
	998,400	927,735
Carrying amount repayable:		
Within one year	544,400	404,735
More than one year, but not exceeding two years	234,000	128,100
More than two years, but not exceeding five years	220,000	394,900
	998,400	927,735
Less: Amounts due within one year shown under current liabilities	(544,400)	(404,735)
Amounts shown under non-current liabilities	454,000	523,000

All unsecured bank borrowings are cross-guaranteed by the group companies. The remaining bank borrowings are secured by property, plant and equipment, prepaid lease payments and bank deposits with total carrying amounts approximately RMB545 million (31 December 2012: approximately RMB528 million).

15. SHARE CAPITAL

	Number of shares	Share capital HK$
Ordinary shares of HK$0.1 each		
Authorised:		
At 1 January 2012, 30 June 2012, 31 December 2012, 1 January 2013 and 30 June 2013	10,000,000,000	1,000,000,000
Issued and fully paid:		
At 1 January 2012, 30 June 2012, 31 December 2012 and 1 January 2013	1,000,000,000	100,000,000
Bonus issue	100,000,000	10,000,000
At 30 June 2013	1,100,000,000	110,000,000

	At 30 June 2013 RMB'000 (unaudited)	At 31 December 2012 RMB'000 (audited)
Presented in RMB		
Share capital	95,580	87,680

On 28 May 2013, 100,000,000 shares of HK$0.10 each of the Company, amounting to HK$10,000,000 (approximately RMB7,900,000), were issue at par value by way of transfer from the share premium account of the Company. Such bonus issue was approved by the Shareholders of the Company at the annual general meeting held on 3 May 2013.

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

16. CAPITAL COMMITMENTS

	At 30 June 2013 RMB'000 (unaudited)	At 31 December 2012 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	135,079	158,962