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)

2018

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)
Ms. Lian Bi Yu (連碧玉) (appointed on 10 April 2018)

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

Mr. Wong Yat Sum *FCCA, FCPA*

AUTHORISED REPRESENTATIVES

Mr. Ke Wentuo
Mr. Wong Yat Sum

CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG SHARE REGISTRAR

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

REGISTERED OFFICE

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

HEADQUARTERS IN THE PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

7th Floor, Hip Shing Hong Centre
55 Des Voeux Road Central
Central, Hong Kong
(effective from 24 March 2018)

Unit 1601, 16th Floor
Bonham Trade Centre
50 Bonham Strand
Sheung Wan, Hong Kong
(ceased to be the principal place of business of the Company in Hong Kong from 24 March 2018)

COMPANY'S WEBSITE

www.youyuan.com.hk

PLACE OF LISTING AND STOCK CODE

The Stock Exchange of Hong Kong Limited
2268

PRINCIPAL BANKERS

In Hong Kong:

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

In the PRC:

Bank of China
Industrial and Commercial Bank of China Limited

AUDITOR

RSM Hong Kong
Certified Public Accountants

LEGAL ADVISORS

Hong Kong law:

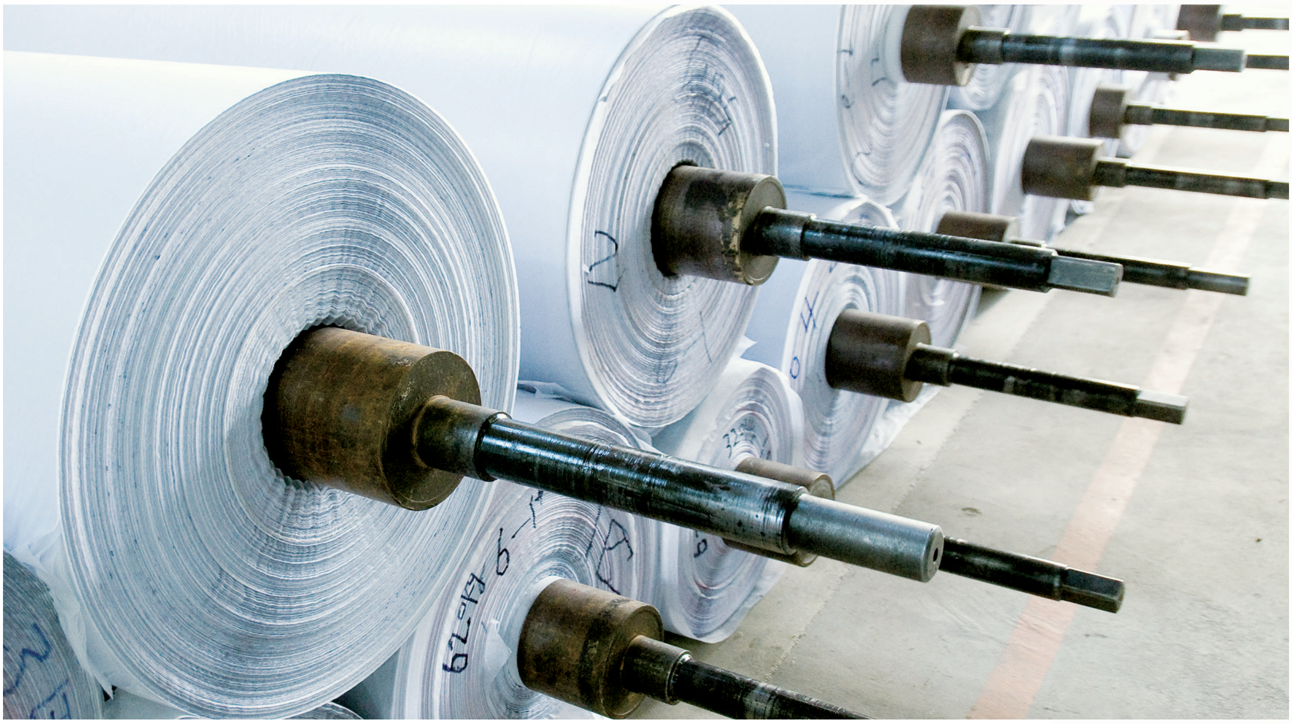
Chiu & Partners
Luk & Partners
In Association with Morgan, Lewis & Bockius

Cayman Islands law:

Conyers Dill & Pearman

INVESTORS AND MEDIA RELATIONS

Zhixin Caijing



BUSINESS REVIEW AND OUTLOOK

BUSINESS REVIEW

Supply-side reforms carried out by the Central Government and the tightening of the environmental protection policy in recent years facilitated further regulation and improvement in the paper manufacturing industry in terms of their production model. Meanwhile, with the continuing strong demand for paper products for the first half of 2018, together with the improved demand and supply situation for better paper products, the Group is expected to be benefited from the rise in the product price. Rising popularity towards online shopping and e-commerce has boosted the demand for package-use paper products, and also sustained demand for both machine-finished tissue paper and cardboard paper. The stable outlook of the property market in China also brings in considerable business opportunities to wall paper business.

Stringent environmental control implemented by the Central Government emphasises the capacity efficiency of the production machineries and it also proposes the elimination of those machineries which give low efficiency in terms of production capacity. Thus, the supply of raw pulp is further restricted, and the prices of raw pulp gently increased as a result. Similarly, price of imported recycled pulp climbed up, the price rise was driven by the less reliance placed on waste paper import by the China market. Though the Group is under the pressure from the rising cost of production, the Group opt for self-manufactured de-inked pulp, which helps mitigating the cost pressure in order to secure our profit margin.

The board of Directors believes that the industry will continue to flourish and we look forward to a stable growth in revenue and profit in the industry. Given this favourable industry environment, it is believed that the Group will be able to further solidify its leading position in the paper manufacturing industry by dint of its robust technology advantage and diversification business.

SEGMENTAL ANALYSIS

Wrapping tissue paper

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

Total revenue generated from wrapping tissue paper was RMB973.1 million, contributed to approximately 53.1% of the Group's revenue for the reporting period.

Copy paper

Revenue generated from copy paper was RMB132.3 million, contributed to approximately 7.2% of the Group's revenue for the reporting period.

Wall paper products

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

Total revenue generated from wall paper products was RMB623.2 million, contributed to approximately 34.0% of the Group's revenue for the reporting period.

Other products

Other products, comprising paper towel, and core boards, generated revenue of RMB105.0 million, contributed to approximately 5.7% 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 (in terms of locations from which sales were originated), with over 83.0% of Group's revenue for this reporting period was derived from these two regions.

