YOUYUAN
优源

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)

2010
Interim Report

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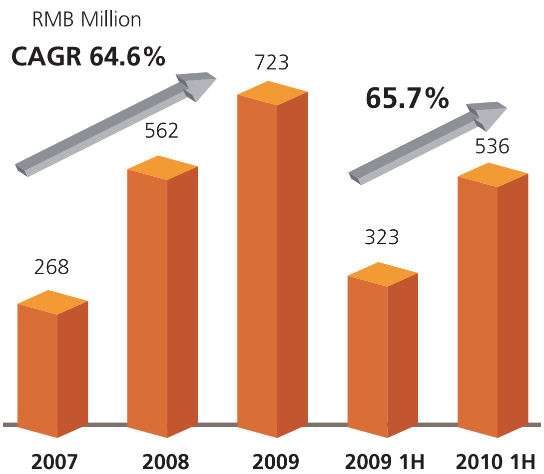

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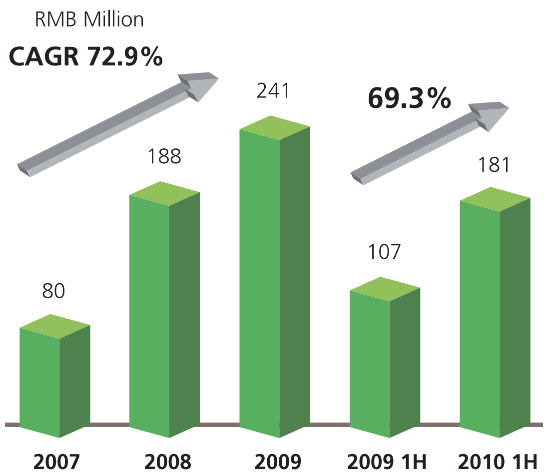

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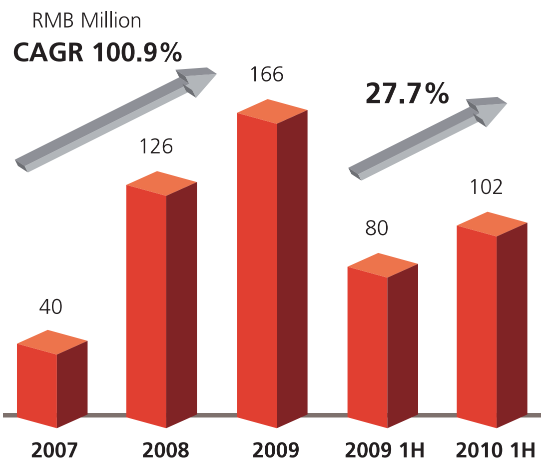

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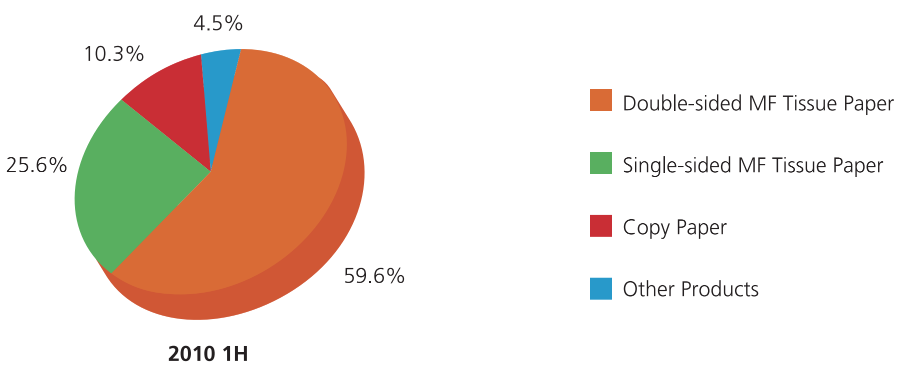

Executive directors

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

Non-executive director

Mr Paul Steven Wolansky

Independent non-executive directors

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

Audit committee

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

Remuneration committee

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

Company secretary

Mr Wong Yat Sum, *ACCA, HKICPA*

Authorised representatives

Mr Ke Wentuo
Mr Wong Yat Sum

Cayman Islands share registrar and transfer office

Butterfield Fulcrum Group (Cayman) Limited
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Grand Cayman KY1-1107
Cayman Islands

Hong Kong share registrar

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Shops 1712-1716, 17th Floor
Hopewell Centre,
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Wanchai, Hong Kong

Registered office

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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

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Bank of America Tower
12 Harcourt Road
Central, Hong Kong

CORPORATE INFORMATION

Company's website

www.youyuan.com.hk

Place of listing and stock code

The Stock Exchange of Hong Kong Limited
2268

Principal bankers

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

Compliance adviser

Somerley Limited

Auditor

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F, One Pacific Place
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Legal advisors

Hong Kong law:

Orrick, Herrington & Sutcliffe

PRC law:

King & Wood

Cayman Islands law:

Conyers Dill & Pearman

On behalf of Youyuan International Holdings Limited (the "Company", together with its subsidiaries, the "Group"), I am glad to present to you the audited interim results of the Group for the six months ended 30 June 2010. Our team managed to achieve remarkable growth on both revenue and net profit during the period under review and successfully listed the shares of our Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 27 May 2010.

Business Review

During the six months ended 30 June 2010, the revenue and net profit attributable to owners of the Company grew by 65.7% and 27.7% over the six months ended 30 June 2009, respectively.

Riding on solid business growth and outstanding financial performance, the Company successfully listed its shares on the Stock Exchange on 27 May 2010 through an initial public offering of new shares and raised net proceeds of approximately RMB510.5 million. Our management believes this will not only further enhance the awareness of the Company among the public and its product brands in the market, but also help improve the corporate governance and shareholding structure of the Group and its access to the international capital market, as well as increase the attractiveness for sales, management and research talents to join the Group.

As China's economy continues its rapid growth, the disposable income of consumers continued to increase and the living standard is improving. These constitute a favorable market for the Group's products.

Given the substantial surge in prices of wood pulp in early 2010, we continued to increase the use of recycled materials in our production process and the management implemented a series of measures to keep operating overheads under tight control. In addition, we raised the selling prices of certain products during the period under review. As a result, higher wood pulp costs had no material impact on our profitability.

Due to the higher standard of environmental protection and the surge in prices of raw materials, we observed that in the first half of 2010, small and medium-sized paper product manufacturers in China were operating under escalating cost pressure, which caused some manufacturers to close down their business eventually, providing room for the Group to increase its market shares.

Innovation and emphases on research and development constitute our key competences that have been driving our successes over the years. In 2010, the Group continued to develop the use of recycled materials in the production process, a move that helped lower our production cost. Also, we launched new products, including paper towels and ivory board, in early 2010 in response to demand from our customers.

CHAIRMAN'S STATEMENT

Prospect and Strategy

The board of Directors of the Company (the "Board") believes that China's economy will continue to grow in 2010 despite lingering instability in the global financial market. Consumers' purchasing power will continue to rise. As a result, the demand for consumer products in China will continue to grow which in turn support a steady growth in the demand for packaging products.

We believe there are lots of opportunities in our industry. We are actively expanding production capabilities of our existing manufacturing bases and will continue to invest in supporting facilities in order to derive better cost advantages and achieve better economies of scale. The Group will continue to improve its operating systems, strengthen its control over production process and integrate its marketing management resources.

In the second half of 2010, we expect a new supporting facility, namely a de-inked pulp production line, will commence operation, which will further enhance our used of recycled materials. We believe this will enhance our cost advantage when compared with our peers.

The Group will continue to optimize its product portfolio by focusing on machine-finished tissue paper products and devote more efforts to penetrate into the Central and Western China markets. The Group believes that in the year of 2010, our business will continue to develop and the measures adopted will work effectively to create better value for our shareholders.

Acknowledgements

On behalf of the Board, I would like to thank all the shareholders, customers and business partners for their support. I would also like to take this opportunity to express my sincere appreciation to all employees for their dedication and contributions.

Ke Wentuo
Chairman
Hong Kong, 19 August 2010

Industry Overview

The sustainable economic development in China has brought about improving living standards of consumers in the country, who are paying increasing attention to product packaging. This will continue to fuel the demand for wrapping tissue paper due to its aesthetic appeal and ability to project a perception of higher product quality and better appearance. As wrapping tissue paper is increasingly becoming the packaging option of choice for many consumer goods, its growth potential is enormous.

According to the projections by China Paper Association, the growth in consumption of wrapping tissue paper will continue to outpace that of the whole packaging paper market in China. Better awareness for environment protection among consumers and increasingly stringent restrictions against the use of plastic packaging materials in China and all over the world are expected to promote the use of wrapping tissue paper as the packaging material for many types of merchandises and further facilitate the growth of wrapping tissue paper consumption.

Competition within the wrapping tissue market in China in the last few years has been characterised by a limited number of large players. The increasing demand from both the domestic and overseas markets, the continuous improvement of production machineries and technologies and the higher profit margin of wrapping tissue paper business compared with other product categories have facilitated the growth of the wrapping tissue paper industry in China.

The Group is a leading wrapping tissue paper manufacturer in China. The Group manufactures machine-finished tissue paper ("MF tissue paper"), including double-sided MF tissue paper and single-sided MF tissue paper which is marketed under the brand of "Youlanfa" which is widely used for wrapping and cushioning of clothing, footwear, fruit and other consumer goods; and copy paper under "Scholar", "Young Scholar" and "Prodigy" brands. It has commenced production of paper towels and ivory boards in January and April 2010.

Results

The revenue of the Group for the six months ended 30 June 2010 was RMB535.9 million, representing an increase of approximately 65.7% from RMB323.3 million for the same period of last year.

Profit attributable to owners of the Company increased by approximately 27.7% from RMB79.5 for the six months ended 30 June 2009 to RMB101.5 million for the six months ended 30 June 2010.

Basic earnings per share for the six months ended 30 June 2010 improved to RMB0.13 per share as compared with RMB0.11 per share for the same period of 2009, based on the profit attributable to owners of the Company of RMB101.5 million (six months ended 30 June 2009: RMB79.5 million) and the weighted average of 798,342,000 shares (six months ended 30 June 2009: 750,000,000 shares) in issue during the period. The outstanding performance in the first half of 2010 was mainly attributable to an increase in sales volume and an improvement of the overall gross profit margin of the Group's products, albeit mitigated by the professional expenses in relation to the global offering of new shares in the Company for a listing on the Stock Exchange.

Comparison with Profit Forecast in the Prospectus

In the prospectus of the Company dated 14 May 2010 (the "Prospectus"), the Group forecasted its consoildated profit attributable to owners of the Company for the six months ended 30 June 2010 would not be less than RMB82.0 million. The consolidated profit attributable to owners of the Company for the six months ended 30 June 2010 amounted to approximately RMB101.5 million, representing approximately 23.8% in excess of the forecasted level.

Financial Review

Revenue

The revenue of the Group increased by approximately 65.7% from RMB323.3 million for the six months ended 30 June 2009 to RMB535.9 million for the six months ended 30 June 2010.

Sales of double-sided MF tissue paper increased by approximately 54.2%, from RMB207.1 million for the six months ended 30 June 2009 to RMB319.4 million for the six months ended 30 June 2010, which was primarily due to an increase in demand for the products and the increase in production capacity.

Sales of single-sided MF tissue paper increased by approximately 83.3%, from RMB74.7 million for the six months ended 30 June 2009 to RMB136.9 million for the six months ended 30 June 2010, which was primarily due to commencement of operation of two new production lines in early 2010.

Sales of copy paper increased by approximately 32.7%, from RMB41.4 million for the six months ended 30 June 2009 to RMB55.0 million for the six months ended 30 June 2010, which was primarily due to an increase in demand for the products.

Sales of paper towels and ivory board, which were newly launched by the Group in early 2010, contributed revenues of RMB13.1 million and RMB11.2 million respectively for the period.

Gross profit

Gross profit of the Group increased from RMB107.0 million for the six months ended 30 June 2009 to RMB181.2 million for the six months ended 30 June 2010.

Average gross profit margin of the Group widened from 33.1% for the six months ended 30 June 2009 to 33.8% for the six months ended 30 June 2010.

The slight improvement in the overall average gross profit margin was mainly due to increases in gross profit margins of both double-sided and single-sided MF tissue paper as a result of the combined effect of higher selling prices and lower production costs as more recycling materials were being used.

