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)

2011 Interim Report

Contents

CORPORATE INFORMATION

Executive directors

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

Non-executive director

Mr Paul Steven Wolansky
(resigned on 27 May 2011)

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
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman KY1-1107
Cayman Islands

Hong Kong share registrar

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

Registered office

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Headquarters in the PRC

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

Principal place of business in Hong Kong

Unit 1304, 13rd Floor,
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

Legal advisors

Hong Kong law:

Orrick, Herrington & Sutcliffe

PRC law:

King & Wood

Cayman Islands law:

Conyers Dill & Pearman

Investors and media relations

iPR Ogilvy Ltd.

BUSINESS REVIEW AND OUTLOOK

Business Review

In line with the sustaining recovery of the world economy, the global demand for high-end wrapping paper continued its growth momentum during the first half of 2011, at about 15% per annum between 2011 and 2015. Per capita wrapping paper consumption in China, at US$12 a year, is still a long way from US$311 in the US, US$460 in Japan and US$385 in Europe. The growth will therefore be much stronger, and accentuated further by the trend to use wrapping paper as a more environment-friendly packaging material to replace plastics, metal and glass.

Wrapping tissue paper, a segment within the wrapping paper category that is highly demanding in production technologies, has started a consolidation whereby small-scale manufacturers using obsolete technologies are being phased out in a process that will concentrate the capacities in larger, more technologically-advanced participants.

This consolidation reflects the same trend in the paper making industry in China as a whole. According to forecasts by China Paper Association, the industry will see 9.2 million tonnes of new capacities being added in 2011. Yet the Ministry of Industry and Information Technology of the PRC has established a target of phasing out some 7.4 million tonnes of obsolete capacities for the whole year. These will contribute to a more favourable business environment for large-scale manufacturers.

Meanwhile, prices of imported wood pulp, after having risen substantially since early 2009, have shown signs of stabilizing at relatively high levels. This trend will benefit manufacturers who can produce pulp, including fresh or recycled, for their own use.

Segmental Analysis

Double-sided and single-sided MF tissue paper

During the reporting period, revenues generated from double-sided and single-sided MF tissue paper were RMB313.5 and RMB211.8 million respectively, contributed to approximately 45.7% and 30.9% of the Group's revenue respectively.

In order to satisfy the huge market demand, the Group plans to launch one single-sided MF tissue paper production line with a designed annual production capacity of 8,000 tonnes this year and two double-sided and one single-sided MF tissue paper production lines with designed annual production capacities aggregating to 45,000 and 8,000 tonnes in 2012, respectively.

In view of the increasing contributions from high-end products, namely coloured single-sided MF tissue paper and semi-transparent MF tissue paper which commend higher selling prices, the overall average selling price of single-side MF tissue paper has risen, when compared with the same period of last year.

Copy paper

During the reporting period, revenue generated from copy paper was RMB68.0 million, representing an increase of 23.5% when compared with the same period of last year, and contributed to approximately 9.9% of the Group's revenue of the reporting period.

A new copy paper production line with a designed annual production capacity of 30,000 tonnes has commenced operation since April 2011, boosting the revenue for this segment to RMB68.0 million. The Group believes that with the addition of this additional capacity, it can start providing various customers with a full range of copy paper products to better satisfy their demand and needs. This will definitely enhance the Group's competitive advantage as a supplier of a full range of copy paper products.

Other Products

Paper towel

During the reporting period, revenue generated from paper towel was RMB37.4 million, representing an increase of 184.7% when compared with the same period of last year, and contributed to approximately 5.4% of the Group's revenue of the reporting period.

The Group plans to add 4 new paper towel new production lines with designed annual production capacities aggregating 24,000 tonnes in the second half of this year, capitalizing on the success of launching paper towel in early 2010.

Ivory boards

During the reporting period, revenue generated from ivory boards was RMB55.5 million, representing an increase of 392.4% when compared with the same period of last year, and contributed to approximately 8.1% of the Group's revenue of the reporting period.

Ivory boards are auxiliary products of wrapping tissue paper. Sales of this product provide convenience to existing customers of MF tissue paper, a move that will in turn strengthen the sales channels of the Group.