OPERATIONAL ANALYSIS

As at 30 June 2018, the Group operated 37 production lines with a designed annual production capacity of 418,000 tonnes in aggregate, including 225,000 tonnes for wrapping tissue paper, 52,000 tonnes for copy paper, 35,000 tonnes for wall paper backing paper and 106,000 tonnes for other products. In addition, the Group operated 14 production lines with a designed annual production capacity of 27 million rolls for wall paper products.

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

PROSPECTS

The threat of a trade war has clouded the global economy. According to the latest World Trade Outlook Indicator ("WTOI") released by the World Trade Organization in May 2018, while global trade expansion is likely to continue this year, the softening of the indicator from 102.3 in February 2018 to 100.3 in August 2018 suggested that the pace of growth is slowing down in the second quarter compared to the first quarter. The recent dip in the WTOI reflects declines in component indices for export orders in particular, which may be linked to rising economic uncertainty due to increased trade tensions.

Despite the threat of protectionism and the volatility in consumer confidence, the management remains positive about the Group's prospects. The Group aims to boost the development scale, make proactive effort in diversifying the paper and pulp business, while at the same time to maintain stable production.

The traditional wrapping tissue paper business together with the freshly consolidated wall paper manufacturing business further strengthened the Group's leading position in the paper manufacturing industry. The experienced and capable management team will continue to lead the development of the Group's businesses and strive its utmost to raise profitability. Leveraging its leading position and its consistently solid development advantage, the Group believes that it can maximise the return to shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

Revenue of the Group for the six months ended 30 June 2018 was RMB1,833.6 million, representing an increase of approximately 86.7% from RMB982.3 million for the six months ended 30 June 2017. Profit and total comprehensive income attributable to owners of the Company increased by approximately 7.7% from RMB219.8 million for the six months ended 30 June 2017 to RMB236.7 million for the six months ended 30 June 2018. The increase in profit and total comprehensive income attributable to the increase in sales volume and average selling price of the Group's products, consolidated wall paper business, the impact of which was partly set off by the foreign exchange loss due to depreciation of Renminbi ("RMB") against US Dollars ("USD") and high finance costs during the reporting period.

Basic earnings per share for the six months ended 30 June 2018 increased to RMB0.190 per share when compared with RMB0.186 per share for the six months ended 30 June 2017, based on the profit attributable to owners of the Company of RMB236.7 million (For the six months ended 30 June 2017: RMB219.8 million) and the weighted average of 1,243,725,712 shares (For the six months ended 30 June 2017: 1,178,917,564 shares) in issue during the reporting period.

Gross profit

Gross profit of the Group increased to RMB709.3 million for the six months ended 30 June 2018 from RMB278.0 million for the six months ended 30 June 2017. Overall gross profit margin of the Group increased from 28.3% for the six months ended 30 June 2017 to 38.7% for the six months ended 30 June 2018.

Other income and other gains and losses

Other income and other gains and losses of the Group changed from a net gain of RMB26.7 million for the six months ended 30 June 2017 to a net loss of RMB54.5 million for the six months ended 30 June 2018, mainly due to the increase in net foreign exchange losses as a result of the depreciation of RMB against USD for the bank borrowings, convertible bonds and unsecured notes denominated in USD.

Share of profit of an associate

Share of profit of an associate of the Group amounted to RMB45.0 million for the six months ended 30 June 2017. Since 31 August 2017, the Group completed the acquisition of additional equity interests of this associate, which subsequently becomes a subsidiary of the Company and its results, assets and liabilities were fully consolidated in the profit or loss of the Group for this reporting period.

Selling and distribution expenses

Selling and distribution expenses of the Group increased by approximately 1,377.9% from RMB5.0 million for the six months ended 30 June 2017 to RMB73.4 million for the six months ended 30 June 2018, representing approximately 0.5% and 4.0% of the Group's revenue for the reporting periods, respectively.

Administrative expenses

Administrative expenses of the Group increased by approximately 93.1% from RMB39.5 million for six months ended 30 June 2017 to RMB76.3 million for the six months ended 30 June 2018, representing approximately 4.0% and 4.2% of the Group's revenue for the reporting periods, respectively.

Finance costs

Finance costs of the Group increased by approximately 253.1% from RMB30.8 million for the six months ended 30 June 2017 to RMB108.9 million for the six months ended 30 June 2018, primarily due to an increase in the average balance of bank borrowings, convertible bonds and unsecured notes during the reporting period.

Interest rates of bank loans ranged from 3.6% to 5.5% for the six months ended 30 June 2018, compared with to 2.1% to 5.7% for the six months ended 30 June 2017.

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 170.1% from RMB34.5 million for the six months ended 30 June 2017 to RMB93.3 million for six months ended 30 June 2018. The Group's effective tax rates for the six months ended 30 June 2017 and 2018 were 13.6% and 26.1%, respectively.

Profit and total comprehensive income attributable to owners of the Company

Profit and total comprehensive income attributable to owners of the Company increased from RMB219.8 million for the six months ended 30 June 2017 to RMB236.7 million for the six months ended 30 June 2018. The ratio of profit and total comprehensive income attributable to owners of the Company to revenue decreased from approximately 22.4% for the six months ended 30 June 2017 to approximately 12.9% for the six months ended 30 June 2018.

Inventories, trade receivables and payables turnover cycle

The Group's inventories mainly comprised raw materials including wood pulp and recovered paper for de-inked pulp production and finished goods for wall paper products. For the six months ended 30 June 2018, the inventory turnover cycle was approximately 25.3 days (For the year ended 31 December 2017: 18.9 days*). The longer inventory turnover cycle during this reporting period was mainly due to the Company kept more raw materials for production.

The turnover cycle of trade receivables for the six months ended 30 June 2018 was 162.6 days (For year ended 31 December 2017: 158.9 days*). The credit period granted to customers was ranged from 120 to 180 days. With deep understandings in its customers, the Group does not envisage any acute deterioration of credit quality of its trade receivables.

The turnover cycle for the Group's trade payables for the six months ended 30 June 2018 was lengthened to 60.0 days (For the year ended 31 December 2017: 48.9 days*). The credit period granted from our suppliers was ranged from 30 to 120 days.

* the calculation had taken into account of the effect of the acquisition of an associate at the beginning of 2017

Borrowings

As at 30 June 2018, the Group's bank borrowings amounted to RMB1,193.6 million, of which RMB737.9 million will be due for repayment within the next twelve months (As at 31 December 2017: RMB1,449.9 million, of which RMB660.1 million would be due for repayment within the next twelve months).

As at 30 June 2018, the Group's bank borrowings amounted to RMB1,104.6 million, carried at variable interest rates (As at 31 December 2017: RMB1,252.9 million).

As at 30 June 2018, the Group's net gearing ratio, which was calculated on the basis of total bank borrowings, convertible bonds and unsecured notes less bank balances and cash as a percentage of shareholder equity, was 38.2% (As at 31 December 2017: 34.3%).

