



YOUYUAN INTERNATIONAL HOLDINGS LIMITED

優源國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2268)



2016
INTERIM REPORT



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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Prof. Zhang Daopei (張道沛)
Prof. Chen Lihui (陳禮輝) (Resigned on 11 March 2016)
Prof. Chen Lihong (陳禮洪) (Appointed on 11 March 2016)
Mr Chow Kwok Wai (周國偉)

AUDIT COMMITTEE

Mr Chow Kwok Wai (*Chairman*)
Prof. Zhang Daopei
Prof. Chen Lihui (Resigned on 11 March 2016)
Prof. Chen Lihong (Appointed on 11 March 2016)

REMUNERATION COMMITTEE

Prof. Chen Lihui (*Chairman*) (Resigned on 11 March 2016)
Prof. Chen Lihong (*Chairman*) (Appointed on 11 March 2016)
Prof. Zhang Daopei
Mr Ke Wentuo

NOMINATION COMMITTEE

Prof. Zhang Daopei (*Chairman*)
Prof. Chen Lihui (Resigned on 11 March 2016)
Prof. Chen Lihong (Appointed on 11 March 2016)
Mr Ke Wentuo

COMPANY SECRETARY

Mr Wong Yat Sum, *FCCA, FCPA*

AUTHORISED REPRESENTATIVES

Mr Ke Wentuo
Mr Wong Yat Sum

CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG SHARE REGISTRAR

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

REGISTERED OFFICE

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

HEADQUARTERS IN THE PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

COMPANY'S WEBSITE

www.youyuan.com.hk

PLACE OF LISTING AND STOCK CODE

The Stock Exchange of Hong Kong Limited
2268

PRINCIPAL BANKERS

In Hong Kong:

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

In the PRC:

Bank of China
China Merchants Bank
China CITIC Bank
Industrial and Commercial Bank of China Limited

AUDITOR

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

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

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

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

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

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

SEGMENTAL ANALYSIS

Wrapping tissue paper

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

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

Copy paper

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

Wall paper backing paper

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

Other products

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



GEOGRAPHICAL ANALYSIS

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

OPERATIONAL ANALYSIS

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

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

INVESTMENT IN WALL PAPER BUSINESS

On 5 February 2016, Xi Yuan Paper Limited ("Xi Yuan BVI", a wholly owned subsidiary of the Company) completed its acquisition of a 41.0% equity interests in Xin Wing Enterprises Limited ("Xin Wing") and its subsidiaries (together with Xin Wing, the "Xin Wing Group"). The Xin Wing Group is principally engaged in manufacturing and trading of wall paper in China under its own branded wall paper and also on an OEM basis.

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

PROSPECTS

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

Revenue of the Group for the six months ended 30 June 2016 was RMB826.3 million, representing an increase of approximately 6.2% from RMB778.2 million for the six months ended 30 June 2015. The increase in revenue was primarily due to increase in sales volume. Profit and total comprehensive income attributable to owners of the Company increased by approximately 18.8% from RMB111.9 million for the six months ended 30 June 2015 to RMB133.0 million for the six months ended 30 June 2016. The increases in profit and total comprehensive income attributable to owners of the Company were attributable to share of profits of an associate and increase in sales volume of the Group's products, the effect of which was partly set off by the foreign exchange loss due to appreciation of USD against RMB.

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

Gross profit

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

Other income and other gains and losses

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

Share of profits of an associate

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

Selling and distribution costs

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

Administrative expenses

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

Finance costs

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Other expenses

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

Taxation

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

Profit and total comprehensive income attributable to owners of the Company

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

Inventories, trade receivables and payables turnover cycle

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

Due to the ongoing tightening of liquidity in China, the Group made a strategic decision to lengthen its standard credit term for customers to 120 days to allow them more leeway to arrange their capital resources in previous years. That said, the turnover cycle of trade receivables for the six months ended 30 June 2016 was 151.5 days (For the year ended 31 December 2015: 141.7 days). With deep understandings of its customers, the Group does not envisage any acute deterioration of credit quality of its trade receivables.