Other income and other gains and losses

Other income and other gains and losses of the Group turned around from a gain of RMB1.5 million for the six months ended 30 June 2009 to a loss of RMB2.8 million for the six months ended 30 June 2010, which was mainly due to a net foreign exchange loss of RMB2.6 million arising in the current period.

Selling and distribution costs

Selling and distribution costs of the Group increased by approximately 31.9% from RMB1.8 million for the six months ended 30 June 2009 to RMB2.4 million for the six months ended 30 June 2010, representing approximately 0.6% and 0.5% of the Group's turnover, respectively. The increases were primarily due to increases in marketing resources allocated to promotion activities.

Administrative expenses

Administrative expenses of the Group increased by approximately 104.6% from RMB11.5 million for the six months ended 30 June 2009 to RMB23.5 million for the six months ended 30 June 2010, representing approximately 3.6% and 4.4% of the Group's turnover, respectively. The increase was primarily due to the increase depreciation of property, plant and equipment, release of prepaid lease payments and employee benefits expenses.

Listing expenses

Listing expenses mainly represented professional fees and other expenses related to the listing of the Shares of the Company on the Stock Exchange.

Finance costs

Finance costs of the Group increased by approximately 135.8% from RMB5.3 million for the six months ended 30 June 2009 to RMB12.6 million for the six months ended 30 June 2010, which was primarily due to an increase in bank borrowings during the period.

Interest rates of bank loans were at variable rates ranged from 4.78% to 5.05% for the six months ended 30 June 2010, compared with 4.78% for the same period of last year.

Taxation

Tax charge increased by approximately 180.6% from RMB6.8 million for the six months ended 30 June 2009 to RMB19.1 million for the six months ended 30 June 2010 which was primarily due to a higher tax rate applied as a result of expiry of the preferential tax treatment under the Enterprise Income Tax Law. Two of our subsidiaries operating in the People's Republic of China, namely Xiyuan and Huaxiang, were subject to an income tax rate of 12.5% effective since 2010. As a result, the Group's effective tax rates for the six months ended 30 June 2009 and 2010 were 7.6% and 15.9%, respectively.

Profit attributable to owners of the Company

Profit attributable to owners of the Company increased from RMB79.5 million for the six months ended 30 June 2009 to RMB101.5 million for the six months ended 30 June 2010. The ratio of porfit attributable to owners the Company to revenue narrowed from approximately 24.6% for the six months ended 30 June 2009 to approximately 18.9% for the six months ended 30 June 2010 mainly due to the professional fees of RMB19.0 million in relation to the initial public offering charged during the period and the effect of expiry of the preferential tax treatment for two subsidiaries.

Net profit, excluding the one-off professional fees in relation to the initial public offering, was approximately RMB120.5 million.

Liquidity and Capital Resources

Cash flow

For the six months ended 30 June 2010, net cash increased by RMB568.5 million. Sums of RMB103.6 million and RMB629.3 million were generated from operating activities and financing activities respectively, while outflows of RMB164.4 million on investing activities were recorded for the period. Net cash outflow from investing activities were primarily payments for acquisition of properties, plant and equipment of RMB160.8million.

Inventories

The Group's inventories increased to RMB139.1 million as at 30 June 2010 (At 31 December 2009: RMB110.3 million), primarily due to an increase in raw materials.

The Group's inventories comprise raw materials, packaging materials, works-in-progress, finished goods and merchandises for sale. During the period, the inventory turnover cycle was approximately 63.6 days (At 31 December 2009: 51.9 days). The turnover cycle lengthened as compared with the same period last year primarily due to a strategic decision to stock more wood pulp during the period.

Trade receivables

As at 30 June, 2010, the Group's trade and bills receivables amounted to RMB181.1 million (At 31 December 2009: RMB134.0 million). During the period, distributors were generally granted a credit term of 60 days. The turnover cycle for trade and bills receivables shortened to 53.2 days (At 31 December 2009: 57.0 days) primarily due to a better credit control and more efficient debt collection.

Trade payables

As at 30 June, 2010, the Group's trade and bills payables amounted to RMB93.0 million (At 31 December 2009: RMB80.7 million). During the period, the credit term provided by suppliers ranged from 60 to 180 days. The turnover cycle for trade and bills payables shortened to 44.3 days (At 31 December 2009: 83.3 days), as faster payment was arranged to our suppliers in order to obtain more favourable prices under the increasing trend of wood pulp prices during the period.

Borrowings

As at 30 June 2010, the Group's bank loans balance amounted to RMB568.0 million and available unutilised credit facilities stood at RMB191.0 million.

Pledge of assets

As at 30 June 2010, the Group pledged certain of its property, plant and equipment and land use rights with an aggregate carrying value of RMB433.8 million and RMB238.7 million respectively (At 31 December 2009: RMB285.2 million and RMB138.0 million respectively) as collaterals backing the credit facilities granted to the Group.

Capital expenditure

During the six months ended 30 June 2010, the Group invested approximately RMB111.5 million in construction of production facilities and equipment (six months ended 30 June 2009: approximately RMB61.0 million).

Capital commitments

As at 30 June 2010, the Group's capital commitments were approximately RMB141.3 million (At 31 December 2009: RMB83.4 million), which were related to acquisition of properties, plants and equipment and land use rights.

Dividend

The Board does not recommend payment of an interim dividend for the six months ended 30 June 2010 (six months ended 30 June 2009: Nil).

Human Resources Management

As at 30 June 2010, the Group employed 1,563 staff (six months ended 30 June 2009: 1,459) and the total remuneration for the six months ended 30 June 2010 amounted to approximately RMB14.9 million (Six months ended 30 June 2009: RMB12.5 million).

Prospects

Looking forward, the ongoing establishment of domestic consumption as a key driver of economic growth in China will continue to drive the rapid development of the market for wrapping tissue paper, which will in turn spur the demand for MF tissue paper which is mainly used in packaging of consumer products of different kinds across the whole spectrum of different price brackets.

Despite the rapid development of the wrapping tissue paper industry in China in the recent years, with respect to product range and quality, the supply of high-end and specialty paper is still in acute shortage.

In the recent years, a few paper manufacturers in China have begun to use de-inked pulp made from recovered paper in their production of wrapping tissue paper to reduce production costs and strengthen competitiveness. The Group is among one of these paper manufacturers capable of making de-inked pulp suitable for the production of wrapping tissue paper. It places strong emphasis on environmentally responsible practices in all aspects of its operations and has endeavored to increase the use of de-inked pulp, reclaimed pulp and recycled white paper in the production of all our products.

According to our production capacity expansion plan, our total production capacity will be increased to approximately 228,000 tonnes by the end of 2010. The Group believes that it is well-positioned to leverage its leading market position as well as strong production capability to benefit from the projected sustaining growth of the wrapping tissue paper market in China.

Executive Directors

Mr Ke Wentuo (柯文托), aged 53, is an executive Director, the founder of our Group and the chairman of our Company. He is primarily responsible for our overall strategies, planning and business development. Mr Ke graduated and obtained a college diploma from Fujian College of Forestry* (福建林學院) (now part of Fujian Agriculture and Forestry University* (福建農林大學)) in 1999, majoring in paper manufacturing. Mr Ke has more than 15 years of experience in paper manufacturing. Mr Ke has been a vice-president of the Fujian Paper Association* (福建省紙業協會) since December 1999. Mr Ke has been a committee member of the Jinjiang City National People´s Congress Standing Committee* (晉江市人民代表大會常務委員會) since January 2004, and has been a committee member of the Tenth Quanzhou Committee of the PRC People's Political Consultative Conference* (中國人民政治協商會議第十屆泉州委員會) since December 2009. Mr Ke was recognised by the China Paper Association as an outstanding entrepreneur in the field of pulp and paper making* (中國造紙協會製漿造紙行業優秀企業家) in 2009. He was also named as a model entrepreneur in the light industry segment* (全國輕工行業勞動模範) in December 2007. In addition, Mr Ke is also committed to social charity, and was named as a Philanthropist in the Quanzhou Municipality* (泉州市慈善家) in 2006, appointed as an honorary president of Quanzhou Charity Association* (泉州市慈善總會永遠名譽會長) in September 2006 and as an honorary president of Jinjiang Charity Association* (晉江市慈善總會永遠榮譽會長) in December 2007.

Mr Ke Jixiong (柯吉熊), aged 26, is an executive Director and the chief executive officer of our Company. Mr Ke Jixiong is the son of Mr Ke Wentuo and is primarily responsible for overseeing the manufacturing and sales functions of our Group, as well as the management of the daily operations of our Group. He completed a 4-year distance learning program at Fujian Normal University* (福建師範大學) majoring in business administration in July 2007. In 2004, Mr Ke Jixiong was awarded as the Third Jinjiang city's Young Entrepreneur award* (晉江市第三屆優秀青年企業家). He is currently a committee member of the Fujian Jinjiang PRC People's Political Consultative Conference* (中國人民政治協商會議福建省晉江市委員會). He was instrumental in the formulation of various directions, targets, policies and systems regarding sales and building distribution network for our Group, and has helped to maintain stability in the supply and quality of the raw materials we source, ensuring the standards and quality of our products, and our production plans, are met, such as introducing de-inking facilities to produce de-inked pulp in house, and negotiated with an independent recycling company to exclusively supply the Group with reclaimed pulp.

Mr Cao Xu (曹旭), aged 45, is an executive Director and is responsible for the management of product development, technological innovation and manufacturing operations. In 1988, he graduated and obtained a college diploma from the University of Mechanical Industry Anshan* (鞍山市機械工業職工大學) majoring in mechanical engineering. From 1988 to 1997, Mr Cao worked in Metallurgical Department No. 3 Corporation* (冶金工業部第三冶金建設公司), a state-owned enterprise in the PRC, and was responsible for production machinery design and processing.

Mr Zhang Guoduan (張國端), aged 47, is an executive Director. In 1998, Mr Zhang completed an 18-month course at Xiamen University (廈門大學) majoring in economics and management. Mr Zhang had 27 years of experience in paper manufacturing. From September 1982 to October 1995, Mr Zhang worked in Fujian Jianning No. 2 Paper Manufacturer, during which he worked in different posts including as its departmental head and its deputy factory director, and was responsible for manufacturing quality control management, manufacturing technology and development management, and new products development. From November 1995 to August 2002, he worked in Fujian Naoshan Paper Industry Group* (福建鐃山紙業集團) as deputy general manager.

* for identification only

Non-executive Director

Mr Paul Steven Wolansky, aged 54, is a non-executive Director. Mr Wolansky graduated from Amherst College in 1978 with a Bachelor of Arts and subsequently obtained a Juris Doctor from Harvard Law School in 1981. Mr Wolansky is a member of the Bar Association of the State of New York. Mr Wolansky has over 19 years of experience in fund management and direct investment. Mr Wolansky is currently a non-executive director of two companies listed on the main board of the Stock Exchange: China Aoyuan Property Group Limited (stock code: 3883) since 2006 and Centron Telecom International Holding Limited (stock code: 1155) since 2006.

Mr Wolansky was also formerly a non-executive director of CNinsure Inc., a company listed on NASDAQ, from June 2004 to May 2008 and a non-executive director of Longtop Financial Technologies Limited, a company listed on the New York Stock Exchange from June 2007 to June 2009.

Independent non-executive Directors

Prof. Zhang Daopei (張道沛), aged 73, is an independent non-executive Director. Prof. Zhang graduated from Dongbei Industrial College* (東北工學院) (now known as Northeastern University* (東北大學)) in 1966 majoring in mining machinery. Since 2005, Prof. Zhang has been a professor at Henan University* (河南大學). He was also a professor at Fujian College of Forestry* (福建林學院) (now part of Fujian Agriculture and Forestry University* (福建農林大學)) from 1995 to 1997. Before becoming a professor, Prof. Zhang spent over 40 years working in paper manufacturing, such as paper products development, factory planning and management, and paper industry trading manufacturing. Prof. Zhang has also been the chairman of Alkaline Recycling Special Committee of the China Technology Association of Paper Industry* (中國造紙學會) since 1990, the vice chairman of Paper History Committee, of the China Technology Association of Paper Industry* (中國造紙學會) since 1994 and the honorary chairman of the Fourth Committee of the Fujian Technology Association of Paper Industry* (福建省造紙學會) since 2007. Prof. Zhang was previously the chairman of Fujian Technology Association of Paper Industry* (福建省造紙學會) from 1994 to 2007.