Geographical Analysis

The entire Group's revenue was generated from the mainland China. East China and South China are the largest markets of the Group, with over 93% of Group's revenue during the reporting period derived from these two regions.

Operational Analysis

As at 30 June 2011, the Group operated 24 paper production lines with designed annual production capacities aggregating 215,000 tonnes, including 137,000 tonnes for double-sided and single-sided MF tissue paper, 44,000 tonnes for copy paper, 14,000 tonnes for paper towel and 20,000 tonnes for ivory boards.

As at 30 June 2011, the Group also had two de-inked pulp production lines with designed annual production capacities aggregating 90,000 tonnes for its own use. The Group plans to invest further in de-inking facilities in 2011 and expects to add a new de-inked pulp production line with a designed annual production capacity of 60,000 tonnes which will commence operation by the end of this year.

All the future expansion of production capacities will be surrounding the Group's existing three production bases. The Group will acquire more land when available as its land reserve.

BUSINESS REVIEW AND OUTLOOK

Prospects

Looking ahead, a number of sustaining trends are going to contribute to the development of the Group in the medium term: China's determined policy to groom domestic consumption into a major economic growth driver; the continuing trend to replace non-environment friendly packaging materials by wrapping paper; maintenance of prices of imported wood pulp at relatively high levels which favor manufacturers like the Group that have their own de-inking pulp manufacturing technology and capacity.

With regards to the decision of the Group to diversify into high-end wall-paper backing paper business announced early this year, while the first batch of 35,000 tonnes capacity is scheduled to commence production in the second quarter of 2012, the industry fundamentals have continue to evolve to be increasingly favorable: high-end accommodations like residences and hotels in China are seen increasingly receptive to locally-made wall paper which had gone through substantial improvements in quality and production technologies. This is very favorable to the backing paper products to be launched by the Group targeting primarily local wall-paper manufacturers. The Group is very optimistic and looking forward to the imminent launch of this business which will evolve as another strong income stream.

According to the latest production capacity expansion plan of the Group, its total production capacity will increase by approximately 76,000 tonnes by the end of 2011 from 184,000 tonnes at the end of 2010 to 260,000 tonnes at the end of 2011. The Group believes that it is well-positioned to leverage its leading industry and market positions and strong production capacities to benefit from the sustaining growth in demand for wrapping tissue paper and other specialty paper in China.

Results

The revenue of the Group for the six months ended 30 June 2011 was RMB686.3 million, representing an increase of approximately 28.1% from RMB535.9 million for the six months ended 30 June 2010. Profit and total comprehensive income attributable to owners of the Company increased by approximately 46.4% from RMB101.5 million for the six months ended 30 June 2010 to RMB148.6 million for the six months ended 30 June 2011.

Basic earnings per share for the six months ended 30 June 2011 improved to RMB0.149 per share when compared with RMB0.127 per share for the same period of 2010, based on the profit attributable to owners of the Company of RMB148.6 million (For the six months ended 30 June 2010: RMB101.5 million) and the weighted average of 1,000,000,000 shares (For the six months ended 30 June 2010: 798,342,000 shares) in issue during the reporting period. The outstanding performance during the first half of 2011 was mainly attributable to increases in both sales volume and average selling prices of the Group's products.

Gross profit

Gross profit of the Group increased from RMB181.2 million for the six months ended 30 June 2010 to RMB216.4 million for the six months ended 30 June 2011.

Overall gross profit margin of the Group narrowed from 33.8% for the six months ended 30 June 2010 to 31.5% for the six months ended 30 June 2011. The slight decline was mainly a result of a change in the sales mix of the Group. The Group launched paper towel and ivory boards in 2010 with lower gross profit margins when compared with that of MF tissue paper. Since the contribution of these products climbed to 13.5% of the Group's total revenue for the six months ended 30 June 2011 from 4.6% during the same period last year, the overall gross profit margin was slightly affected.

There was no significant impact on the gross profit margin of double-sided and single-sided MF tissue paper despite the rising unit cost of wood pulp during the six months ended 30 June 2011 as the Group managed to raise average selling prices of its products as well as increase the proportion of use of recycled materials.