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

Investments in an associate

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

Borrowings

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Pledge of assets

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

Capital expenditure

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



DIVIDEND

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

HUMAN RESOURCES MANAGEMENT

As at 30 June 2016, the Group employed approximately 1,500 staff (As at 30 June 2015: approximately of 1,700 staff) and the total remuneration for the six months ended 30 June 2016 amounted to approximately RMB33.7 million (For the six months ended 30 June 2015: RMB33.3 million). The Group's remuneration packages are commensurate with experience and qualifications of individual employees and general market conditions. Bonuses are linked to the Group's financial results as well as individual performances. The Group also ensures that all employees are provided with adequate training and professional development opportunities to satisfy their career development needs.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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 in our Group, rewarding them for their past contributions, attracting, retaining or otherwise maintaining on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of our Group, and additionally in the case of executives, to enable our Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

As at 30 June 2016, 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 2016, 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	Position	Capacity/Nature of interest	Number of Shares	Approximate percentage of interest in the Company
Mr Ke Wentuo	L ¹	Interest in controlled corporation and interest of spouse ²	694,237,500	58.52%
	S ¹	Interest in controlled corporation ³	165,000,000	13.91%
Mr Ke Jixiong	L ¹	Interest in controlled corporation ⁴	41,930,000	3.53%

Notes

- 1: L: Long position; S: Short position.
- 2: The long position in 694,237,500 Shares comprise of:
 - (i) 665,560,500 Shares held by Smart Port Holdings Limited ("Smart Port"), which is wholly owned by Mr Ke Wentuo; and
 - (ii) 28,677,000 Shares held by Denron International Limited ("Denron"), which is wholly beneficially owned by Ms Cai Lishuang. Mr Ke Wentuo, being the spouse of Ms Cai Lishuang, is deemed to be interested in the said 28,677,000 Shares held by Denron.
- 3: The short position in 165,000,000 Shares refers to the short position in the same number of Shares held by Smart Port.
- 4: The long position in 41,930,000 Shares refers to the same block of Shares held by Everproud International Limited, which is wholly owned by Mr Ke Jixiong.

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

CORPORATE GOVERNANCE AND OTHER INFORMATION

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 2016, in addition to the interests disclosed under the paragraph headed "Directors and Chief Executives' Interests in the Shares and Underlying Shares and Debentures of our Company or any Associated Corporation", our Company was notified of the following substantial shareholders' interests and short positions in the Shares and underlying Shares, being interests of 5% or more.

Name	Position	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding
Smart Port	L ¹	Beneficial owner ²	665,560,500	56.11%
	S ¹	Beneficial owner ²	165,000,000	13.91%
Ms Cai Lishuang	L ¹	Interest in controlled corporation and interest of spouse ³	694,237,500	58.52%
	S ¹	Interest in controlled corporation and interest of spouse ³	165,000,000	13.91%
Cathay Special Paper Limited	L ¹	Beneficial owner ⁴	101,747,500	8.58%

Notes

- 1: L: Long position; S: Short position.
- 2: Mr Ke Wentuo is deemed to have the long position and short position in the Shares held by Smart Port by virtue of Smart Port being wholly owned by Mr Ke Wentuo.
- 3: Ms Cai Lishuang is deemed to be interested in the Shares held by Denron by virtue of Denron being wholly owned by Ms Cai Lishuang. In addition, she is deemed to be interested in the Shares held by Smart Port, which is wholly owned by Mr Ke Wentuo, by virtue of her being the spouse of Mr Ke Wentuo.
- 4: Cathay Special Paper Limited is wholly owned by Cathay Capital Holdings II, L.P., a limited liability partnership.

Except as disclosed above, as at 30 June 2016, 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 AND OTHER INFORMATION

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

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

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

CONNECTED TRANSACTION

On 28 October 2015 and 31 December 2015, Xi Yuan BVI, Cathay Capital Holdings III, L.P., the Xin Wing Group and Ms Ke Jinzhen (the daughter of Mr Ke Wentuo, the Chairman and executive Director of the Company, a connected person of the Company), entered into a share subscription agreement and a supplemental share subscription agreement, respectively. Pursuant to the said agreements, Xi Yuan BVI agreed to purchase 41.0% of the equity interest of Xin Wing (the "Acquisition") at the maximum consideration of RMB533.0 million, which comprise the initial subscription price of RMB266.5 million and the supplemental subscription price of RMB266.5 million. The Xin Wing Group is principally engaged in manufacturing and distribution of wall paper in China under its own branded wall paper and also on OEM basis. The Acquisition constituted a discloseable transaction and connected transaction of the Company under the Listing Rules. For further details of the Acquisition, please refer to the announcements of the Company dated 16 July 2015, 28 October 2015, 18 November 2015, 30 November 2015, 12 December 2015 and 31 December 2015 and the circular of the Company dated 31 December 2015.