Prof. Chen Lihui (陳禮輝), aged 44, is an independent non-executive Director. Prof. Chen graduated from Fuzhou University* (福州大學) with a bachelor of engineering majoring in machine manufacturing processes and equipment in 1987. He then obtained his master's degree in 1996 and his doctorate degree in 2003 majoring in pulp and paper engineering from South China University of Technology* (華南理工大學). From July 1987 to October 2000, Prof. Chen was with the Fujian College of Forestry* (福建林學院) (now part of Fujian Agriculture and Forestry University* (福建農林大學)), working at various times as an assistant professor, lecturer, associate professor and instructor for master's degree research students. Since November 2000, Prof. Chen was with the Material Engineering College* (材料工程學院) of the Fujian Agriculture and Forestry University* (福建農林大學), working at various times as a professor, instructor of doctorate and master degrees and dean of the college. Prof. Chen was awarded the Fujian Young Scientist Award* (福建青年科技獎) in 2006 for his outstanding achievements in technology, and has won awards for numerous of the research projects in the PRC, including the Fujian Technology Award* (福建省科學技術獎) in December 2003, 2004, 2005 and February 2009, and the Fuzhou Technological Advancement Award* (福州市科學技術進步獎) in September 2008.

Mr Chow Kwok Wai (周國偉), aged 43, is an independent non-executive Director. Mr Chow graduated from the University of Hong Kong with a bachelor's degree in Social Science in 1990. Mr Chow is a fellow member of the Association of Chartered Certified Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants. Effective from 27 July, 2010, he was admitted to the Taxation Institute of Hong Kong as a fellow member. He has over 16 years of experience in accounting, financial management and corporate finance. He is an executive Director of Silver Grant International Industries Limited (stock code: 171), and has also been a non-executive director of Cinda International Holdings Limited (stock code: 111) since 2008 and an independent non-executive director of Lijun International Pharmaceutical (Holding) Co., Ltd. (stock code: 2005) since 2005, all of which are listed on the Main Board of the Stock Exchange.

* for identification only

Senior management

Mr Lin Wenfeng (林文峰), aged 41, is the assistant to our chairman, and is responsible for assisting our chairman in the administration and management of our Group. Mr Lin graduated with a college diploma from Anhui University of Finance & Economics* (安徽財經大學) majoring in finance and accounting in 2005 and graduated from Anhui University* (安徽大學), majoring in law in 2008. Prior to joining our Group, Mr Lin was with Bank of China Jinjiang Branch between October 1988 and May 2007, where he was responsible for bank credit management, credit limit management and overall branch management.

Mr Wong Yat Sum (黃一心), aged 34, is our chief financial officer and our company secretary and is responsible for the budget, financial management and control of our Group. Mr Wong has over seven years of experience in accounting and auditing at an international accounting firm. Mr Wong obtained a Bachelor of Science degree majoring in Accounting from the University of Hull in the United Kingdom in 2000. He is currently an associate member of the Hong Kong Institute of Certified Public Accountants and Associate of Chartered Certified Accountants. Prior to joining our Group, Mr Wong was a financial controller for A&W (Shanghai) Woods Co., Ltd., a wood-flooring company in Shanghai, the PRC from 2007 to 2009, where he was responsible for finance, treasury, business planning and risk management.

Mr Liao Chunxiang (廖春祥), aged 46, is the deputy general manager of Huaxiang and is responsible for managing the manufacturing processes of Huaxiang. As Mr Liao is also a member of our research and development centre, he participates in our research and development projects. Mr Liao obtained his business administration accreditation from Fujian Economic Management School for Officials* (福建經濟管理幹部學院) in 1998. Prior to joining our Group, Mr Liao worked in Fujian Naoshan Paper Industry Group Co., Ltd.* (福建鐃山紙業集團有限公司) as a manager in its manufacturing department between September 1983 and December 2002, where he was responsible for manufacturing management, improving manufacturing techniques and management.

Mr Ke Hongchi (柯鴻池), aged 35, is the sales manager of our Group and is responsible for business development and sales. Mr Ke Hongchi graduated from Jinjiang County Professional School* (晉江縣業學校) (now known as Jinjiang Professional Technical Secondary School*) (晉江職業中專學校) in 1991 and is responsible for sales development and the management of the sales team of Youlanfa. Since the establishment of Xiyuan and Huaxiang in 2006, he has also been responsible for overseeing the sales development and managing the sales team of Xiyuan and Huaxiang.

Mr Chen Changxing (陳長興), aged 46, is the manager of our research and development centre and is responsible for the development, execution and management of the research and development projects of our Group. In 1996, Mr Chen graduated with a college diploma from Open University of Fujian* (福建廣播電視大學), majoring in electronic technique applications. Mr Chen also graduated from Fujian Light Industry School* (福建輕工業學校) in 1985, majoring in paper manufacturing. Prior to joining our Group, Mr Chen worked in Fujian Pulp Quality Supervision and Testing Station* (福建省漿紙質量監督檢驗站) between March 2002 and April 2006 and was responsible for research and development of paper manufacturing technology and province-wide quality control supervision and management.

Mr Shuai Liangming (帥亮明), aged 45, is the quality control manager of Huaxiang and is responsible for the quality control of Huaxiang. As Mr Shuai is also a member of our research and development centre, he participates in our research and development projects. Mr Shuai graduated with a college diploma from Minfeng Paper Factory Workers University* (民豐造紙廠職工大學), majoring in pulp and paper manufacturing in 1990, and graduated from Party School of the Central Committee of CPC* (中共中央黨校), majoring in law in 2002. Mr Shuai has obtained various awards in relation to his work in developing new paper products. Prior to joining our Group, Mr Shuai worked in Dongguan Baoli Paper Factory* (東莞市寶力造紙廠) between August 2001 and December 2007, where he was responsible for technology development and standard setting, and product quality testing and management.

* for identification only

Mr Wu Xiaoxi (吳曉曦), aged 48, is the head of the electrical engineering department of Huaxiang and is responsible for the management of matters relating to electrical engineering of Huaxiang. As Mr Wu is also member of our research and development centre, he also participates in our research and development projects. Mr Wu graduated from Fuzhou University* (福州大學) in 1982 with a Bachelor's degree majoring in chemical machinery. Prior to joining our Group, Mr Wu worked in Jianning Jiaoheban Factory* (建寧縣膠合板廠) between March 1992 and December 1999, where he was responsible for manufacturing equipment and related technology improvements.

Mr Chen Taibin (陳太斌), aged 32, is the manager of the human resources department of Youlanfa and is responsible for hiring and training in Youlanfa. Mr Chen graduated and obtained a college diploma from Fujian Normal School* (福建師範專科學校) in 1995 majoring in chemistry. Prior to joining our Group, Mr Chen worked in Fujian Jinjiang Sanyuan Food Enterprise Co., Ltd.* (福建省晉江三源食品實業有限公司) as its administrative manager between July 2005 and October 2008, where he was responsible for hiring, development and management of payroll scale systems, ongoing training, and the implementation of an administration system.

Ms Yan Yahong (顏雅紅), aged 27, is the deputy manager of our purchasing department and is responsible for raw materials purchasing of our Group. Ms Yan graduated from Sun Yat-sen University* (中山大學) with a master's degree in comparative and world literature in 2006. Prior to joining our Group, Ms Yan worked in Jinjiang Panpan Food Co., Ltd.* (晉江盼盼食品有限公司) as its manager for international trade from July 2006 to July 2008, where she was responsible for international market development, the development and implementation of business strategy, and business negotiation.

* for identification only

Code of Corporate Governance Practice

Our Company has adopted the code provisions on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. The Directors consider that since the listing of the Shares on the Main Board of the Stock Exchange and up to 30 June 2010, 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 (the "Shareholders").

Set out below is a detailed discussion of the corporate governance practices adopted and observed by our Company from the Listing Date up to 30 June 2010 ("Review Period").

Model Code for Securities Transactions

Our Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as the code of conduct for Directors in their dealings in the securities of our Company. Having made specific enquiry to all our Directors, all our Directors confirmed that they have complied with the required standard of dealings as set out in the Model Code throughout the period under review.

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 2010, our remuneration committee comprises Mr Ke Wentuo, Prof. Zhang Daopei and Prof. Chen Lihui. Mr Ke Wentuo is the chairman of the remuneration committee.

The primary responsibilities of our remuneration committee are to make recommendations to the Board on the remuneration package 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.

Emoluments Policy

The emolument policies of the Group are formulated on the performance of individual employee and on the basis of the salary trends in Hong Kong and the PRC, and will be reviewed regularly. Subject to the profitability of our Group, our Group may also distribute discretionary bonus to its employees as an incentive for their contribution to our Group.

Audit Committee

Our Company has established an audit committee with written terms of reference based upon the provisions and recommended practices of the Code on 30 April 2010. The primary responsibilities of our audit committee are to review and supervise financial reporting processes and internal control system of the Group. As at 30 June 2010, our audit committee comprises Mr Chow Kwok Wai, Prof. Zhang Daopei and Prof. Chen Lihui, being the three independent non-executive Directors. Mr. Chow Kwok Wai is the chairman of our audit committee.

During the period under review, the audit committee has not held any meeting. Subsequently, on 18 August 2010, a meeting of audit committee was held, at which the members of audit committee have reviewed and discussed with the external auditors of the Company of the Group's audited consolidated financial statements for the six months ended 30 June 2010, who were of the opinion that such statements have complied with the applicable accounting standards, the Listing Rules and legal requirements, and that adequate disclosures have been made.

Auditor's Remuneration

For the six months ended 30 June 2010, apart from the provisions of annual audit services, the external auditor of our Group, Deloitte Touche Tohmatsu, was also the reporting accountants of our Company in relation to the listing. For the six months ended 30 June 2010, the total fee paid/payable in respect of audit services provided by the external auditor of our Group is set out below:

	For the six months ended 30 June 2010 RMB'000
Audit services	
Interim audit services	1,071
Reporting accountants in relation to the listing	2,342

Our audit committee is responsible for making recommendation to our Board as to the appointment, re-appointment and removal of the external auditor, which is subject to the approval by our Board and at the general meetings of our Company by our Shareholders.

Director's Responsibility on the Financial Statements

Our Directors acknowledge that it is their responsibility to prepare the accounts of our Group and other financial disclosures required under the Listing Rules and the management will provide information and explanation to our Board to enable it to make an informed assessment of the financial and other decisions.

Internal Control

The internal control system has been designed to safeguard the assets of our Company, maintaining proper accounting records, execution with appropriate authority and compliance of the relevant laws and regulations.

Our Board is responsible for maintaining and reviewing the effectiveness of the internal control system of our Company.

Our Board has carried out an annual review of the implemented system and procedures, including areas covering financial, operational and legal compliance controls and risk management functions. The internal control system is implemented to minimise the risks to which our Group is exposed and used as a management tool for the day-to-day operation of business. The system can only provide reasonable but not absolute assurance against misstatement or losses.

Our Board is responsible for implementing the internal control system and reviewing its effectiveness. For the six months ended 30 June 2010, our Board considered that the internal control system of our Group is adequate and effective and our Company has complied with the code provisions on internal control of the Code.

REPORT OF THE DIRECTORS

The directors of our Company (the "Directors") are pleased to report the audited consolidated financial statements of our Company and its subsidiaries for the six months ended 30 June 2010.

Corporate Reorganisation

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 12 October 2009, under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Through the corporate reorganisation undertaken in preparation of listing, our Company became the holding company of the Group on 14 January 2010.

Details of the reorganisation are set out in the section headed "History and Corporate Structure" on page 91 to 108 of the prospectus of our Company dated 14 May 2010 (the "Prospectus").

The shares of our Company (the "Shares") are listed on the Main Board of the Stock Exchange on 27 May 2010 (the "Listing Date").

Principal Activities

The principal activity of our Company is investment holding. Particulars of the principal subsidiaries of our Company are shown on page 74 of this report.

Results and Appropriations

The results of the Group for the period ended 30 June 2010 are set out in the consoliated statement of comprehensive income on page 27.

The Directors have not recommended any interim dividend for the six months ended 30 June 2010 (six months ended 30 June 2009: nil) and propose that the profit for the period be retained.