Other income and other gains and losses

Other income and other gains and losses of the Group changed from a net loss of RMB2.9 million for the six months ended 30 June 2010 to a net gain of RMB1.1 million for the six months ended 30 June 2011, mainly due to a RMB3.1 million write-back of accruals for listing expenses, offsetting a net foreign exchange loss of RMB2.8 million resulting from the continuing appreciation of the RMB against other currencies during the reporting period.

Selling and distribution costs

Selling and distribution costs of the Group increased by approximately 53.2% from RMB2.5 million for the six months ended 30 June 2010 to RMB3.8 million for the six months ended June 2011, representing approximately 0.5% and 0.6% of the Group's turnover for the reporting period, 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 41.3% from RMB23.5 million for the six months ended 30 June 2010 to RMB33.3 million for the six months ended 30 June 2011, representing approximately 4.9% and 4.4% of the Group's turnover for the reporting period, respectively. The increase was primarily due to increases in depreciation charges for property, plant and equipment, release of prepaid lease payments, employee benefits expenses and professional fees for compliance as a listed company.

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 of Hong Kong in 2010.

Finance costs

Finance costs of the Group decreased by approximately 28.0 % from RMB12.6 million for the six months ended 30 June 2010 to RMB9.1 million for the six months ended 30 June 2011, primarily due to more borrowing costs capitalised during the reporting period.

Interest rates of bank loans were at variable rates ranging from 4.78% to 6.63% for the six months ended 30 June 2011, compared with 4.78% to 5.40% for the six months ended 30 June 2010.

Taxation

Tax charge increased by approximately 18.5% from RMB19.2 million for the six months ended 30 June 2010 to RMB22.7 million for the six months ended 30 June 2011, primarily due to the increase in the taxable profit of the subsidiaries in China. The Group's effective tax rates for the six months ended 30 June 2010 and 2011 were 15.9% and 13.3%, respectively.

Profit attributable to owners of the Company

Profit and total comprehensive income attributable to owners of the Company increased from RMB101.5 million for the six months ended 30 June 2010 to RMB148.6 million for the six months ended 30 June 2011.

The ratio of profit attributable to owners the Company to revenue narrowed from approximately 22.5% (excluding one-off listing expenses of RMB19.0 million) for the six months ended 30 June 2010 to approximately 21.7% for the six months ended 30 June 2011 mainly due the change in the sales mix.

Inventories, trade receivables and payables turnover cycle

The Group's inventories mainly comprise raw materials of wood pulp and scrap paper for de-inked pulp production. For the six months ended 30 June 2011, the inventory turnover cycle was approximately 72.6 days (For the year ended 31 December 2010: 56.9 days). The turnover cycle lengthened when compared with the year ended 31 December 2010, primarily due to an increase in stock level during this reporting period.

The turnover cycle for trade receivables for the six months ended 30 June 2011 lengthened to 69.0 days (For the year ended 31 December 2010: 56.4 days) primarily due to slightly longer credit period granted to customers. The Group's standard credit term to customers is 60 days.

During the reporting period, the credit terms provided by suppliers ranged from 30 to 180 days. The turnover cycle for trade and bills payables lengthened to 65.0 days (For the year ended 31 December 2010: 51.0 days), as the Group had arranged slower payments with its suppliers in order to match the cash flow cycle from trade receivables.

Borrowings

As at 30 June 2011, the Group's bank loan balance amounted to RMB546.5 million, of which RMB380.2 million will be due for repayment within one year (At 31 December 2010: RMB553.7 million, of which RMB 264.6 million will be due for repayment within one year).

As at 30 June 2011, the Group's bank borrowings of approximately RMB143.0 million carried fixed interest rates (As at 31 December 2010: RMB143.0 million).

As at 30 June 2011, the Group's gross gearing ratio was approximately 22.4% (As at 31 December 2010: 24.4%), which was calculated on the basis of the total amount of borrowings as a percentage of the total assets. The net gearing ratio, which was calculated on the basis of the amount of borrowings less cash and bank balances as a percentage of the shareholder equity, was 22.3% (As at 31 December 2010: 6.0%).