The Acquisition was approved by the independent shareholders of the Company at the extraordinary general meeting of the Company held on 20 January 2016, and on 5 February 2016, Xi Yuan BVI completed the acquisition of 41.0% of the equity interest in Xin Wing.

CHANGE OF DIRECTORS AND CHANGE COMPLETED THE ACQUISITION OF IN COMPOSITION OF BOARD COMMITTEES

With effect from 11 March 2016, Prof. Chen Lihui has resigned as an independent non-executive Director, a member of the audit committee, a member of the nomination committee and the chairman and member of the remuneration committee of the Board in order to devote more time on his other education commitments. Prof. Chen Lihui has confirmed that he has no disagreement with the Board and that there is no matter relating to his resignation that needs to be brought to the attention of the shareholders of the Company.

Prof. Chen Lihong has been appointed as an independent non-executive Director, a member of the audit committee, a member of the nomination committee and the chairman and member of the remuneration committee with effect from 11 March 2016. Save that Prof. Chen Lihong is the brother of Prof. Chen Lihui, Prof. Chen Lihong does not have any relationship with any directors, senior management, substantial shareholders or controlling shareholders of the Company.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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 2016, 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 with 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 six months ended 30 June 2016.

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

For the six months ended 30 June 2016, neither 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 the financial reporting processes, risk management internal control system of the Group. As at 30 June 2016, the audit committee comprises Mr Chow Kwok Wai, Prof. Zhang Daopei and Prof. Chen Lihong, being the three independent non-executive Directors. Mr Chow Kwok Wai is the chairman of our audit committee.

The members of audit committee reviewed the Company’s financial reporting system, risk management and internal control system and the Group’s audited financial statements for the year ended 31 December 2015 and interim report for the six months ended 30 June 2016 in conjunction with the Company’s external auditors. 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 2016, the nomination committee comprised Prof. Zhang Daopei, Prof. Chen Lihong and Mr Ke Wentuo. Prof. Zhang Daopei is the chairman of the nomination committee. The nomination committee considers and recommends to the Board 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 2016, the remuneration committee comprised Prof. Zhang Daopei, Prof. Chen Lihong and Mr Ke Wentuo. Prof. Chen Lihong is the chairman of the remuneration committee. The primary responsibilities of our remuneration committee are to make recommendations to the Board on the remuneration packages of the Directors and senior management personnel of our Group and to ensure that no Director or any of his associates is involved in deciding his own remuneration.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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 2016.

AUDITOR

With effect from 22 June 2016, Messrs. Deloitte Touche Tohmatsu ("Deloitte") has resigned as auditor of the Company as Deloitte and the Company could not reach a consensus on the audit fees for the financial year ending 31 December 2016. Deloitte has confirmed that there were no circumstances connected with its resignation which it considered should be brought to the attention of the Shareholders. The Board has confirmed that there is no disagreement between Deloitte and the Company, and there are no other matters in relation to the resignation of the auditor that need to be brought to the attention of the Shareholders.

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

REVIEW OF INTERIM RESULTS

The unaudited condensed consolidated interim financial report of the Company for the six months ended 30 June 2016 has been reviewed by the Company's audit committee and the Company's auditors, RSM, 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, 10 August 2016

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT REVIEW REPORT 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 interim financial information 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 of the Company as at 30 June 2016 and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making 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 interim financial information is not prepared, in all material respects, in accordance with IAS 34.