Facility agreement

On 5 May 2016, the Company as borrower entered into the facility agreement with a syndicate of three banks for a 3.5-year term loan in the principal amount of US$115 million (the "Facility Agreement"). The Facility Agreement includes a condition imposing specific performance obligations on Mr. Ke Wentuo, the controlling shareholder of the Company (the "Controlling Shareholder") who is interested in approximately 56.11% of the issued share capital of the Company and short position in 13.91% of the issued share capital of the Company as of the date of the Facility Agreement and his associates (as defined in the Listing Rules), the breach of which will constitute an event of default under the Facility Agreement.

Disclosure pursuant to Rule 13.18 and Rule 13.21 of the Listing Rules

Pursuant to the Facility Agreement, it will be a change of control in the event that (i) the Controlling Shareholder and his associates collectively do not or cease to own at least 30% of the, direct or indirect, beneficial shareholding interest in the issued share capital of, and carrying 30% of the voting rights in the Company, free from any security; (ii) the Controlling Shareholder and his associates collectively do not or cease to have management control of the Company; (iii) the Controlling Shareholder and his associates collectively are not or cease to be the single largest shareholder of the Company; or (iv) the Controlling Shareholder is not or ceases to be the chairman of the Board.

On and at any time after the occurrence of such a change of control which is continuing, the facility agent to the Facility Agreement may, among others, 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.

Convertible bonds

On 20 October 2017, the Company issued 4.5% guaranteed convertible bonds which will be due on 20 October 2018 (extendable for one year) ("October 2017 CB"), in the aggregate principal amount of HK$200.0 million (approximately RMB167.0 million) with an initial conversion price of HK$4.4625 per share of the Company (subject to adjustment). Pursuant to the supplemental deed entered into between the Company and the bondholder, the maturity date of the October 2017 CB will be extend from 20 October 2018 to 20 October 2019. Upon exercise in full of the subscription rights attaching to the October 2017 CB at the conversion price of HK$4.4625 (subject to adjustment), which is a premium of approximately 16.82% to the closing price of HK$3.82 per share of the Company on 16 October 2017, being the date of the subscription agreement, a maximum of 44,817,927 shares of the Company are issuable under the general mandate granted by the shareholders at the annual general meeting of the Company held on 25 May 2017 ("General Mandate"). No shares of the Company has been issued as at the date of this report under the October 2017 CB. The conversion rights under the October 2017 CB are exercisable any time after 19 April 2019 to 5:00 p.m. on the business day immediately before the extended maturity date (i.e. 20 October 2019). Details of the October 2017 CB are disclosed in the Company's announcements dated 16 October 2017, 10 May 2018 and 15 May 2018.

On 13 November 2017, the Company issued 4.5% guaranteed convertible bonds which will be due on 13 November 2018 (extendable for 6 months) ("November 2017 CB"), in the aggregate principal amount of US$20.0 million (approximately RMB130.4 million) with an initial conversion price of HK$4.98 per share of the Company (subject to adjustment). The November 2017 CB may not be redeemed by the Company at any time prior to their maturity date or if extended the extended maturity date. Upon exercise in full of the subscription rights attaching to the November 2017 CB at the conversion price of HK$4.98 (subject to adjustment), which is a premium of approximately 5.06% to the closing price of HK$4.74 per share of the Company on 3 November 2017, being the date of the subscription agreement, a maximum of 31,325,301 shares of the Company are issuable under the General Mandate. No shares of the Company has been issued as at the date of this report under the November 2017 CB. The conversion rights under the November 2017 CB are exercisable during the conversion period commencing on the date after six months from the date of their issue date to 5:00 p.m. on the business day immediately before their maturity date or if extended, the extended maturity date. Details of the November 2017 CB are disclosed in the Company's announcement dated 3 November 2017.

On 1 February 2018, the Company issued 4.5% guaranteed convertible bonds which will be due on 1 February 2019 (extendable for one year) ("February 2018 CB") in the aggregate principal amount of US$22.0 million (approximately RMB143.4 million) with an initial conversion price of HK$4.4625 per share of the Company (subject to adjustment). The February 2018 CB may not be redeemed by the Company at any time prior to their maturity date or if extended, the extended maturity date. Upon exercise in full of the subscription rights attaching to the February 2018 CB at the conversion price of HK$4.4625 (subject to adjustment), which is a premium of approximately 41.67% to the closing price of HK$3.15 per share of the Company on 23 January 2018, being the date of the subscription agreement, a maximum of 38,453,781 shares of the Company are issuable under the General Mandate. No shares of the Company has been issued as at the date of this report under the February 2018 CB. The conversion rights under the February 2018 CB are exercisable during the conversion period commencing on the date after twelve months from the date of their issue date to 5:00 p.m. on the business day immediately before their maturity date or if extended, the extended maturity date. Details of the February 2018 CB are disclosed in the Company's announcement dated 23 January 2018.

The issue of the above convertible bonds represents an opportunity for the Company to strengthen its capital base and financial position by providing flexibility to the Group in the deployment of its working capital for other business operation of the Group. The issue of the above convertible bonds is an appropriate means of raising capital for the Group since it will not have an immediate dilution effect on the shareholding of the existing Shareholders.

Disclosure pursuant to Rule 13.18 and Rule 13.21 of the Listing Rules

Under the transaction documents in connection with the issue of the above convertible bonds, Mr. Ke Wentuo, as the guarantor, has undertaken to maintain his status as the single largest shareholder of the Company holding not less than 30% shares in the Company and remain as a Director and the chairman of the Board and at all times during the subsistence of the respective transaction documents in connection with the issue of the above convertible bonds (collectively, the "Specific Performance Obligations under the convertible bonds").

A breach of the Specific Performance Obligations under the convertible bonds will constitute an event of default under the convertible bonds, which would entitle the respective bondholders to require the Company to redeem their convertible bonds.