Reserves

Movements in reserves of the Group during the six months ended 30 June 2010 are set out in pages 29 to 30 of this report. .

As at 30 June 2010, the reserves of our Group available for distribution to shareholders amounted to RMB438,053,000 (31 December 2009: RMB336,526,000).

Property, Plant and Equipment

Movements in property, plant and equipment of the Group are set out in note 16 to the consolidated financial statements.

Share Capital

Movements in share capital of our Company are set out in note 24 to the consolidated financial statements.

Financial Summary

A financial summary of the Group for the last three years are set out on page 76 of this report.

Borrowings

Details of bank borrowings of the Group as at 30 June 2010 are set out in note 23 to the consolidated financial statements .

Connected Transactions

All the connected transactions are set out in note 26 to the consolidated financial statements. As such transactions were discontinued before the Listing Date.

Share Option Scheme

The following is a summary of the principal terms of the share option scheme (the "Scheme") adopted by a resolution of the Board and approved by the written resolution of all the Shareholder passed on 30 April 2010:

(1) The purpose of the Scheme

The purpose of the Scheme is to give the eligible persons (the "Eligible Person") (as mentioned in the following paragraph) an opportunity to have a personal stake in our Company helping in motivate them to optimise their future performance and efficiency to our Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain 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 (as defined below), to enable our Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

(2) Who may join

The Board may, at its absolute discretion, offer options ("Options") to subscribe for such number of Shares in accordance with the terms set out in the Share Option Scheme to:

(a) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of our Group ("Employee"), any proposed Employee or any full-time or part-time employee, or a person for the time being seconded to work full-time or part-time for any member of our Group ("Executive");

(b) a director or proposed director (including an independent non-executive director) of any member of our Group;

(c) a direct or indirect shareholder of any member of our Group;

(d) a supplier of goods or services to any member of our Group;

(e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of our Group;

(f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of our Group; and

(g) an associate of any of the persons referred to in paragraphs (a) to (f) above.

(3) Subscription Price

The subscription price in respect of any particular Option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant Option (and shall be stated in the letter containing the offer of the grant of the Option) but the subscription price shall not be less than whichever is the highest of:

(a) the nominal value of a Share;

(b) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the offer date; and

(c) the average closing price of a Share as stated in the Stock Exchange's daily quotation sheets for the 5 business days (as defined in the Listing Rules) immediately preceding the offer date.

As at 30 June 2010, no options have been granted or agreed to be granted under the Scheme.

Arrangement to Purchase Shares or Debentures

At no time during the period under review were there any rights to acquire benefits by means of the acquisition of securities of our Company granted to any Director or their respective spouse or children under 18 years of age, or were there any such rights exercised by them; or was our Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

Directors' and Chief Executives' Interests in the Shares and Underlying Shares and Debentures of our Company or any Associated Corporation

As at 30 June 2010, the interests of each Director and chief executive of our Company in 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 Stock Exchange pursuant to the Model Code set out in Appendix 10 to the Listing Rules, were as follows:

Name of director	Capacity/Nature of interest	Number of Shares	Approximate percentage of interest in our Company
Mr Ke Wentuo	Interest in controlled corporation and interest of spouse[1]	573,750,000	57.38%
Mr Ke Jixiong	Interest in controlled corporation[2]	31,125,000	3.11%
Mr Paul Steven Wolansky	Interest in controlled corporation[3]	88,350,000	8.84%

Note 1: The interest in 573,750,000 Shares comprise of:

(i) 550,050,000 Shares held by Smart Port Holdings Limited ("Smart Port"), which is wholly owned by Mr Ke Wentuo; and

(ii) 23,700,000 Shares held by Denron International Limited ("Denron"), which in turn is wholly beneficially owned by Ms Cai Lishuang, and Mr Ke Wentuo, being the spouse of Ms Cai Lishuang, is deemed to be interested in the said 23,700,000 Shares held by Denron.

Note 2: The interest in 31,125,000 Shares refer to the same block of Shares held by Everproud International Limited, which is wholly owned by Mr Ke Jixiong.

Note 3: Mr Paul Steven Wolansky is deemed to be interested in the 88,350,000 Shares held by Cathay Special Paper Limited. Cathay Special Paper Limited is wholly owned by Cathay Capital Holdings II, L.P., a limited liability partnership. Cathay Master GP, Ltd. is the general partner of Cathay Capital Holdings II, L.P., in which Mr Paul Steven Wolansky has an effective control of 45%. Pursuant to Part XV of the SFO, Cathay Master GP, Ltd. has de facto control and thus Mr Paul Steven Wolansky is deemed to be interested in the same block of Shares.

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 2010, in addition to the interests disclosed under the paragraph headed "Directors and Chief Executives' Interests in the Shares and Underlying Shares and Debentures of our Company or any Associated Corporation", our Company was notified of the following substantial shareholders' interests and short positions in the Shares and underlying Shares, being interests of 5% or more.

Name	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding
Smart Port Holdings Limited	Beneficial interest[1]	550,050,000	55.01%
Ms Cai Lishuang	Interest in controlled corporation and interest of spouse[2]	573,750,000	57.38%
Cathay Special Paper Limited	Beneficial interest[3]	88,350,000	8.84%

Note 1: Mr Ke Wentuo is deemed to be interested in the Shares held by Smart Port Holdings Limited ("Smart Port") by virtue of Smart Port being wholly owned by Mr Ke Wentuo.

Note 2: Ms Cai Lishuang is deemed to be interested in the Shares held by Denron by virtue of Denron being wholly owned by Ms Cai Lishuang. In addition, she is deemed to be interested in the Shares held by Smart Port, which is wholly owned by Mr Ke Wentuo, by virtue of her being the spouse of Mr Ke Wentuo.

Note 3: Mr Paul Steven Wolansky is deemed to be interested in the 88,350,000 Shares held by Cathay Special Paper Limited. Cathay Special Paper Limited is wholly owned by Cathay Capital Holdings II, L.P., a limited liability partnership. Cathay Master GP, Ltd. is the general partner of Cathay Capital Holdings II, L.P., in which Mr Paul Steven Wolansky has an effective control of 45%. Pursuant to Part XV of the SFO, Cathay Master GP, Ltd. has de facto control and thus Mr Paul Steven Wolansky is deemed to be interested in the same block of Shares.

Except as disclosed above, as at 30 June 2010, 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.

Management Contracts

Other than the service contracts of the Directors, our Company has not entered into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of our Company during the period.

Contracts of Significance

No contracts of significance in relation to the business of our Group, to which our Company, its holding companies, its subsidiaries or fellow subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the period.

No contracts of significance for the provision of services to our Company or any of its subsidiaries by a controlling shareholder of our Company or any of its subsidiaries subsisted at the end of period or at any time during the period.

Directors' Interests in Competing Business

Except as disclosed in the Prospectus, none of the Directors and their respective associates (as defined in the Listing Rules) has an interest in any business which competes or may compete with the business in which the Group is engaged.

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of our Company's share capital) had an interest in the top five suppliers of our Group.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the articles of association of our Company or the Companies Law of the Cayman Islands where our Company is incorporated.

Purchase, Sale or Redemption of the Listed Securities of our Company

Since the Listing Date and up to 30 June 2010, neither our Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of our Company.

Use of Net Proceeds from Initial Public Offering

The Shares were listed on 27 May 2010 on the Main Board of the Stock Exchange. The total net proceeds from the Listing after the issue of the Shares amounted to approximately RMB 510.5 million, which are intended to be applied as set out in the section headed "Use of Proceeds" of the Prospectus.

	Intended use of proceeds stated in the Prospectus	Amount of net proceeds RMB'000	Proceeds utilized at of 30 June 2010 RMB'000
Purchase of machinery and equipment relating to new production facilities	45%	229.7	3.8
Construction of new plant and supporting facilities to support production of new products and increases to production capacity	40%	204.2	11.6
Working capital and other general corporate purposes	10%	51.1	30.0
Marketing expenses for growing our existing business in the PRC	5%	25.5	0.3
Total	100%	510.5	45.7

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 since the Listing Date.

On behalf of the Board

Ke Wentuo
Chairman

Hong Kong, 19 August 2010

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

We have audited the consolidated financial statements of Youyuan International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 27 to 75, which comprise the consolidated statement of financial position as at 30 June 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 30 June 2010 and of the Group's profit and cash flows for the six months ended 30 June 2010 in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of Hong Kong Companies Ordinance.

Without qualifying our opinion, we draw attention to the fact that the corresponding figures set out in the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the six months ended 30 June 2009 and the relevant explanatory notes disclosed in the consolidated financial statements have not been audited in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
19 August 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

		Six months ended 30 June	
		2010	2009
	NOTES	**RMB'000**	RMB'000
			(unaudited)
Revenue	8	**535,912**	323,339
Cost of sales		**(354,678)**	(216,297)
Gross profit		**181,234**	107,042
Selling and distribution expenses		**(2,479)**	(1,880)
Administrative expenses		**(23,549)**	(11,507)
Listing expenses	12	**(19,011)**	(136)
Other income and other gains and losses	10	**(2,868)**	1,550
Finance costs	11	**(12,605)**	(5,345)
Profit before tax	12	**120,722**	89,724
Taxation	13	**(19,195)**	(6,841)
Profit and total comprehensive income for the period		**101,527**	82,883
Profit and total comprehensive income for the period attributable to:			
Owners of the Company		**101,527**	79,508
Non-controlling interests		**—**	3,375
		101,527	82,883
Earnings per share - Basic (RMB)	15	**0.13**	0.11

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2010

	NOTES	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**739,342**	621,646
Prepaid lease payments	17	**256,437**	259,311
Investment properties	18	**—**	21,098
Deposits paid for acquisition of property, plant and equipment		**93,519**	42,957
Deposits paid for acquisition of land use right		**6,650**	—
		1,095,948	945,012
CURRENT ASSETS			
Inventories	19	**139,167**	110,282
Trade and other receivables and prepayments	20	**184,800**	154,580
Prepaid lease payments	17	**5,770**	5,770
Pledged bank deposits	21	**37**	2,860
Bank balances and cash	21	**655,357**	86,825
		985,131	360,317
CURRENT LIABILITIES			
Trade and other payables	22	**164,386**	118,326
Amount due to a related party	26	**—**	8,584
Amount due to ultimate controlling shareholder	26	**—**	1,649
Amount due to immediate holding company	26	**—**	95,605
Income tax payables		**9,437**	3,318
Bank borrowings	23	**234,520**	182,820
		408,343	410,302
NET CURRENT ASSETS (LIABILITIES)		**576,788**	(49,985)
Total assets less current liabilities		**1,672,736**	895,027
NON-CURRENT LIABILITY			
Bank borrowings	23	**333,480**	340,180
		1,339,256	554,847
CAPITAL AND RESERVES			
Share capital	24	**87,680**	—
Reserves		**1,251,576**	554,847
TOTAL EQUITY		**1,339,256**	554,847

The consolidated financial statements on pages 27 to 75 were approved and authorised for issue by the Board of Directors on 19 August 2010 and are signed on its behalf by:

Mr Ke Wentuo	**Mr Ke Jixiong**
DIRECTOR	*DIRECTOR*

	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Special reserve RMB'000 (Note a)	Statutory surplus reserve RMB'000 (Note b)	Accumulated profits RMB'000	Attributable to owners of the Company RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2009	10	—	—	65,380	21,049	188,367	274,806	19,351	294,157
Profit and total comprehensive income for the period	—	—	—	—	—	79,508	79,508	3,375	82,883
Acquisition of additional interests in a subsidiary in the People's Republic of China (the "PRC)	—	—	—	1,764	—	—	1,764	(3,914)	(2,150)
At 30 June 2009 and 1 July 2009 (unaudited)	10	—	—	67,144	21,049	267,875	356,078	18,812	374,890
Arising on group reorganisation	(10)	—	—	10	—	—	—	—	—
Profit and total comprehensive income for the period	—	—	—	—	—	86,433	86,433	1,361	87,794
Deemed contribution from a shareholder (Note c)	—	—	111,623	—	—	—	111,623	—	111,623
Acquisition of additional interests in PRC subsidiaries	—	—	—	713	—	—	713	(20,173)	(19,460)
Appropriation	—	—	—	—	17,782	(17,782)	—	—	—
At 31 December 2009 and 1 January 2010	—	—	111,623	67,867	38,831	336,526	554,847	—	554,847
Arising from group reorganisation	1	—	—	(1)	—	—	—	—	—
Profit and total comprehensive income for the period	—	—	—	—	—	101,527	101,527	—	101,527
Capitalisation issue (Note 24)	65,759	(65,759)	—	—	—	—	—	—	—
Issue of new shares (Note 24)	21,920	543,617	—	—	—	—	565,537	—	565,537
Share issue expenses	—	(25,745)	—	—	—	—	(25,745)	—	(25,745)
Deemed contribution from holding company (Note d)	—	—	143,090	—	—	—	143,090	—	143,090
At 30 June 2010	**87,680**	**452,113**	**254,713**	**67,866**	**38,831**	**438,053**	**1,339,256**	**—**	**1,339,256**