Capital expenditure

During the six months ended 30 June 2011, the Group invested approximately RMB185.5 million (For the year ended 31 December 2010: approximately 395.2 million) in construction of production facilities and equipments.

Dividend

The Board has resolved not to declare payment of any interim dividend for the six months ended 30 June 2011 (For the six months ended 30 June 2010: Nil).

Human Resources Management

As at 30 June 2011, the Group employed 2,248 staff (As at 30 June 2010: 1,563) and the total remuneration for the six months ended 30 June 2011 amounted to approximately RMB 30.5 million (For the six months ended 30 June 2010: RMB 14.9 million).

The Group's remuneration packages are commensurate the experience and qualifications of individual employees and general market conditions. Bonuses are linked to the Group's financial results as well as individual performances. The Group also ensures that all employees are provided with adequate training and professional development opportunities to satisfy their needs.

Share Option Scheme

Pursuant to the written resolutions passed by all the shareholder of the Company on 30 April 2010, the Company approved and adopted a share option scheme (the "Scheme") for the purpose to give the eligible persons 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 person who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of our Group, and additionally in the case of executives, to enable our Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

As at 30 June 2011, no options had been granted or agreed to be granted under the Scheme.

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

As at 30 June 2011, 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]	32,000,000	3.20%

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 32,000,000 Shares refer to the same block of Shares held by Everproud International Limited, which is wholly owned by Mr Ke Jixiong.

Except as disclosed above, as at 30 June 2011, 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 2011, 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 by virtue of Smart Port being wholly owned by Mr Ke Wentuo.

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

Note 3: Cathay Special Paper Limited is wholly owned by Cathay Capital Holdings II, L.P., a limited liability partnership. 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 Mater GP, Ltd. has defacto 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 2011, 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 ofthe SFO.

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

During the six months ended 30 June 2011, neither our Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of our Company.

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 throughout the period under review, our Company has complied with all the code provisions as set out in the Code.

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

Model Code for Securities Transactions

Our Company has adopted the Model Code 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 enquiries 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.

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 2011, members of the audit committee comprised 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. Mr Chow is a qualified accountant with over 20 years of experience in accounting, financial management and corporate finance.

During the Review Period, the audit committee held one meeting and subsequently on 24 August 2011, the audit committee also held one meeting. The members of the audit committee had reviewed and discussed with the external auditors of the Company of the Group's audited consolidated financial statements for the year ended 31 December 2010 and unaudited condensed consolidated financial statements for the six months ended 30 June 2011. They 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.

Remuneration Committee

Our Company established a remuneration committee on 30 April 2010 with written terms of reference which deal clearly with its authority and duties in compliance with the Code. As at 30 June 2011, our remuneration committee comprises Mr Ke Wentuo, Prof. Zhang Daopei and Prof. Chen Lihui. Mr Ke Wentuo is the chairman of the remuneration committee.

Use of Net Proceeds from Initial Public Offering

The Shares were listed on 27 May 2010 on the Main Board of The Stock Exchange of Hong Kong. The total net proceeds from the Listing after the issue of the Shares amounted to approximately RMB510.5 million, which had been intended to be applied as set out in the section headed "Use of Proceeds" of the Prospectus of the Company dated on 14 May 2010. As at 30 June 2011, RMB477.60 million have been used in the manner as described in the Prospectus and RMB32.9 million remained unutilized.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Sufficiency of Public Float

Based on the publicly available information and to the best of the Directors' knowledge, information and belief and at the date of this report, our Company has maintained sufficient public float during the period.