Use of net proceeds from the above convertible bonds

As at the date of this report, the Group had fully utilised the net proceeds from the above convertible bonds, which amounts to approximately HK$517.3 million (equivalent to approximately RMB440.8 million). The actual use of such proceeds is set out in the table below:

Date of announcement	**Equity security issued**	**Net proceeds raised (approximately)**	**Net price per conversion share**	**Intended use of net proceeds raised**	**Actual use of net proceeds raised**
16 October 2017	The October 2017 CB issued to Central China International Investment Company Limited on 20 October 2017	HK$194.3 million	HK$4.34 (calculated based on 44,817,927 conversion shares)	The acquisition of the equity interest in Xin Wing Enterprises Limited ("Xin Wing") as disclosed in the circular of the Company dated 25 May 2017 and/or as general working capital of the Group	The net proceeds raised were wholly utilised in the acquisition of the equity interest in Xin Wing as disclosed in the circular of the Company dated 25 May 2017
3 November 2017	The November 2017 CB issued to China Silk Road Financial Holding Limited on 13 November 2017	HK$151.9 million	HK$4.849 (calculated based on 31,325,301 conversion shares)	The acquisition of the equity interest in Xin Wing as disclosed in the circular of the Company dated 25 May 2017 and/or as general working capital of the Group	The net proceeds raised were wholly utilised in the acquisition of the equity interest in Xin Wing as disclosed in the circular of the Company dated 25 May 2017
23 January 2018	The February 2018 CB issued to Donghai International Financial Holdings Company Limited on 1 February 2018	HK$171.1 million	HK$4.4495 (calculated based on 38,453,781 conversion shares)	The acquisition of the equity interest in Xin Wing as disclosed in the circular of the Company dated 25 May 2017 and/or as general working capital of the Group	The net proceeds raised to the extent of HK$117.0 million were utilised in the acquisition of the equity interest in Xin Wing as disclosed in the circular of the Company dated 25 May 2017 and the remaining net proceeds in the amount of HK$54.1 million were used as general working capital of the Group

Dilution effect of the full conversion of Convertible Bonds

Number of shares that may be issued by the Company upon full conversion of the Convertible Bonds

The following table sets out the number of shares that may be issued by the Company in the event that all outstanding convertible bonds were converted as at 30 June 2018 and their respective shareholdings in the Company.

	Immediately upon exercise in full of the conversion rights attaching to the October 2017 CB (Notes 1 and 2)		Immediately upon exercise in full of the conversion rights attaching to the October 2017 CB and November 2017 CB (Notes 1 - 4)		Immediately upon exercise in full of the conversion rights attaching to the October 2017 CB, November 2017 CB and February 2018 CB (Notes 1 - 6)	
	Number of shares	%	Number of shares	%	Number of shares	%
October 2017 CB holder	44,817,927	3.48	44,817,927	3.40	44,817,927	3.30
November 2017 CB holder	—	—	31,325,301	2.37	31,325,301	2.31
February 2018 CB holder	—	—	—	—	38,453,781	2.83

Notes:

1. Assuming conversion of October 2017 CB at the initial conversion price of HK$4.4625.
2. The percentage of shareholding is calculated on the basis of 1,288,543,639 Shares, which is the total number of issued share immediately upon exercise in full of the conversion rights attaching to the October 2017 CB.
3. Assuming conversion of November 2017 CB at the initial conversion price of HK$4.98.
4. The percentage of shareholding is calculated on the basis of 1,319,868,940 Shares, which is the total number of issued share immediately upon exercise in full of the conversion rights attaching to the October 2017 CB and the November 2017 CB.
5. Assuming conversion of February 2018 CB at the initial conversion price of HK$4.4625.
6. The percentage of shareholding is calculated on the basis of 1,358,322,721 Shares, which is the total number of issued share immediately upon exercise in full of the conversion rights attaching to the October 2017 CB, the November 2017 CB and the February 2018 CB.

The following table sets out the dilution effect on the Company share and the respective shareholdings of the substantial shareholders of the Company in the event that all outstanding convertible bonds were converted as at 30 June 2018.

Substantial shareholders	As at 30 June 2018 (Note 1)		Immediately upon exercise in full of the conversion rights attaching to the October 2017 CB (Notes 2 and 3)		Immediately upon exercise in full of the conversion rights attaching to the October 2017 CB and November 2017 CB (Notes 2 - 5)		Immediately upon exercise in full of the conversion rights attaching to the October 2017 CB, November 2017 CB and February 2018 CB (Notes 2 -7)	
	Number of shares	%	Number of shares	%	Number of shares	%	Number of shares	%
Smart Port Holdings Limited ("Smart Port")	665,560,500	53.51	665,560,500	51.65	665,560,500	50.43	665,560,500	49.00
Mr. Ke Wentuo (Note 8)	694,237,500	55.82	694,237,500	53.88	694,237,500	52.60	694,237,500	51.11
Ms. Cai Lishuang (Note 9)	694,237,500	55.82	694,237,500	53.88	694,237,500	52.60	694,237,500	51.11

Notes:

1. The percentage of shareholding is calculated on the basis of 1,243,725,712 Shares in issue as at 30 June 2018.
2. Assuming conversion of October 2017 CB at the initial conversion price of HK$4.4625.
3. The percentage of shareholding is calculated on the basis of 1,288,543,639 Shares, which is the total number of issued share immediately upon exercise in full of the conversion rights attaching to the October 2017 CB.
4. Assuming conversion of November 2017 CB at the initial conversion price of HK$4.98.
5. The percentage of shareholding is calculated on the basis of 1,319,868,940 Shares, which is the total number of issued share immediately upon exercise in full of the conversion rights attaching to the October 2017 CB and the November 2017 CB.
6. Assuming conversion of February 2018 CB at the initial conversion price of HK$4.4625.
7. The percentage of shareholding is calculated on the basis of 1,358,322,721 Shares, which is the total number of issued share immediately upon exercise in full of the conversion rights attaching to the October 2017 CB, the November 2017 CB and the February 2018 CB.
8. 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. KeWentuo. In addition, he is deemed to be interested in 28,677,000 Shares held by Denron International Limited ("Denron"), which is wholly owned by Ms. Cai Lishuang, by virtue of being the spouse of Ms. Cai Lishuang.
9. 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 being the spouse of Mr. Ke Wentuo.

Dilution impact on earnings per share ("EPS")

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

	RMB
Profit for the six months ended 30 June 2018 attributable to owners of the Company	236,688,000
	Number of shares
Number of Company's shares in issue as at 30 June 2018	1,243,725,712
Number of Company's shares in issue upon full conversion of all the convertible bonds as at 30 June 2018 (Notes 1, 2 and 3)	1,358,322,721
	RMB
EPS	0.190
Diluted EPS assuming full conversion of the convertible bonds (Note 4)	not applicable

Notes:

1. Assuming conversion of October 2017 CB takes place at the initial conversion price of HK$4.4625.
2. Assuming conversion of November 2017 CB takes place at the initial conversion price of HK$4.98.
3. Assuming conversion of February 2018 CB takes place at the initial conversion price of HK$4.4625.
4. No diluted earnings per share was presented, as the exercise of the Group's outstanding convertible bonds would be anti-dilutive.

Financial and liquidity position of the Company

As at 30 June 2018, the Group had net current assets of RMB910.4 million. The Company does not require repaying all the convertible bonds at one time as the maturity dates of the convertible bonds are different.

Additional information of the convertible bonds issued by the Company are set out in the note 14 to the condensed consolidated financial statements.

Based on the financial and liquidity position of the Company, to the best knowledge of the Board, the Company expects that it will be able to meet its redemption obligations under the outstanding convertible bonds issued by the Company.