RSM Hong Kong

Certified Public Accountants

Hong Kong

10 August 2016

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016

		Six months ended 30 June	
	NOTE	2016 RMB'000 (unaudited)	2015 RMB'000 (unaudited)
Revenue			
Cost of sales	4	826,292 <u>(568,283)</u>	778,161 <u>(547,404)</u>
Gross profit		258,009	230,757
Selling and distribution expenses		(5,081)	(5,290)
Administrative expenses		(41,960)	(40,188)
Other income and other gains and losses		(23,059)	4,771
Share of profits of an associate		33,000	—
Finance costs	5	(34,137)	(35,309)
Other expenses		<u>(13,384)</u>	<u>(15,069)</u>
Profit before tax		173,388	139,672
Income tax expense	6	<u>(40,434)</u>	<u>(27,781)</u>
Profit and total comprehensive income for the period attributable to owners of the Company			
	7	<u>132,954</u>	<u>111,891</u>
		RMB	RMB
Earnings per share – Basic	9	<u>0.112</u>	<u>0.094</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016

	NOTE	At 30 June 2016 RMB'000 (unaudited)	At 31 December 2015 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10	2,197,861	2,138,911
Prepaid lease payments		329,651	334,110
Investments in an associate	11	566,000	—
Deposits paid for acquisition of property, plant and equipment		106,645	74,092
Deposits paid for acquisition of prepaid lease payments		39,855	39,855
		<u>3,240,012</u>	<u>2,586,968</u>
CURRENT ASSETS			
Inventories		150,155	115,643
Trade and other receivables	12	682,620	704,053
Prepaid lease payments		8,229	7,916
Bank balances and cash		459,349	735,222
		<u>1,300,353</u>	<u>1,562,834</u>
CURRENT LIABILITIES			
Trade and other payables	13	491,363	235,757
Tax liabilities		26,815	16,077
Bank borrowings	14	405,622	873,226
		<u>923,800</u>	<u>1,125,060</u>
NET CURRENT ASSETS		<u>376,553</u>	<u>437,774</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>3,616,565</u>	<u>3,024,742</u>
NON-CURRENT LIABILITIES			
Bank borrowings	14	1,048,999	590,130
Deferred taxation		17,500	17,500
		<u>1,066,499</u>	<u>607,630</u>
NET ASSETS		<u>2,550,066</u>	<u>2,417,112</u>
CAPITAL AND RESERVES			
Share capital	15	102,501	102,501
Reserves		2,447,565	2,314,611
TOTAL EQUITY		<u>2,550,066</u>	<u>2,417,112</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

	(unaudited)				Total RMB'000
	Attributable to owners of the Company				
	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Accumulated profits RMB'000	
At 1 January 2015 (audited)	93,842	91,892	505,684	1,610,530	2,301,948
Total comprehensive income for the period	—	—	—	111,891	111,891
Bonus issue	8,624	(8,624)	—	—	—
Dividends recognised as distribution	35	648	—	(69,500)	(68,817)
At 30 June 2015 (unaudited)	<u>102,501</u>	<u>83,916</u>	<u>505,684</u>	<u>1,652,921</u>	<u>2,345,022</u>
At 1 January 2016 (audited)	102,501	44,016	534,475	1,736,120	2,417,112
Total comprehensive income for the period	—	—	—	132,954	132,954
At 30 June 2016 (unaudited)	<u>102,501</u>	<u>44,016</u>	<u>534,475</u>	<u>1,869,074</u>	<u>2,550,066</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(unaudited)	(unaudited)
NET CASH GENERATED FROM OPERATING ACTIVITIES	168,694	192,701
INVESTING ACTIVITIES		
Payments and deposits paid for acquisition of property, plant and equipment	(134,596)	(128,104)
Payments and deposits paid for acquisition of prepaid lease payments	—	(39,855)
Payments for acquisition of an associate	(266,500)	—
Withdrawal of pledged bank deposits	—	11,000
Proceeds from disposal of property, plant and equipment	—	57
Interest received	1,338	5,638
NET CASH USED IN INVESTING ACTIVITIES	(399,758)	(151,264)
FINANCING ACTIVITIES		
Inception of bank borrowings	1,114,466	454,397
Repayment of bank borrowings	(1,123,201)	(459,522)
Dividend paid	—	(68,817)
Interest paid	(36,074)	(37,181)
NET CASH USED IN FINANCING ACTIVITIES	(44,809)	(111,123)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(275,873)	(69,686)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	735,222	735,384
CASH AND CASH EQUIVALENTS AT END OF PERIOD	459,349	665,698