Note a: Special reserve comprises of:

(i) an amount of RMB65,380,000, being the difference between the consideration of US$1.00 paid and paid-in capital of Youlanfa Paper Co., Ltd. Fujian ("Youlanfa") resulted from the acquisition of 94.92% equity interest of Youlanfa from Uniland Box Products Manufacturing Fujian by Sunwell Trading (HK) Company Limited ("Sunwell") as part of the group reorganisation;

(ii) an amount of RMB10,000, being the difference between the consideration of HK$9,990,000 paid and the share capital of Sunwell resulted from the subscription of 99.9% equity interest of Sunwell by Xi Yuan Paper Limited ("Xi Yuan BVI") as part of the group reorganisation;

(iii) an amount of RMB1,764,000, being the difference between the carrying amount of the share of net assets acquired and the consideration of RMB2,150,000 resulted from the acquisition of additional interests in Fujian Xiyuan Paper Co., Ltd. ("Xiyuan");

(iv) an amount of RMB713,000, being the difference between the carrying amount of the share of net assets acquired and the consideration of RMB19,460,000 resulted from the acquisition of additional interests in Quanzhou Huaxiang Paper Industry Co., Ltd. ("Huaxiang") and Youlanfa; and

(v) an amount of RMB870, being the difference between the consideration of RMB877, representing 9,999 ordinary shares of the Company, and the share capital of Xi Yuan BVI resulted from the subscription of 100% equity interest of Xi Yuan BVI by the Company as part of the group reorganisation.

Note b: According to the relevant laws in the PRC. The PRC subsidiaries are required to transfer at least 10% of their net profit after taxation, as determined under the PRC accounting regulations, to a statutory surplus reserve until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before the distribution of a dividend to equity owners. The statutory surplus reserve can be used to offset the previous years' losses, if any. The statutory surplus reserve may also be used to increase capital or to meet unexpected or future losses. The statutory surplus reserve is non-distributable other than upon liquidation.

Note c: Pursuant to the agreement dated 30 September 2009, Mr Ke Wen Tuo ("Mr Ke"), the ultimate controlling shareholder of the Group, waived the amount due to him of RMB111,623,000. Such amount is recorded in capital reserve as deemed contribution from a shareholder (see Note 27).

Note d: Pursuant to the agreement dated 1 September 2008 ("IPO Consulting Agreement"), Smart Port Holdings Limited ("Smart Port"), the immediate holding company of the Group, agreed to transfer 1.25% of the total shares ("Transferred Shares") of the Company outstanding immediately before the initial public offering ("IPO") of the Company to a consulting company as IPO consulting fee. As the Company was successfully listed on 27 May 2010, the shares are transferred to the consulting company in May 2010 by Smart Port. The fair value of the Transferred Shares was credited to capital reserve as deemed contribution from Smart Port.

Pursuant to the agreement dated 5 May 2010, Smart Port, the immediate holding company of the Group, waived the amount due to Smart Port of RMB139,986,000. Such amount is recorded in capital reserve as deemed contribution from a shareholder (see Note 27).

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2010

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
		(unaudited)
OPERATING ACTIVITIES		
Profit before tax	**120,722**	89,724
Adjustments for:		
Interest income	**(131)**	(535)
Finance costs	**12,605**	5,345
Loss on disposal of property, plant and equipment	**6**	—
Share-based payments	**2,327**	—
Depreciation of property, plant and equipment	**14,687**	10,575
Depreciation of investment properties	**228**	456
Release of prepaid lease payments	**2,874**	1,325
(Reversal of) allowance for obsolete inventories	**(179)**	211
Operating cash flows before movements in working capital	**153,139**	107,101
Increase in inventories	**(28,706)**	(26,870)
(Increase) decrease in trade and other receivables and prepayments	**(33,348)**	2,282
Increase in amount due from a related party	**—**	(11,438)
Increase (decrease) in trade and other payables	**34,237**	(18,345)
Decrease in amount due to a related party	**(8,584)**	—
Cash generated from operations	**116,738**	52,730
Income taxes paid	**(13,076)**	(5,420)
NET CASH FROM OPERATING ACTIVITIES	**103,662**	47,310
INVESTING ACTIVITIES		
Payments for acquisition of property, plant and equipment	**(160,806)**	(24,031)
Payments for prepaid lease payments	**(6,650)**	(35,122)
Decrease in pledged bank deposits	**2,823**	5,589
Interest received	**131**	535
Proceeds from disposal of property, plant and equipment	**37**	—
Consideration paid for acquisition of additional interest in a subsidiary	**—**	(2,150)
NET CASH USED IN INVESTING ACTIVITIES	**(164,465)**	(55,179)
FINANCING ACTIVITIES		
Proceeds from issue of new shares	**565,537**	—
New bank borrowings raised	**139,000**	490,600
Advance from immediate holding company	**44,381**	—
Repayments to related parties	**—**	(49,033)
Repayments of bank borrowings	**(94,000)**	(304,500)
Interest paid	**(13,917)**	(9,474)
Payments of transaction costs attributable to issue of new shares	**(10,017)**	—
(Repayment to) advance from ultimate controlling shareholder	**(1,649)**	21,423
NET CASH FROM FINANCING ACTIVITIES	**629,335**	149,016
NET INCREASE IN CASH AND CASH EQUIVALENTS	**568,532**	141,147
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**86,825**	5,842
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**655,357**	146,989

1. GENERAL

The Company was incorporated in the Cayman Islands on 12 October 2009 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The shares of the Company have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 27 May 2010. Its immediate and ultimate parent is Smart Port (incorporated in the BVI) and its ultimate controlling shareholder is Mr Ke. The registered office of the Company is situated at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business in Hong Kong is Unit 04, 13/F., Bank of America Tower, No. 12 Harcourt Road, Central, Hong Kong while its principal place of business in the PRC is Xibin Industrial Zone, Jinjiang City, Fujian Province, the PRC.

The Company acts as an investment holding company. Details of the principal activities of its subsidiaries are set out in note 30.

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

2. GROUP RESTRUCTURING AND BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

Pursuant to the group reorganisation as set out in the section headed "Statutory and General Information" in Appendix VI to the prospectus dated 14 May 2010 issued by the Company, the Company acquired the 100% equity interest in Xi Yuan BVI and became the holding company of Xi Yuan BVI on 14 January 2010. The Group resulting from the group reorganisation continued to be controlled by Mr Ke and therefore is regarded as a continuing entity.

Accordingly, the consolidated financial statements of the Group have been prepared as if the Company had always been the holding company of Xi Yuan BVI. The consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group for the six months ended 30 June 2009 and 2010 have been prepared as if the current group structure had been in existence throughout the periods, or since the respective dates of incorporation/establishment of the relevant entities now comprising the Group where this is a shorter period. The consolidated statements of financial position of the Group as at 31 December 2009 and 30 June 2010 have been prepared to present the assets and liabilities of the entities now comprising the Group which were in existence at those dates.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

The Group has applied the following new and revised International Accounting Standards ("IASs"), International Financial Reporting Standards, Amendments and the related Interpretations ("IFRICs") which are effective for the financial year beginning on 1 January 2010.

IFRSs (Amendments)	Amendment to IFRS 5 as part of Improvements to IFRSs 2008
IFRSs (Amendments)	Improvements to IFRSs 2009
IAS 27 (Revised)	Consolidated and Separate Financial Statements
IAS 39 (Amendment)	Eligible Hedged Items
IFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
IFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
IFRS 3 (Revised)	Business Combinations
IFRIC - Int 17	Distributions of Non-cash Assets to Owners

The Group applies IFRS 3 (Revised) *Business Combinations* prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in IAS 27 (Revised) *Consolidated and Separate Financial Statements* in relation to accounting for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010. As there was no transaction during the current period in which IFRS 3 (Revised) and IAS 27 (Revised) are applicable, the application of IFRS 3 (Revised) and IAS 27 (Revised) and the consequential amendments to other IFRSs had no effect on the consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which IFRS 3 (Revised) and IAS 27 (Revised) and the consequential amendments to the other IFRSs are applicable.

The application of the other new and revised IFRSs had no effect on the consolidated financial statements of the Group for the current or prior accounting periods.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

The Group has not early applied the following new and revised IASs, IFRSs, Amendments and IFRICs that have been issued but are not yet effective.

IFRSs (Amendments)	Improvements to IFRSs 2010[1]
IAS 24 (Revised)	Related Party Disclosures[4]
IAS 32 (Amendment)	Classification of Rights Issues[2]
IFRS 1 (Amendment)	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters[3]
IFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
IFRS 9	Financial Instruments[5]
IFRIC - Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[4]
IFRIC - Int 19	Extinguishing Financial Liabilities with Equity Instruments[3]

[1] Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

[2] Effective for annual periods beginning on or after 1 February 2010

[3] Effective for annual periods beginning on or after 1 July 2010

[4] Effective for annual periods beginning on or after 1 January 2011

[5] Effective for annual periods beginning on or after 1 January 2013

The directors of the Company anticipate that the application of the new and revised IASs, IFRSs, Amendments or IFRICs will have no material impact on the consolidated financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis and in accordance with the accounting policies set out below.

In addition, the consolidated financial statements have been prepared in accordance with IFRSs and include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of (other than business combinations involving entities under common control) during the period are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition by acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in equity interest in subsidiaries

The Group regards acquisition of partial interest in the equity of a subsidiary with non-controlling shareholders without changes in control as transactions with equity owners of the Group. When additional equity interest in a subsidiary is acquired, any difference between the consideration paid and the relevant share of the carrying value of the subsidiary's net assets acquired is recorded in equity.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporate the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statements of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the beginning of the previous reporting period or when they first came under common control, whichever is shorter.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from sales of goods are recognised when goods are delivered and title has been passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases and amortised over the lease terms on a straight-line basis.

Prepaid lease payments

Payments for obtaining land use rights are accounted for as prepaid lease payments and are charged to profit or loss on a straight-line basis over the lease terms.

Government grants

Unconditional discretionary government grants from local authorities are recognised in profit or loss as other income to match them with the related costs when there is reasonable assurance that the grants will be received.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised as and included in finance costs in the consolidated statement of comprehensive income in the period in which they are incurred.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment (other than construction in progress) over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of investment properties, over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the item is derecognised.

Retirement benefit costs

Payments to defined contribution retirement benefit plans or state-owned retirement benefit schemes are charged as an expense when employees have rendered services entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the consolidated statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated statements of financial position and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on the tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Impairment losses (other than intangible assets with indefinite useful lives)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Financial Instruments

Financial assets and financial liabilities are recognised in the consolidated statements of financial position when an entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Financial assets

The Group's financial assets are classified into loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Impairment of financial assets (continued)

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Financial liabilities

Financial liabilities including bank borrowings, trade and other payables, amount due to a related party, amount due to ultimate controlling shareholder and amount due to immediate holding company are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Share-based payment transactions

Equity-settled share-based payment transactions

When a shareholder transferred the instruments of a group entity to consultants in exchange for services provided to the Group, the transaction is accounted for as equity settled share-based payment transaction of the Group. The equity instruments transferred to consultants are measured at the fair values of the services received, unless that fair value cannot be reliably measured, in which case the services received are measured by reference to the fair value of the equity instruments at the grant date. The fair value of the services received are recognised as expenses over the service period, unless the services qualify for recognition as assets.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, management is required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next 12 months.