Bondholders to convert or redeem

In the future, when the price of the shares of the Company is not less than the conversion price of the convertible bonds issued by the Company, the Company believes that it will be equally financially advantageous for the bondholders to convert or redeem the convertible bonds based on their implied internal rate of return.

Unsecured notes

On 13 October 2017, the Company issued one year HIBOR for Hong Kong dollars plus 3.62% guaranteed notes which will be due on 13 October 2019 (extendable to the third anniversary of the issue date), in the aggregate principal amount of US$50.0 million (approximately RMB326 million), payable once every six months in arrears accruing from their issue date. The net proceed raised is US$49.4 million.

On 30 October 2017, the Company issued 6.5% guaranteed notes which will be due on 30 October 2019 (extendable to the third anniversary of the issue date), in the aggregate principal amount of US$25.0 million (approximately RMB163 million), payable once every six months in arrears accruing from their issue date. The net proceed raised is US$24.4 million.

The net proceeds from the issue of the above unsecured notes are used by the Company for or in connection with the acquisition of equity interest in Xin Wing and/or as general working capital of the Group.

Disclosure pursuant to Rule 13.18 and Rule 13.21 of the Listing Rules

Under the transaction documents in connection with the issue of the above unsecured notes, Mr. Ke Wentuo, as the guarantor, has undertaken to maintain his status as the single largest shareholder of the Company holding not less than 30% shares in the Company and remain as a Director and the chairman of the Board and at all times during the subsistence of the respective transaction documents in connection with the issue of the above unsecured notes (collectively, the "Specific Performance Obligations under the unsecured notes").

A breach of the Specific Performance Obligations under the unsecured notes will constitute an event of default under the unsecured notes which would entitle the noteholder(s) to require the Company to redeem its/their notes.

Liquidity and financial resources

The Group's primary uses of cash are to satisfy our working capital and capital expenditure needs. Our working capital needs and capital expenditure requirements have been principally financed through a combination of shareholders' equity, cash generated from operations and borrowings.

The Group adopts a prudent cash and financial management policy. The Group's cash and cash equivalents are mainly denominated in Renminbi. The Group's bank borrowings, convertible bonds and unsecured notes are mainly denominated in US$ and HK$.

As at 30 June 2018, the Group's total equity attributable to owners of the Company amounted to RMB4,013.7 million (As at 31 December 2017: RMB3,792.2 million). The Group's net current assets was approximately RMB910.4 million (As at 31 December 2017: RMB1,262.9 million) and the Group had cash and cash equivalents of approximately RMB562.0 million (As at 31 December 2017: RMB846.3 million).

As at 30 June 2018, the Group's current ratio (calculated by dividing current assets by current liabilities as at the end of the period) was approximately 1.54 times (As at 31 December 2017: 1.86 times).

Based on the existing cash and cash equivalents of and banking facilities available to the Group, the Group has adequate financial resources to fund the working capital required for its business operations in the coming year.

Foreign currency exposure

The Directors do not consider the exposure to foreign exchange risk being significant to the operation of the Group as it mainly operated in the PRC and most of the Group's transactions, assets and liabilities were denominated in Renminbi. However, given certain bank borrowings, convertible bonds and unsecured notes are denominated in US$ and HK$, the Group had a foreign currency hedging contract to hedge against the foreign exchange risk.

Pledge of assets

As at 30 June 2018, the Group pledged certain of its property, plant and equipment and land use rights with an aggregate carrying value of RMB449.4 million (As at 31 December 2017: RMB460.1 million) as collaterals for the credit facilities granted to the Group.

Capital expenditure

For the six months ended 30 June 2018, the Group invested RMB303.7 million (For the six months ended 30 June 2017: RMB167.0 million) in construction of production facilities and equipment.

HUMAN RESOURCES MANAGEMENT

As at 30 June 2018, the Group employed approximately 1,900 staff (As at 30 June 2017: approximately 1,600 staff) and the total remuneration for the six months ended 30 June 2018 was amounted to approximately RMB48.4 million (For the six months ended 30 June 2017: RMB35.2 million). The Group's remuneration packages commensurate with experiences and qualifications of individual employees and general market conditions. Bonuses are linked to the Group's financial results as well as individual performances. The Group also ensures that all employees are provided adequate with training and professional development opportunities to satisfy their career development needs.

DIVIDEND

The Board does not recommend declaration and payment of any interim dividend for the six months ended 30 June 2018 (For the six months ended 30 June 2017: Nil).

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 2018, 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 2018, 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	55.82%
	S[1]	Interest in controlled corporation[3]	165,000,000	13.27%
Mr. Ke Jixiong	L[1]	Interest in controlled corporation[4]	41,930,000	3.37%

Notes

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

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

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

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

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

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

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

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

The register of substantial shareholders required to be kept by our Company under Section 336 of Part XV of the SFO shows that as at 30 June 2018, 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	53.51%
	S[1]	Beneficial owner[2]	165,000,000	13.27%
Ms. Cai Lishuang	L[1]	Interest in controlled corporation and interest of spouse[3]	694,237,500	55.82%
	S[1]	Interest in controlled corporation and interest of spouse[3]	165,000,000	13.27%

Notes

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

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

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

Except as disclosed above, as at 30 June 2018, 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

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 2018, the Directors consider that our Company has complied with all the code provisions as set out in the Code, except for a deviation from code provision A.6.7.

Under code provision A.6.7, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the view of the shareholders. Due to other pre-arranged business commitments, Prof. Zhang Daopei and Prof. Chen Lihong, both independent non-executive Directors, were not able to attend the annual general meeting of the Company held on 23 May 2018.

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 reporting period.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2018.

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 2018, 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 the 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 2017 and interim report for the six months ended 30 June 2018, which has been reviewed by 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 2018, 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 2018, the remuneration committee comprised, Prof. Zhang Daopei, Prof. Chen Lihong and Mr. Ke Wentuo. Prof. Chen Lihong is the chairman of the remuneration committee. The primary responsibilities of our remuneration committee are to make recommendations to the Board on the remuneration packages of the Directors and senior management personnel of our Group and to ensure that no Director or any of his associates is involved in deciding his own remuneration.