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

1. BASIS OF PREPARATION

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

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

Associates

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

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

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

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

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

3. FAIR VALUE MEASUREMENTS

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

4. SEGMENT INFORMATION

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

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

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

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

5. FINANCE COSTS

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest on bank borrowings	36,643	37,853
Less: Amount capitalised	(2,506)	(2,544)
	<u>34,137</u>	<u>35,309</u>

During the six months ended 30 June 2016, the borrowing costs of approximately RMB2,506,000 (six months ended 30 June 2015: RMB2,544,000) 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	
	2016	2015
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current tax:		
Charge for the period	<u>40,434</u>	<u>27,781</u>

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

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

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

7. PROFIT FOR THE PERIOD

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

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

8. DIVIDENDS

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

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	
	2016	2015
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purpose of the basic earnings per share calculation	<u>132,954</u>	<u>111,891</u>

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

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

10. PROPERTY, PLANT AND EQUIPMENT

	Carrying value
	RMB'000
At 1 January 2016 (audited)	2,138,911
Additions	111,319
Depreciation for the period	<u>(52,369)</u>
At 30 June 2016 (unaudited)	<u>2,197,861</u>

During the six months ended 30 June 2016, the Group mainly incurred approximately RMB111 million (six months ended 30 June 2015: RMB61 million) on the construction of new production facilities in the PRC and capitalised interest in order to enlarge its production capabilities.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

11. INVESTMENTS IN AN ASSOCIATE

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

12. TRADE AND OTHER RECEIVABLES

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

13. TRADE AND OTHER PAYABLES

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

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

14. BANK BORROWINGS

	At 30 June 2016 RMB'000 (unaudited)	At 31 December 2015 RMB'000 (audited)
Secured bank borrowings	206,680	222,600
Unsecured bank borrowings	1,247,941	1,240,756
	<u>1,454,621</u>	<u>1,463,356</u>
The bank borrowings are repayable as follows:		
Within one year	405,622	873,226
More than one year, but not exceeding two years	239,530	590,130
More than two years, but not exceeding five years	809,469	—
	<u>1,454,621</u>	<u>1,463,356</u>
Less: Amount due for settlement within one year shown under current liabilities	<u>(405,622)</u>	<u>(873,226)</u>
Amount due for settlement after one year shown under non-current liabilities	<u>1,048,999</u>	<u>590,130</u>

All unsecured bank borrowings are cross-guaranteed among subsidiaries of the Company. The remaining bank borrowings are secured by certain of the Group's property, plant and equipment, prepaid lease payments and bank deposits.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

15. SHARE CAPITAL

	Number of shares	Share capital HK\$
Ordinary shares of HK\$0.10 each		
Authorised		
At 1 January 2015, 30 June 2015, 31 December 2015, 1 January 2016 and 30 June 2016	<u>10,000,000,000</u>	<u>1,000,000,000</u>
Issued and fully paid		
At 1 January 2015	1,078,000,000	107,800,000
Issue of shares in lieu of cash dividend (Note a)	436,339	43,634
Bonus issue (Note b)	<u>107,800,000</u>	<u>10,780,000</u>
At 30 June 2015, 31 December 2015 and 30 June 2016	<u>1,186,236,339</u>	<u>118,623,634</u>

	At 30 June 2016 RMB'000 (unaudited)	At 31 December 2015 RMB'000 (audited)
Presented in RMB		
Share capital	<u>102,501</u>	<u>102,501</u>

Notes:

- (a) On 15 June 2015, 436,339 shares of HK\$0.10 each of the Company were allotted and issued at HK\$1.94 per shares, amounting to HK\$847,000 (equivalent to approximately RMB683,000) in respect of the final dividend for the year ended 31 December 2014 under the scrip dividend scheme.
- (b) On 16 June 2015, 107,800,000 shares of HK\$0.10 each of the Company, amounting to HK\$10,780,000 (approximately RMB8,624,000), on the basis of one bonus share for every ten shares were issued 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 8 May 2015.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

16. CAPITAL COMMITMENTS

	At	At
	30 June	31 December
	2016	2015
	RMB'000	RMB'000
	(unaudited)	(audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of:		
Acquisition of property, plant and equipment and prepaid lease payments	251,726	170,914

17. EVENTS AFTER THE REPORTING PERIOD

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

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

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