Useful lives and impairment of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are expected to be shorter than estimated, or it will write off or write down obsolete or non-strategic assets that have been abandoned. Change in these estimations may have a material impact on the results of the Group. There is no change in these estimations during the current period.

Estimated impairment of trade receivables

When there is objective evidence of impairment of trade receivables, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the receivable's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 30 June 2010, the carrying amount of trade receivable is RMB181,153,000 (31 December 2009: RMB134,035,000). There is no allowance for doubtful debts as at 30 June 2010 (At 31 December 2009: Nil).

6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior period.

The capital structure of the Group consists of net debt, which includes bank borrowings, cash and cash equivalents and equity attributable to owners of the Company, comprising share capital, share premium, capital reserve, special reserve, statutory surplus reserve, and accumulated profits.

The management of the Group reviews the capital structure periodically. The Group considers the cost of capital and the risks associate with each class of capital and will balance its overall capital structure through the payment of dividends and share buy-backs as well as the issue of new debt or the redemption of existing debt.

7. FINANCIAL INSTRUMENTS

7a. Categories of financial instruments

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Financial assets:		
Loans and receivables (including cash and cash equivalents)	**836,762**	224,016
Financial liabilities:		
Amortised cost	**669,083**	716,419

7b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, pledged bank deposits, bank balances and cash, trade and other payables, amount due to a related party, amount due to ultimate controlling shareholder, amount due to immediate holding company and bank borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

7. FINANCIAL INSTRUMENTS (continued)

7b. Financial risk management objectives and policies (continued)

Market risk

(i) Currency risk

Several subsidiaries of the Company have financial assets and liabilities denominated in foreign currencies, which expose the Group to foreign currency risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Assets		Liabilities	
	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000	**At 30 June 2010 RMB'000**	At 31 December 2009 RMB'000
Hong Kong Dollar ("HK$")	**563,531**	43	**34,268**	1,649
United Sates Dollar ("US$")	**26,907**	62,037	**—**	108,840

Sensitivity analysis

The Group is mainly exposed to foreign currency risk relating to HK$ and US$.

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currencies denominated monetary items. A positive number below indicates an increase in post-tax profit where RMB strengthens 5% against the relevant foreign currencies. A negative number indicates a decrease in post-tax profit. For a 5% weakening of RMB against the relevant foreign currencies, there would be an equal and opposite impact on post-tax profit.

7. FINANCIAL INSTRUMENTS (continued)

7b. Financial risk management objectives and policies (continued)

Market risk (continued)

(i) Currency risk (continued)

Sensitivity analysis (continued)

	HK$		US$	
	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000	**At 30 June 2010 RMB'000**	At 31 December 2009 RMB'000
Profit or loss (i)	**(26,463)**	80	**(1,345)**	2,340

(i) This is mainly attributable to the exposure outstanding on HK$ and US$ denominated bank balances and amounts due to ultimate controlling shareholder and immediate holding company at the end of the reporting period.

(ii) Interest rate risk

The Group's fair value interest rate risk relates primarily to fixed-rate pledged bank deposits and bank borrowings. The Group's cash flow interest rate risk relates primarily to bank balances and variable-rate bank borrowings (see note 23 for details of these borrowings).

The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate risk exposure and will consider hedging significant interest rate risk should the need arises.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group cash flow interest rate risk is mainly concentrated on the fluctuation of Benchmark Borrowing Rate of The People's Bank of China ("Benchmark Rate") arising from the Group's RMB denominated borrowings.

Sensitivity analysis

In the management's opinion, the Group does not have significant exposure to interest rate risk related to its variable-rate bank balances during the period.

The sensitivity analyses below have been determined based on the exposure to interest rate risk for variable-rate bank borrowings. The analysis is prepared assuming these financial instruments outstanding at the end of the reporting period were outstanding for the whole period/year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

At 30 June 2010, if interest rates had been increased/decreased by 50 basis points and all other variables were held constant, the Group's post-tax profit for the period would decrease/increase by approximately RMB741,000 (year ended 31 December 2009: RMB1,313,000) for the six months ended 30 June 2010.

7. FINANCIAL INSTRUMENTS (continued)

7b. Financial risk management objectives and policies (continued)

Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the consolidated statements of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on the Group's bank balances is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group's concentration of credit risk by geographical location is solely in the PRC as at 30 June2010 and 31 December 2009.

The Group has concentration of credit risk as 25% (31 December 2009: 27%) of the total trade receivables was due from the Group's five largest customers as at 30 June 2010. In order to minimise the credit risk, management continuously monitors the level of exposure to ensure that follow-up actions and/or corrective actions are taken promptly to lower the risk exposure or to recover overdue balances.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

As at 30 June 2010, the Group has available unutilised bank loan facilities of approximately RMB191,000,000 (31 December 2009: RMB120,000,000).

The following table details the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment term as at 31 December 2009 and 30 June 2010. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

7. FINANCIAL INSTRUMENTS (continued)

7b. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Liquidity tables

	Weighted average interest rate %	Repayable on demand RMB'000	Less than 1 year RMB'000	1-2 years RMB'000	2-5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At 30 June 2010							
Trade and other payables	—	—	101,083	—	—	101,083	101,083
Bank borrowings							
– fixed rate	4.92	—	176,762	—	—	176,762	173,000
– variable rate	4.99	—	89,628	221,545	123,570	434,743	395,000
		—	367,473	221,545	123,570	712,588	669,083
At 31 December 2009							
Trade and other payables	—	—	87,581	—	—	87,581	87,581
Amount due to a related party	—	8,584	—	—	—	8,584	8,584
Amount due to ultimate controlling shareholder	—	1,649	—	—	—	1,649	1,649
Amount due to immediate holding company	—	95,605	—	—	—	95,605	95,605
Bank borrowings							
– fixed rate	4.78	—	178,141	—	—	178,141	173,000
– variable rate	4.86	—	29,581	86,110	275,404	391,095	350,000
		105,838	295,303	86,110	275,404	762,655	716,419

7c. Fair value

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their corresponding fair values.

8. REVENUE

An analysis of the Group's revenue is as follows:

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
		(unaudited)
Revenue from the sales of:		
Double-sided Machine Finished ("MF") Tissue Paper	**319,492**	207,146
Single-sided MF Tissue Paper	**136,942**	74,719
Copy Paper	**55,050**	41,474
Other products	**24,428**	—
	535,912	323,339

9. SEGMENT INFORMATION

(a) Products within each operating segment

The chief operating decision maker of the Group has been identified as the Chief Executive Officer. For management purposes, the Group is organised into four operating segments - Double-sided MF Tissue Paper, Single-sided MF Tissue Paper, Copy Paper and Other products. These operating segments form the basis on which the Group's Chief Executive Officer makes decisions about resources allocation and performance assessment. The principal products within each of these operating segments are as follows:

- Double-sided MF Tissue Paper - manufacturing and trading of Double-sided MF Tissue Paper;
- Single-sided MF Tissue Paper - manufacturing and trading of Single-sided MF Tissue Paper;
- Copy Paper - manufacturing and trading of copy paper; and
- Other products - manufacturing and trading of paper towels and ivory boards.

9. SEGMENT INFORMATION (continued)

(b) Segment revenue and segment results

	Segment revenue Six months ended 30 June		Segment results Six months ended 30 June	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(unaudited)		(unaudited)
Double-sided MF Tissue Paper	**319,492**	207,146	**111,688**	67,610
Single-sided MF Tissue Paper	**136,942**	74,719	**48,070**	25,292
Copy Paper	**55,050**	41,474	**17,581**	14,140
Other products	**24,428**	—	**3,895**	—
	535,912	323,339	**181,234**	107,042
Selling and distribution expenses			**(2,479)**	(1,880)
Administrative expenses			**(23,549)**	(11,507)
Listing expenses			**(19,011)**	(136)
Other income and other gains and losses			**(2,868)**	1,550
Finance costs			**(12,605)**	(5,345)
Profit before tax			**120,722**	89,724
Taxation			**(19,195)**	(6,841)
Profit and total comprehensive income for the period			**101,527**	82,883

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

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 4. Segment results represent the gross profit of each operating segment. This is the measure reported to Chief Executive Officer for the purposes of resources allocation and performance assessment.

9. SEGMENT INFORMATION (continued)

(c) Segment assets

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Double-sided MF Tissue Paper	**241,654**	243,003
Single-sided MF Tissue Paper	**81,150**	51,001
Copy Paper	**32,703**	35,936
Other products	**61,266**	—
Total of all segments	**416,773**	329,940
Unallocated		
– Property, plant and equipment	**343,799**	302,394
– Investment properties	**—**	21,098
– Prepaid lease payments	**262,207**	265,081
– Deposit paid for acquisition of property, plant and equipment	**93,519**	42,957
– Deposit paid for acquisition of land use right	**6,650**	—
– Inventories	**117,937**	99,594
– Trade and other receivables and prepayments	**184,800**	154,580
– Pledged bank deposits	**37**	2,860
– Bank balances and cash	**655,357**	86,825
	2,081,079	1,305,329

Segment assets include certain property, plant and equipment and inventories used specifically for the production of different products.

(d) Segment liabilities

Segment liabilities are not presented as liabilities are generally incurred for all operating segments and not reported separately to the Chief Executive Officer.

9. SEGMENT INFORMATION (continued)

(e) Other segment information

	Double-sided MF Tissue Paper RMB'000	Single-sided MF Tissue Paper RMB'000	Copy Paper RMB'000	Other Products RMB'000	Unallocated RMB'000	Total RMB'000
Six months ended 30 June 2010						
Capital additions	**51**	**1,994**	**—**	**20,734**	**88,777**	**111,556**
Depreciation and amortisation	**5,919**	**1,716**	**947**	**635**	**8,572**	**17,789**
Six months ended 30 June 2009 (unaudited)						
Capital additions	4,182	—	—	—	56,909	61,091
Depreciation and amortisation	4,644	1,228	947	—	5,537	12,356

(f) Geographical information

The Group principally operates in the PRC (country of domicile of the operating subsidiaries). Nearly all non-current assets of the Group are located in the PRC with only insignificant non-current assets located in Hong Kong.

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

(g) Information about major customers

During the period, there are no individual customers with sales of 10% or more of the Group's total revenue.

10. OTHER INCOME AND OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
		(unaudited)
Bank interest income	**131**	535
Loss on disposal of property, plant and equipment	**(6)**	—
Net foreign exchange losses	**(2,694)**	(26)
Donation	**(880)**	(5)
Government grants (note)	**150**	720
Gross rental income from investment properties	**656**	821
Less: direct operating expenses from investment properties	**(228)**	(456)
Others	**3**	(39)
	(2,868)	1,550

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

11. FINANCE COSTS

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
		(unaudited)
Interest on:		
Bank borrowings wholly repayable within five years	**13,917**	9,474
Less: Amounts capitalised	**(1,312)**	(4,129)
	12,605	5,345

During the six months ended 30 June 2010, the borrowing costs RMB1,312,000 (six months ended 30 June 2009: RMB4,129,000 (unaudited)) capitalised are attributable to funds borrowed specifically for the purpose of obtaining particular qualifying assets.

12. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
		(unaudited)
Employee benefits expenses (including directors):		
Salaries and other benefits	**14,484**	10,625
Retirement benefits scheme contributions	**443**	1,893
	14,927	12,518
Depreciation of property, plant and equipment	**14,687**	10,575
Depreciation of investment properties	**228**	456
Release of prepaid lease payments	**2,874**	1,325
Total depreciation and amortisation expenses	**17,789**	12,356
Auditors' remuneration	**1,071**	106
Listing expenses (Note)	**19,011**	136
Cost of inventories recognised as expenses	**354,678**	216,297

Note: The amount represents professional fees and other expenses related to the listing of the shares of the Company on the Stock Exchange. Transaction costs are accounted for as a deduction from equity to the extent they are incremental costs directly attributable to issue of shares that otherwise would have been avoided. IAS 32 "Financial Instruments: Presentation" requires transaction costs that relate jointly to more than one transaction to be allocated to those transactions using a basis of allocation that is rational and consistent with similar transaction. Other listing expenses are recognised as an expense in profit or loss.

During the six months ended 30 June 2010, there was a reversal of allowance for obsolete raw materials of RMB179,000 (six months ended 30 June 2009: allowance for obsolete raw materials of RMB211,000 (unaudited)) recognised and included in cost of sales.