SUFFICIENCY OF PUBLIC FLOAT

Based on the publicly available information and to the best of the Directors' knowledge, information and belief as at the date of this report, our Company has maintained sufficient public float during the six months ended 30 June 2018

REVIEW OF INTERIM RESULTS

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

On behalf of the Board

Ke Wentuo
Chairman

Hong Kong, 29 August 2018

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

INTRODUCTION

We have reviewed the interim financial information set out on pages 21 to 40 which comprises the condensed consolidated statement of financial position of the Company as at 30 June 2018 and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

RSM Hong Kong
Certified Public Accountants
Hong Kong
29 August 2018

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

		Six months ended 30 June	
		2018	2017
		RMB'000	RMB'000
	Notes	**(unaudited)**	(unaudited)
Revenue	4	**1,833,602**	982,304
Cost of sales		**(1,124,352)**	(704,327)
Gross profit		**709,250**	277,977
Other income and other gains and losses		**(54,467)**	26,650
Share of profit of an associate		**—**	45,000
Selling and distribution expenses		**(73,436)**	(4,969)
Administrative expenses		**(76,317)**	(39,519)
Finance costs	5	**(108,893)**	(30,840)
Other expenses		**(38,373)**	(20,009)
Profit before tax		**357,764**	254,290
Income tax expense	6	**(93,272)**	(34,534)
Profit and total comprehensive income for the period	7	**264,492**	219,756
Attributable to:			
Owners of the Company		**236,688**	219,756
Non-controlling interests		**27,804**	—
		264,492	219,756
		RMB	RMB
Earnings per share - Basic	9	**0.190**	0.186

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

	Notes	At 30 June 2018 RMB'000 (unaudited)	At 31 December 2017 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10	**3,030,191**	2,807,588
Prepaid lease payments		**523,018**	529,603
Goodwill		**613,498**	613,498
Intangible assets		**216,887**	230,292
Deposits paid for acquisition of property, plant and equipment		**311,062**	206,604
Deposits paid for acquisition of prepaid lease payments		**49,966**	49,966
Deposits paid for acquisition of non-controlling interests		**38,220**	33,150
Other prepayments		**86,156**	106,439
		4,868,998	4,577,140
CURRENT ASSETS			
Inventories		**197,666**	117,274
Trade and other receivables	11	**1,819,036**	1,754,689
Prepaid lease payments		**12,865**	12,865
Bank balances and cash		**562,047**	846,343
		2,591,614	2,731,171
CURRENT LIABILITIES			
Trade and other payables	12	**568,558**	465,525
Income tax payables		**62,014**	63,285
Bank borrowings	13	**737,935**	660,140
Convertible bonds	14	**278,374**	262,127
Derivative component of convertible bonds		**32,098**	12,880
Derivative financial liabilities		**2,202**	4,307
		1,681,181	1,468,264
NET CURRENT ASSETS		**910,433**	1,262,907
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,779,431**	5,840,047

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

	Notes	At 30 June 2018 RMB'000 (unaudited)	At 31 December 2017 RMB'000 (audited)
NON-CURRENT LIABILITIES			
Bank borrowings	13	**455,677**	789,790
Convertible bonds	14	**165,641**	—
Unsecured notes		**458,749**	433,580
Deferred consideration		**301,428**	375,907
Deferred taxation		**65,571**	67,597
		1,447,066	1,666,874
NET ASSETS		**4,332,365**	4,173,173
CAPITAL AND RESERVES			
Share capital	15	**107,391**	108,397
Reserves		**3,906,288**	3,683,795
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		**4,013,679**	3,792,192
Non-controlling interests		**318,686**	380,981
TOTAL EQUITY		**4,332,365**	4,173,173

The interim financial information on pages 21 to 40 were approved and authorised for issue by the Board of Directors on 29 August 2018.

Mr. Ke Wentuo
Director

Mr. Ke Jixiong
Director

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Attributable to owners of the Company						
	Share capital	Share premium	Other reserves	Accumulated profits	Total	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017 (audited)	102,501	44,016	563,875	2,011,011	2,721,403	—	2,721,403
Total comprehensive income for the period	—	—	—	219,756	219,756	—	219,756
Share repurchased	—	—	(6,633)	—	(6,633)	—	(6,633)
Share cancelled	(662)	(12,313)	12,975	—	—	—	—
At 30 June 2017 (unaudited)	101,839	31,703	570,217	2,230,767	2,934,526	—	2,934,526
At 1 January 2018 (audited)	**108,397**	**176,886**	**610,686**	**2,896,223**	**3,792,192**	**380,981**	**4,173,173**
Total comprehensive income for the period	—	—	—	**236,688**	**236,688**	**27,804**	**264,492**
Acquisition of non-controlling interests	—	—	—	**(15,201)**	**(15,201)**	**(50,099)**	**(65,300)**
Share cancelled	**(1,006)**	**(35,294)**	**36,300**	—	—	—	—
Dividend to non-controlling interests	—	—	—	—	—	**(40,000)**	**(40,000)**
At 30 June 2018 (unaudited)	**107,391**	**141,592**	**646,986**	**3,117,710**	**4,013,679**	**318,686**	**4,332,365**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**468,725**	155,711
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for acquisition of property, plant and equipment	**(392,116)**	(166,992)
Payments for deferred consideration	**(82,639)**	—
Proceeds from disposal of property, plant and equipment	**49**	—
Interest received	**1,476**	812
NET CASH USED IN INVESTING ACTIVITIES	**(473,230)**	(166,180)
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank borrowings raised	**148,000**	87,696
Repayments of bank borrowings	**(416,631)**	(306,810)
Proceeds from issue of convertible bond	**139,040**	—
Payments for acquisition of non-controlling interests	**(70,370)**	—
Interest paid	**(57,996)**	(33,128)
Dividend paid to non-controlling interests	**(20,000)**	—
Payments for shares repurchased	**—**	(6,633)
NET CASH USED IN FINANCING ACTIVITIES	**(277,957)**	(258,875)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(282,462)**	(269,344)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**846,343**	465,179
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**(1,834)**	—
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**562,047**	195,835

1. BASIS OF PREPARATION

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

These condensed financial statements should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2017. 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 2017 except as stated below.

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 International Accounting Standards Board that are relevant to its operations and effective for its accounting period beginning on 1 January 2018. IFRSs comprise International Financial Reporting Standards ("IFRS"); International Accounting Standards ("IAS"); and Interpretations.

The Group has initially adopted IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers from 1 January 2018. A number of other new standards are effective from 1 January 2018 but they do not have a material effect on the Group's consolidated financial statements.

IFRS 9 Financial Instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 from 1 January 2018 resulted in changes in accounting policies and no adjustment to the amounts recognised in the financial statements of the Group.

The adoption of IFRS 9 resulted in the following changes to the Group's accounting policies.

(a) Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement category:

- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

(b) Impairment

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

No impact on the Group's opening accumulated profits as at 1 January 2018 by adoption of IFRS 9 on the Group.

The following table and the accompanying note below explain the original measurement category under IAS 39 and the new measurement category under IFRS 9 for each class of the Group's financial assets as at 1 January 2018.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

IFRS 9 Financial Instruments (Continued)

(b) Impairment (Continued)

Financial assets	Note	Classification under IAS 39	Classification under IFRS 9	Carrying amount under IAS 39 RMB'000	Carrying amount under IFRS 9 RMB'000
Trade and other receivables	(a)	Loans and receivables	Amortisted cost	1,620,046	1,620,046

Note:

(a) Trade and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortised cost. There is no allowance for impairment over these receivables was recognised in opening accumulated profits at 1 January 2018 on transition to IFRS 9.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognsied. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The Group has adopted IFRS 15 using the cumulative effect method with the effect of initially applying this standard recognised at the date of initial application. Accordingly, the information presented for 2017 has not been restated, i.e. it is presented, as previously reported, under IAS 18 and related interpretations.