13. TAXATION

The Company and Xi Yuan BVI were incorporated in the Cayman Islands and British Virgin Islands, respectively, and are not subject to the income tax.

Sunwell was incorporated in Hong Kong and has had no assessable profit subject to Hong Kong Profits Tax for both periods.

The income tax expense 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 as set out below.

Youlanfa, Xiyuan and Huaxiang (collectively referred as the "PRC Subsidiaries") are Foreign Investment Enterprise registered in the PRC. The PRC statutory EIT tax rate was 25% for both periods in the PRC.

Youlanfa obtained a high and new technology enterprise certificate during the six months ended 30 June 2010 and was subject to a preferential tax rate of 15% from 2010 to 2012.

Xiyuan and Huaxiang are entitled to an exemption from EIT for two years starting from their first exemption year, followed by a 50% tax relief for the following three years (the "Tax Concession"). 2009 is the second exemption year and 2010 is the first year subject to 50% tax relief.

According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for EIT (Guofa [2007] No. 39), the Tax Concession for Xiyuan and Huaxiang are still applicable until the end of the five-year transitional period under the Enterprise Income Tax Law of the PRC ("New Tax Law"). Huaxiang and Xiyuan were subjected to EIT at 12.5% from 2010 to 2012.

The tax charge for the period can be reconciled to the profit before tax per consolidated statements of comprehensive income as follows:

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
		(unaudited)
Profit before tax	**120,722**	89,724
Tax at the PRC statutory EIT rate of 25%	**30,181**	22,431
Effect of tax exemptions	**—**	(15,623)
Income tax on concessionary rate	**(17,616)**	—
Tax effect of expenses not deductible for tax purpose	**6,623**	31
Tax effect of income not taxable for tax purpose	**—**	(90)
Others	**7**	92
	19,195	6,841

Under the New Tax Law, withholding tax is imposed on dividends declared in respect of profits earned by the PRC Subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated distributable profits of the PRC Subsidiaries amounting to RMB402,345,000 (31 December 2009: RMB274,592,000) at 30 June 2010, as the Company is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

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

14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

Details of the emoluments paid to the directors of the Company are as follows:

	Six months ended 30 June 2010 RMB'000	Six months ended 30 June 2009 RMB'000 (unaudited)
Directors' emoluments:		
– salaries and other benefits	719	450
– retirement benefit schemes contributions	8	4
	727	454

Six months ended 30 June 2010

	Fees RMB'000	Salaries and other benefits RMB'000	Performance related incentive payments RMB'000	Share-based payments RMB'000	Retirement benefits schemes contributions RMB'000	Total RMB'000
Mr Ke	375	—	—	—	2	377
Mr Ke Jixiong	228	—	—	—	2	230
Mr Cao Xu	38	—	—	—	2	40
Mr Zhang Guoduan	38	—	—	—	2	40
Mr Paul Steven Wolansky	5	—	—	—	—	5
Prof. Zhang Daopei	10	—	—	—	—	10
Prof. Chen Lihui	10	—	—	—	—	10
Mr Chow Kwok Wai	15	—	—	—	—	15
	719	—	—	—	8	727

14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(a) Directors' emoluments (continued)

Six months ended 30 June 2009 (unaudited)

	Fees RMB'000	Salaries and other benefits RMB'000	Performance related incentive payments RMB'000	Share-based payments RMB'000	Retirement benefits schemes contributions RMB'000	Total RMB'000
Mr Ke	—	300	—	—	2	302
Mr Ke Jixiong	—	150	—	—	2	152
Mr Cao Xu	—	—	—	—	—	—
Mr Zhang Guoduan	—	—	—	—	—	—
Mr Paul Steven Wolansky	—	—	—	—	—	—
Prof. Zhang Daopei	—	—	—	—	—	—
Prof. Chen Lihui	—	—	—	—	—	—
Mr Chow Kwok Wai	—	—	—	—	—	—
	—	450	—	—	4	454

During the six months ended 30 June 2009 and 2010, no director waived or agreed to waive any emoluments.

14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, three were directors of the Company whose emoluments are included in the disclosures above for the six months ended 30 June 2010 (six months ended 30 June 2009: two). The emoluments of the remaining two individuals for the six months ended 30 June 2010 (six months ended 30 June 2009: three), were as follows:

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
		(unaudited)
Salaries and other benefits	**1,109**	175
Retirement benefit schemes contributions	**14**	5
	1,123	180

Their emoluments were within the following bands:

	Six months ended 30 June	
	2010	2009
	No. of employees	No. of employees
		(unaudited)
Nil to HK$1,000,000	**1**	3
HK$1,000,001 to HK$1,500,000	**1**	—

15. 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	
	2010	2009
	RMB'000	RMB'000
		(unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share	**101,527**	79,508

	Six months ended 30 June	
	2010	2009
		(unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**798,342,000**	750,000,000

For the six months ended 30 June 2010, the weighted average number of ordinary shares has been adjusted retrospectively for the 10,000 shares issued at the date of incorporation and pursuant to the reorganisation and 749,990,000 shares issued pursuant to the capitalisation issue as more fully described in note 24.

For the six months ended 30 June 2009, the weighted average number of ordinary shares of 750,000,000 is calculated assuming the 10,000 shares issued at the date of incorporation and pursuant to the reorganisation and 749,990,000 shares issued pursuant to the capitalisation issue as more fully described in note 24 had been completed as at 1 January 2009.

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

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At 1 January 2009	188,331	254,764	3,860	1,313	133,232	581,500
Additions	20,554	4,813	1,421	3,238	81,369	111,395
Transfer	58,425	81,746	—	—	(140,171)	—
Disposals	—	—	—	(260)	—	(260)
At 31 December 2009 and 1 January 2010	267,310	341,323	5,281	4,291	74,430	692,635
Additions	—	206	1,663	334	109,353	111,556
Transfer	28,702	52,813	208	—	(81,723)	—
Reclassified from investment properties (note 18)	20,870	—	—	—	—	20,870
Disposals	—	(11)	—	(53)	—	(64)
At 30 June 2010	**316,882**	**394,331**	**7,152**	**4,572**	**102,060**	**824,997**
DEPRECIATION						
At 1 January 2009	(16,789)	(29,871)	(1,085)	(406)	—	(48,151)
Provided for the year	(6,655)	(15,131)	(776)	(333)	—	(22,895)
Disposals	—	—	—	57	—	57
At 31 December 2009 and 1 January 2010	(23,444)	(45,002)	(1,861)	(682)	—	(70,989)
Provided for the period	(4,538)	(9,205)	(520)	(424)	—	(14,687)
Disposals	—	5	—	16	—	21
At 30 June 2010	**(27,982)**	**(54,202)**	**(2,381)**	**(1,090)**	**—**	**(85,655)**
CARRYING VALUES						
At 30 June 2010	**288,900**	**340,129**	**4,771**	**3,482**	**102,060**	**739,342**
At 31 December 2009	243,866	296,321	3,420	3,609	74,430	621,646

The above items of property, plant and equipment (other than construction in progress) are depreciated on straight-line basis at the following rates:

Buildings	30 years
Plant and machinery	10-20 years
Motor vehicles	5 years
Office equipment	5 years

Buildings are located on land with land use rights in the PRC with lease term of 50 years.

17. PREPAID LEASE PAYMENTS

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
The Group's prepaid lease payments comprise:		
Leasehold land in the PRC:		
– Medium-term lease	262,207	265,081
Analysed for reporting purpose as:		
– Current assets	5,770	5,770
– Non-current assets	256,437	259,311
	262,207	265,081

The Group's prepaid lease payments amounts represent the prepayments for land use rights situated in the PRC. The leasehold lands have lease term of 50 years.

18. INVESTMENT PROPERTIES

	RMB'000
COST	
At 1 January 2009 and 31 December 2009 and 1 January 2010	30,422
Reclassified as property, plant and equipment (note 16)	(30,422)
At 30 June 2010	—
ACCUMULATED DEPRECIATION	
At 1 January 2009	(8,411)
Provided for the year	(913)
At 31 December 2009 and 1 January 2010	(9,324)
Provided for the period	(228)
Reclassified as property, plant and equipment (note 16)	9,552
At 30 June 2010	—
CARRYING VALUES	
At 30 June 2010	—
At 31 December 2009	21,098

The fair value of the Group's investment properties at 31 December 2009 was RMB22,143,000. The fair value has been arrived at based on a valuation carried out by Jones Lang LaSalle Sallmans Limited, independent valuers not connected with the Group. The valuation was determined by capitalising the rental income received from the existing lease with due provision from the reversionary income potential of the properties.

Upon the expiry of the rental contract with 福建優蘭發塗革紙製品有限公司 Fujian Youlanfa Leathercover Paper Co., Ltd.* ("YLF Leathercover") in March 2010, the above properties is occupied by the Group for their own use and the respective carrying value is transferred to property, plant and equipment.

The above investment properties were depreciated on a straight-line basis over 30 years.

* for identification only

19. INVENTORIES

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Raw materials	117,901	99,483
Work in progress	36	111
Finished goods	21,230	10,688
	139,167	110,282

20. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Trade receivables	181,153	134,035
Prepayments to suppliers	—	13,658
Other prepayments	1,906	5,364
Other tax recoverable	1,526	1,227
Others	215	296
	184,800	154,580

The Group allows an average credit period of 60 days to its trade customers. The ageing of trade receivables presented based on the invoice date at the end of the reporting period is as follows:

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
0 to 30 days	116,906	90,385
31 to 60 days	64,247	43,650
	181,153	134,035

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed annually.

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date and no impairment is considered necessary for those balances which are not past due.

20. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS (continued)

Movement in the allowance for doubtful debts

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Balance at beginning of the period/year	**—**	—
Impairment losses recognised on receivables	**—**	68
Amounts written off as uncollectible	**—**	(68)
Balance at end of the period/year	**—**	—

21. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term deposits with an original maturity of three months or less. Pledged bank deposits represent deposits pledged to banks to secure banking facilities granted to the Group.

Bank balances of the Group carry market interest rates of range from 0.001% to 0.36% (31 December 2009: 0.01% to 0.36%) per annum as at 30 June 2010.

Pledged bank deposits of the Group carry market interest rates of 0.36% (31 December 2009: 0.36% to 3.78%) per annum as at 30 June 2010.

22. TRADE AND OTHER PAYABLES

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Trade payables	**93,011**	67,467
Notes payables	**—**	13,235
	93,011	80,702
Other payables for acquisition of plant and equipment	**8,072**	6,879
Other tax payables	**6,202**	7,110
Accrued staff costs	**2,640**	2,787
Accrued employee social security fund	**9,790**	9,790
Accrued electricity expenses	**6,224**	4,864
Accrued listing expenses	**33,152**	4,645
Other accrued expenses	**5,295**	1,549
	164,386	118,326

22. TRADE AND OTHER PAYABLES (continued)

The following is an aged analysis of trade payables at the end of the reporting period:

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Within 30 days	63,833	42,194
31 to 90 days	29,178	25,269
91 to 120 days	—	4
	93,011	67,467

The following is an aged analysis of notes payables at the end of the reporting period:

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
91 to 120 days	—	8,660
121 to 180 days	—	4,575
	—	13,235

Trade payables and notes payables principally comprise amounts outstanding for purchase of goods. The average credit period for purchase of goods is 60 days to 180 days. The Group has financial risk management policies in place to ensure that all payables are within the credit time frame.

23. BANK BORROWINGS

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Secured bank borrowings	458,000	403,000
Unsecured bank borrowings	110,000	120,000
	568,000	523,000
The amount is repayable as follows:		
Within one year	234,520	182,820
More than one year, but not exceeding two years	226,160	71,310
More than two years, but not exceeding five years	107,320	268,870
	568,000	523,000
Less: Amounts due within one year shown under current liabilities	(234,520)	(182,820)
	333,480	340,180

The ranges of effective interest rates (which are also equal to contractual interest rates) on the Group's borrowings are as follows:

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Effective interest rate:		
Fixed-rate borrowings	4.78% to 5.05%	4.78%
Variable-rate borrowings	90% of Benchmark Rate to Benchmark Rate	90% of Benchmark Rate to Benchmark Rate

The Group's bank borrowings are dominated in RMB. Interest of variable-rate borrowings is repriced every month.