For contracts with customers in which the trading of paper products are the only performance obligation, adoption of IFRS 15 does not expect to have any impact on the Group's revenue or profit or loss. The revenue recognition occurs at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

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.

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

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

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

(a) Disclosures of level in fair value hierarchy:

	Fair value measurements as at 30 June 2018			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
	(unaudited)	**(unaudited)**	**(unaudited)**	**(unaudited)**
Recurring fair value measurements:				
Financial liabilities at fair value through profit or loss				
Derivative component of convertible bonds	—	—	**32,098**	**32,098**
Derivative financial liabilities	—	**2,202**	—	**2,202**
Total recurring fair value measurements	—	**2,202**	**32,098**	**34,300**

	Fair value measurements as at 31 December 2017			
Description	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
	(audited)	(audited)	(audited)	(audited)
Recurring fair value measurements:				
Financial liabilities at fair value through profit or loss				
Derivative component of convertible bonds	—	—	12,880	12,880
Derivative financial liabilities	—	4,307	—	4,307
Total recurring fair value measurements	—	4,307	12,880	17,187

3. FAIR VALUE MEASUREMENTS (CONTINUED)

(b) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 30 June 2018:

The Group's senior management is responsible for the fair value measurements of financial assets and financial liabilities required for financial reporting purposes, including level 2 and level 3 fair value measurements. The senior management reports directly to the Board of Directors for these fair value measurements. Discussions of valuation processes and results are held between the senior management and the Board of Directors at least twice a year.

For level 2 fair value measurements, derivative financial liabilities of the Group under recurring fair value measurement were foreign currency forward contracts, are measured at fair value on Level 2 fair value measurement. The valuation technique used in this fair value measurement is discounted cash flows and the inputs are forward exchange rate, contract forward rates and discount rates.

For level 3 fair value measurements, the Group will normally engage external valuation experts with the recognised professional qualifications and recent experience to perform the valuations.

Key unobservable inputs used in level 3 fair value measurements are mainly expected volatility.

Level 3 fair value measurements

Description	Valuation technique	Unobservable inputs	Range	Effect on fair value for increase of inputs	Fair value as at 30 June 2018 RMB'000 (unaudited)	Fair value as at 31 December 2017 RMB'000 (audited)
Derivative component embedded in convertible bonds	Binomial option pricing model	Expected volatility	43% - 48% (2017: 40% - 44%)	Increase	32,098	12,880

There were no changes in the valuation techniques used.

4. REVENUE AND SEGMENT INFORMATION

(a) Revenue

The Group's operations and main revenue streams are those described in the last annual financial statements. The Group's revenue is derived from contracts with customers.

The nature and effect of initially applying IFRS 15 on the Group's interim financial statements are disclosed in note 2.

The Group principally operates in the People's Republic of China (the "PRC") (country of domicile of the operating subsidiaries of the Group). All of the Group's revenue from external customers is attributed to the PRC which is the primary geographical market of the Group. Timing of revenue recognition of the Group is at a point in time when the products are transferred to the customers.

(b) Products within each operating segment

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 operating segments under IFRS 8 "Operating Segments" are as follows:

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

4. REVENUE AND SEGMENT INFORMATION (CONTINUED)

(c) Segment revenue and segment results

	Segment revenue Six months ended 30 June		Segment results Six months ended 30 June	
	2018 RMB'000 (unaudited)	2017 RMB'000 (unaudited)	**2018 RMB'000 (unaudited)**	2017 RMB'000 (unaudited)
Wrapping tissue paper	**973,114**	725,221	**330,783**	222,837
Copy paper	**132,290**	97,441	**35,809**	29,120
Wall paper products	**623,201**	69,157	**329,956**	14,932
Other products	**104,997**	90,485	**12,702**	11,088
	1,833,602	982,304	**709,250**	277,977
Other income and other gains and losses			**(54,467)**	26,650
Share profit of an associate			**—**	45,000
Selling and distribution expenses			**(73,436)**	(4,969)
Administrative expenses			**(76,317)**	(39,519)
Finance costs			**(108,893)**	(30,840)
Other expenses			**(38,373)**	(20,009)
Profit before tax			**357,764**	254,290

Revenue reported above represents revenue generated from external customers and there were no intersegment sales during both periods.

5. FINANCE COSTS

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest expenses on:		
– Bank borrowings	**33,640**	32,073
– Convertible bonds	**38,989**	—
– Unsecured notes	**26,869**	—
Imputed interest expenses on deferred consideration	**8,160**	—
Other finance costs	**1,392**	—
Less: Amounts capitalised	**(157)**	(1,233)
	108,893	30,840

The weighted average capitalisation rate on funds borrowed generally is at a rate of 5.46% for the period (For the six months ended 30 June 2017: 4.83%)

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current tax:		
Charge for the period	**95,298**	34,534
Deferred tax:		
Credit for the period	**(2,026)**	—
	93,272	34,534

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

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

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

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

7. PROFIT FOR THE PERIOD

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

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Amortisation of intangible assets	**13,405**	—
Amortisation of prepaid lease payments	**6,585**	4,147
Depreciation of property, plant and equipment	**81,022**	59,584
Total depreciation and amortisation expenses	**101,012**	63,731
Bank interest income	**(1,476)**	(812)
Loss on disposals/written off of property, plant and equipment	**30**	9
Research and development expenditure (included in other expenses)	**38,373**	20,009
Cost of inventories recognised as expenses	**1,124,352**	704,327
Net foreign exchange loss (gain)	**35,244**	(26,818)
Loss on extinguishment of convertible bonds	**9,229**	—
Fair value loss on derivative components of convertible bonds	**13,551**	—
Unrealised fair value (gain) loss on derivative financial liabilities	**(2,105)**	1,110

8. DIVIDENDS

The Board does not recommend declaration and payment of any interim dividend in respect of the six months ended 30 June 2018 (For the six months ended 30 June 2017: Nil).

9. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Earnings		
Earnings for the purpose of calculating basic earnings per share	**236,688**	219,756

	Six months ended 30 June	
	2018	2017
	(unaudited)	(unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,243,725,712**	1,178,917,564

For the six months ended 30 June 2018, as the exercise of the Group's outstanding convertible bonds would be anti-dilutive, no diluted earnings per share was presented.

For the six months ended 30 June 2017, as there was no potential ordinary shares outstanding for the period, no diluted earnings per share was presented.