23. BANK BORROWINGS (continued)

The bank borrowings are secured and guaranteed. Details set out as follows:

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Type A	—	10,000#
Type B	—	144,000#
Type C	—	59,000#
Type D	—	50,000#
Type E	—	150,000#
Type F	—	110,000#
Type G	458,000	—
Type H	110,000	—
	568,000	523,000

Type A: Borrowings are guaranteed by 福建優蘭發集團實業有限公司 Youlanfa Group Industry Co., Ltd.* ("YLF Industry"), a former non-controlling shareholder of Huaxiang.

Type B: Borrowings are guaranteed by YLF Industry and secured by assets of related companies which are controlled by Mr Ke's family members.

Type C: Borrowings are guaranteed by YLF Industry and secured by assets of related companies which are controlled by Mr Ke's family members and the Group (note).

Type D: Borrowings are guaranteed and secured by the assets of YLF Industry.

Type E: Borrowings are guaranteed by Mr Ke and/or his family members and secured by assets of the Group (note).

Type F: Borrowings are guaranteed by related companies which are controlled by Mr Ke's family members.

Type G: Borrowings are secured by assets of the Group (note).

Type H: Borrowings are guaranteed by group companies.

* for identification only

Note: The Group has pledged several assets to secure banking facilities granted to the Group. The carrying values of the assets pledged are as follows:

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Property, plant and equipment	433,879	285,203
Land use right	238,769	138,091
	672,648	423,294

The above guarantees provided by related parties denoted with asterisk '#' were released before the listing of the shares of the Company on the Stock Exchange on 27 May 2010.

24. SHARE CAPITAL

	Number of shares	Share capital
		HK$
Ordinary shares of HK$0.1 each		
Authorised:		
At incorporation, 31 December 2009 and 1 January 2010	3,800,000	380,000
Increase in authorised share capital (note ii)	9,996,200,000	999,620,000
At 30 June 2010	10,000,000,000	1,000,000,000
Issued and fully paid:		
At incorporation, 31 December 2009 and 1 January 2010	1	1
Issued on 14 January 2010 (note i)	9,999	999
Capitalisation issue (note ii)	749,990,000	74,999,000
Issue of share pursuant to the public offering (note iii)	250,000,000	25,000,000
	1,000,000,000	100,000,000

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000 (note)
Presented in RMB		
Share capital	87,680	—

Note: The share capital represents the share capital of Xi Yuan BVI as at 31 December 2009.

The movements in the Company's authorised and issued ordinary share capital during the six months ended 30 June 2010 are as follows:

(i) On 14 January 2010, as part of the reorganisation, the Company, Mr Ke and Smart Port entered into a share transfer agreement, pursuant to which Smart Port transferred its entire shareholding in Xiyuan BVI to the Company in consideration of the Company issuing 9,999 ordinary shares, amounting to HK$999 (approximately RMB877), to Smart Port credited as fully paid.

(ii) Pursuant to written resolutions of all the shareholders passed on 30 April 2010, the authorised share capital of the Company was increased from HK$380,000 to HK$1,000,000,000 which rank pari passu in all respects with the shares then in issue. In addition, the directors were authorised, and resolved, to capitalise HK$74,999,000 (approximately RMB65,759,000) standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par of 749,990,000 shares.

(iii) On 27 May 2010, 250,000,000 shares of HK$0.10 each of the Company, amounting to HK$25,000,000 (approximately RMB21,920,000), were then issued at HK$2.58 per share by way of placing and public offering and the Company's shares were listed on the Main Board of the Stock Exchange.

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

25. RETIREMENT BENEFIT SCHEMES

(a) Mandatory Provident Fund

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying employees in Hong Kong under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

(b) Social security and benefits for PRC employees

The employees of the Group in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The Group is required to contribute a certain percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to income of RMB443,000 (six months ended 30 June 2009: RMB1,893,000 (unaudited)) represents contributions payable to these schemes by the Group in respect of the six months ended 30 June 2010.

26. RELATED PARTY DISCLOSURES

(a) Names and relationships with related parties are as follows:

Name	Relationships
YLF Leathercover	YLF Leathercover was a company ultimately controlled by Mr Ke Jixiong, the son of Mr Ke.
福建晉江優蘭發貿易有限公司 Fujian Jinjiang Youlanfa Trading Company Limited* ("YLF Trading ")	YLF Trading was the non-controlling shareholder of Youlanfa until the Group acquired 5.08% interest in Youlanfa from YLF Trading on 20 August 2009.
YLF Industry	YLF Industry was a company controlled by Mr Ke Jixiong, the son of Mr Ke. It was also the non-controlling shareholder of Huaxiang until the Group acquired the 5% interest in Huaxaing from YLF Industry on 24 September 2009.
漳州順雄貿易有限公司 Zhangzhou Shunxiong Trading Ltd.* (formerly known as Zhangzhou Trading Co., Ltd. * 漳州華優貿易有限公司) ("Zhangzhou Shunxiong")	Zhangzhou Shunxiong was the non-controlling shareholder of Xiyuan until the Group acquired the 3.5%interest in Xiyuan from Zhangzhou Shunxiong on 22 April 2009.

* for identification only

26. RELATED PARTY DISCLOSURES (continued)

(b) Balances with related parties

The Group has the following balances with related parties:

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Amount due to ultimate controlling shareholder (note 1)	—	1,649
Amount due to immediate holding company (note 2)	—	95,605
Amount due to a related party		
Zhangzhou Shunxiong (note 3)	—	8,584

Notes:

1. The amount was interest free, unsecured, repayable on demand and of non-trade nature and fully settled during the six months ended 30 June 2010.

2. The amount was interest free, unsecured and repayable on demand. Pursuant to the deed of waiver dated 5 May 2010, the amount due to immediate holding company was waived by the immediate holding company.

3. The amount of RMB8,584,000 at 31 December 2009 was interest free, unsecured and trading in nature. The amount was aged within 180 days at 31 December 2009. The amount was fully settled during the six months ended 30 June 2010.

26. RELATED PARTY DISCLOSURES (continued)

(c) Related parties transactions

During the six months ended 30 June 2010, other than those transaction mentioned in note 23, the Group entered into the following significant transactions with related parties:

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
		(Unaudited)
Rental income		
YLF Leathercover	**656**	821
Purchase of goods		
Zhangzhou Shunxiong	**1,819**	47,702
YLF Leathercover	**6,035**	3,011
	7,854	50,713

The above transactions with related parties was discontinued after the listing of the shares of the Company on the Stock Exchange on 27 May 2010.

On 22 April 2009, the Group acquired 3.5% interest in Xiyuan from Zhangzhou Shunxiong at a consideration of approximately RMB2,150,000.

On 20 August 2009, the Group acquired 5.08% interest in Youlanfa from YLF Trading at a consideration of approximately RMB10,580,000.

On 24 September 2009, the Group acquired 5% interest in Huaxiang from YLF Industry at a consideration of approximately RMB8,880,000.

In the opinion of the Directors, the transactions above were carried out in the Group's ordinary and usual course of business and on normal commercial terms.

In addition, the Group had given certain guarantee to a bank in respect of banking facilities to YLF Leathercover and YLF Industry free of charge, and all the guarantees were fully released during the year ended 31 December 2009.

(d) Compensation of key management personnel

The details of remuneration of key management personnel, represents emolument of directors of the Company paid during the six months ended 30 June 2010 are set out in note 14.

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

27. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2009, amount due to the ultimate controlling shareholder of RMB111,623,000 was waived. Such amount is recorded in capital reserve as deemed contribution from a shareholder.

During the six months ended 30 June 2010, amount due to immediate holding company of RMB139,986,000 was waived. Such amount is recorded in capital reserve as deemed contribution from a holding company.

Pursuant to the IPO Consulting Agreement, Smart Port, the immediate holding company of the Group, agreed to transfer 1.25% of the total shares of the Company outstanding before the IPO of the Company to the consulting company as IPO consulting fee (i) upon the successful IPO of the Company and (ii) the consulting company continued to provide consulting service to the Group for a six-month period after IPO. According to the valuation conducted by an independent valuer, the fair values of the Transferred Shares at the agreement dated, 1 September 2008, was approximately RMB5,690,000. The fair value of the Transferred Shares was estimated using income approach. In determining the fair value of the Transferred Shares, the following major assumptions were made:

Weighted average cost of capital	15.29%
Terminal growth rate	4%

During the current period, approximately RMB2,327,000 were charged to profit or loss as expenses.

28. OPERATING LEASE

The Group as lessee

The minimum lease payments paid under operating leases for the Group's office premise during the six months ended 30 June 2010 were RMB155,000 (Six months ended 30 June 2009: Nil (unaudited)).

At the end of respective reporting periods, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Within one year	**432**	—
In the second to fifth year inclusive	**306**	—
	738	—

Operating lease payments represent rentals payable by the Group's office premises. Leases are negotiated for an average term of two years and rentals are fixed for an average term of two years.

The Group as lessor

Property rental income earned during six months ended 30 June 2010 was RMB656,000 (Six months ended 30 June 2009: RMB821,000 (unaudited)). All of the properties held have committed tenants for the next three months at 31 December 2009 and expired in March 2010.

At 31 December 2009, the Group had contracted with YLF Leathercover for the future minimum lease payments of RMB410,000.

29. CAPITAL COMMITMENTS

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of:		
Property, plant and equipment	**125,876**	83,403
Land use rights	**15,505**	—
	141,381	83,403

30. PARTICULARS OF SUBSIDIARIES

Particulars of the subsidiaries of the Company are as follows:

Name	Place of incorporation	Paid-up issued share capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			30.6.2010	31.12.2009	
Xi Yuan BVI	British Virgin Islands	1 ordinary share of US$1	**100% (directly)**	100% (directly)	Investment holding
Sunwell	Hong Kong	10,000,000 ordinary shares of HK$1 each	**100% (indirectly)**	100% (indirectly)	Investment holding
Xiyuan	PRC	HK$68,980,000	**100% (indirectly)**	100% (indirectly)	Manufacturing and trading of double-sided MF Tissue Paper and single sided MF Tissue Paper
Huaxiang	PRC	RMB292,681,295	**100% (indirectly)**	100% (indirectly)	Manufacturing and trading of double-sided MF Tissue Paper and single sided MF Tissue Paper
Youlanfa	PRC	RMB128,880,000	**100% (indirectly)**	100% (indirectly)	Manufacturing and trading of double-sided MF Tissue Paper, copy paper and other products

None of the subsidiaries had issued any debt securities at the end of the reporting date.

31. SUMMARY FINANCIAL INFORMATION OF THE COMPANY

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
NON-CURRENT ASSET		
Investment in a subsidiary	—	—
	—	—
CURRENT ASSETS		
Prepayment	75	—
Amount due from a subsidiary	431,667	—
Bank balances and cash	131,346	—
Net Current Assets	563,088	—
CURRENT LIABILITY		
Other payables	(33,353)	—
Net Assets	529,735	—
CAPITAL AND RESERVES		
Share capital (Note 24)	87,680	—
Reserves	442,055	—
Total Equity	529,735	—

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the last three financial year is as follows:

	For the year ended 31 December		
	2007	2008	**2009**
	RMB'000	RMB'000	**RMB'000**
Results			
Revenue	267,586	562,019	**724,793**
Profit before tax	57,495	145,684	**183,770**
Taxation	(15,223)	(13,041)	**(13,093)**
Profit and total comprehensive income for the year	42,272	132,643	**170,677**
Profit and total comprehensive income attributable to owners of the Company	40,282	126,396	**165,941**

	As at 31 December		
	2007	2008	**2009**
	RMB'000	RMB'000	**RMB'000**
Assets and Liabilities			
Total assets	731,856	918,977	**1,305,329**
Total liabilities	(570,342)	(624,820)	**(750,482)**
	161,514	294,157	**554,847**
Equity attributable to owners of the Company	148,410	274,806	**554,847**
Minority interests	13,104	19,351	**—**
	161,514	294,157	**554,847**

Note: The Company was incorporated in the Cayman Islands on 12 October 2009 and became the holding company of the Group on 14 January 2010. The results and assets and liabilities for 2007, 2008 and 2009 have been prepared on a combined basis as if the current group structure had been in existence throughout those years, of which the result has been consolidated since 14 January 2010, and have been extracted from the Company's prospectus dated 14 May 2010.