10. PROPERTY, PLANT AND EQUIPMENT

	Carrying value RMB'000
At 1 January 2018 (audited)	**2,807,588**
Additions	**303,704**
Disposals/written off	**(79)**
Depreciation for the period	**(81,022)**
At 30 June 2018 (unaudited)	**3,030,191**

During the six months ended 30 June 2018, the Group mainly incurred approximately RMB304 million (For the six months ended 30 June 2017: approximately RMB41 million) on the construction of new production facilities in the PRC and capitalised interest in order to enlarge its production capabilities.

11. TRADE AND OTHER RECEIVABLES

Trade and other receivables mainly represent trade receivables of approximately RMB1,674,323,000 (At 31 December 2017: approximately RMB1,620,046,000).

The Group allows an average credit period range from of 120 days to 180 days to its trade customers. The ageing of trade receivables presented based on the invoice date, which approximated the respective revenue recognition dates, at the end of the reporting period is as follows:

	At 30 June 2018 RMB'000 (unaudited)	At 31 December 2017 RMB'000 (audited)
0 to 60 days	**824,580**	771,624
61 to 120 days	**703,407**	662,872
121 to 180 days	**146,336**	185,550
	1,674,323	1,620,046

12. TRADE AND OTHER PAYABLES

	At 30 June 2018 RMB'000 (unaudited)	At 31 December 2017 RMB'000 (audited)
Trade payables	**435,558**	309,911
Other payables for acquisition of plant and equipment	**27,505**	11,616
Other tax payables	**28,592**	51,126
Other payables and accrued operating expenses	**76,903**	92,872
	568,558	465,525

Other payables and accrued operating expenses mainly represent accrued staff costs, utilities expenses, accrued interest expenses and dividend payable to non-controlling interests.

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 2018 RMB'000 (unaudited)	At 31 December 2017 RMB'000 (audited)
Within 30 days	**257,998**	175,935
31 to 90 days	**177,560**	133,976
	435,558	309,911

13. BANK BORROWINGS

	At 30 June 2018 RMB'000 (unaudited)	At 31 December 2017 RMB'000 (audited)
Borrowings are secured by assets of the Group (Note)	64,000	173,000
Borrowings are secured by cross-guaranteed among subsidiaries of the Group	1,129,612	1,276,930
	1,193,612	1,449,930
Carrying amount repayable:		
Within one year	737,935	660,140
More than one year, but not exceeding two years	455,677	789,790
	1,193,612	1,449,930
Less: Amount due within one year shown under current liabilities	(737,935)	(660,140)
Amount shown under non-current liabilities	455,677	789,790

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

14. CONVERTIBLE BONDS

For the year ended 31 December 2017, the Company issued unlisted, guaranteed and unsecured convertible bonds with principal amounts of HK$200,000,000 ("October 2017 CB") and US$20,000,000, to independent third parties on 20 October 2017 and 13 November 2017, respectively.

For the six months ended 30 June 2018, the Company issued unlisted, guaranteed and unsecured convertible bonds with a principal amount of US$22,000,000 ("February 2018 CB") to an independent third party on 1 February 2018.

February 2018 CB has coupon rate of 4.5% per annum on the principal amount outstanding and interest will be paid semi-annually in arrears until that maturity date. The table below summarised the details and features of February 2018 CB:

Convertible bond	Principal as at 30 June 2018	Principal as at 31 December 2017	Issuance date	Maturity date	Conversion period	Conversion price	Coupon rate	Maximum number of ordinary shares of the Company can be converted
February 2018 CB	US$22 million	—	1 February 2018	1 February 2019	Any time after 6 months from the issuance date to a business day immediately before the maturity date	HK$4.4625	4.5% p.a.	38,453,781

The maturity date of February 2018 CB may be extended to the second anniversary of the issue date of February 2018 CB, if agreed by both the Company and the bondholder in writing prior to the original maturity date.

Conversion price of February 2018 CB will be subject to adjustment for consolidation or subdivision, capitalisation of profits or reserves, capital distribution, right issues and other dilutive events which may have impacts on the rights of the holder. The effective interest rate is 13.96% to the liability component of February 2018 CB per annum since the convertible bond was issued.

At 10 May 2018, the Company, the guarantor and the bondholder of October 2017 CB entered into a supplemental deed for the extension of the maturity date of October 2017 CB to 20 October 2019. A loss on extinguishment of October 2017 CB amounting to RMB9,229,000 was recognised in the profit or loss for the six months ended 30 June 2018 as a results of the substantial modification of term of October 2017 CB.

No conversion of convertible bonds of the Company was made during both periods.

15. SHARE CAPITAL

	Number of shares	Share capital HK$
Ordinary shares of HK$0.10 each		
Authorised		
At 1 January 2018 and 30 June 2018	10,000,000,000	1,000,000,000
Issued and fully paid		
At 1 January 2017 (audited)	1,186,236,339	118,623,634
Share repurchased and cancelled (Note a)	(7,471,000)	(747,100)
Issue of new shares on acquisition (Note b)	76,793,373	7,679,337
At 31 December 2017 and 1 January 2018 (audited)	1,255,558,712	125,555,871
Shares cancelled (Note c)	(11,833,000)	(1,183,300)
At 30 June 2018 (unaudited)	1,243,725,712	124,372,571

	At 30 June 2018 RMB'000 (unaudited)	At 31 December 2017 RMB'000 (audited)
Presented in RMB		
Share capital	107,391	108,397

Note:

(a) The Company repurchased its own shares through the Stock Exchange during the year ended 31 December 2016 and 2017. These shares were cancelled on 19 January 2017.

(b) On 31 August 2017, 76,793,373 ordinary shares of par value HK$0.01 each of the Company was issued as part of the consideration in acquiring 39.0% equity interests in an associate. The fair value of the shares issued determined using the published price available at the date of completion of the acquisition is approximately RMB151,741,000, of which approximately RMB6,558,000 was credited to share capital and the remaining balance of approximately RMB145,183,000 was credited to the share premium account.

(c) The Company repurchased its own shares through the Stock Exchange during the year ended 31 December 2017 and these shares were cancelled on 9 February 2018. None of the Company's subsidiaries repurchased, sold or redeemed any of the Company's shares during the period.

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

16. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at 30 June 2018 (At 31 December 2017: Nil).

17. CAPITAL COMMITMENTS

	At 30 June 2018 RMB'000 (unaudited)	At 31 December 2017 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	**402,310**	260,543
Acquisition of prepaid lease payments	**6,970**	6,970
Acquisition of 17.37% (2017: 20%) equity interest in a subsidiary	**397,597**	471,128

18. NEW AND REVSIED IFRSs IN ISSUE BUT NOT YET EFFECTIVE

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted. The Group has not early adopted any new or amended standards that has been issued but is not yet effective.