Review of interim results

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

On behalf of the Board

Ke Wentuo
Chairman

Hong Kong, 24 August 2011

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

TO THE BOARD OF DIRECTORS OF
YOUYUAN INTERNATIONAL HOLDINGS LIMITED
優源國際控股有限公司

Introduction

We have reviewed the interim financial information set out on pages 16 to 30, which comprises the condensed consolidated statement of financial position of Youyuan International Holdings Limited (the "Company") and its subsidiaries as of 30 June 2011 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-months then ended and certain explanatory notes. The Main Board Listing Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

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

Conclusion

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
24 August 2011

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

	NOTES	Six months ended 30 June 2011 RMB'000 (unaudited)	2010 RMB'000 (audited)
Revenue		**686,326**	535,912
Cost of sales		**(469,974)**	(354,678)
Gross profit		**216,352**	181,234
Selling and distribution expenses		**(3,797)**	(2,479)
Administrative expenses		**(33,266)**	(23,549)
Listing expenses		**—**	(19,011)
Other income and other gains and losses	4	**1,143**	(2,868)
Finance costs	5	**(9,077)**	(12,605)
Profit before tax		**171,355**	120,722
Income tax expense	6	**(22,738)**	(19,195)
Profit and total comprehensive income for the period attributable to owners of the Company	7	**148,617**	101,527
Earnings per share - Basic (RMB)	9	**0.149**	0.127

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2011

	NOTES	At 30 June 2011 RMB'000 (unaudited)	At 31 December 2010 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10	1,171,769	1,005,940
Prepaid lease payments		250,710	253,562
Deposits paid for acquisition of property, plant and equipment		216,789	108,540
Deposits paid for acquisition of land use right		87,460	22,155
		1,726,728	1,390,197
CURRENT ASSETS			
Inventories	11	230,456	146,496
Trade and other receivables	12	300,343	264,329
Prepaid lease payments		5,748	5,770
Pledged bank deposits		724	1,855
Bank balances and cash		179,504	463,634
		716,775	882,084
CURRENT LIABILITIES			
Trade and other payables	13	239,193	209,429
Income tax payables		12,993	12,952
Bank borrowings	14	380,160	264,560
		632,346	486,941
NET CURRENT ASSETS		84,429	395,143
TOTAL ASSETS LESS CURRENT LIABILITIES		1,811,157	1,785,340
NON-CURRENT LIABILITY			
Bank borrowings	14	166,320	289,120
		1,644,837	1,496,220
CAPITAL AND RESERVES			
Share capital	15	87,680	87,680
Reserves		1,557,157	1,408,540
TOTAL EQUITY		1,644,837	1,496,220

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2011

	Attributable to owners of the Company						
	Share capital	**Share premium**	**Capital reserve**	**Special reserve**	**Statutory surplus reserve**	**Accumulated profits**	**Total**
	RMB'000	RMB'000	RMB'000 (Note a)	RMB'000 (Note b)	RMB'000 (Note c)	RMB'000	RMB'000
At 1 January 2010 (audited)	—	—	111,623	67,867	38,831	336,526	554,847
Arising from group reorganisation	1	—	—	(1)	—	—	—
Profit and total comprehensive income for the period	—	—	—	—	—	101,527	101,527
Capitalisation issue (Note 15)	65,759	(65,759)	—	—	—	—	—
Issue of new shares (Note 15)	21,920	543,617	—	—	—	—	565,537
Share issue expenses	—	(25,745)	—	—	—	—	(25,745)
Deemed contribution from holding company	—	—	143,090	—	—	—	143,090
At 30 June 2010 (audited)	87,680	452,113	254,713	67,866	38,831	438,053	1,339,256
At 1 January 2011 (audited)	**87,680**	**451,469**	**257,299**	**67,866**	**68,037**	**563,869**	**1,496,220**
Profit and total comprehensive income for the period	**—**	**—**	**—**	**—**	**—**	**148,617**	**148,617**
At 30 June 2011 (unaudited)	**87,680**	**451,469**	**257,299**	**67,866**	**68,037**	**712,486**	**1,644,837**

Note a: Capital reserve comprise of:

(i) pursuant to the agreement dated 30 September 2009, Mr. Ke Wen Tuo, the ultimate controlling shareholder of the Group, waived the amount due to him of RMB111,623,000. Such amount was recorded in capital reserve as deemed contribution from a shareholder.

(ii) pursuant to the agreement dated 1 September 2008, 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 were 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.

(iii) 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 was recorded in capital reserve as deemed contribution from a shareholder.

Note b: 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 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 c: According to the relevant laws in the People's Republic of China (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.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2011

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
	(unaudited)	(audited)
OPERATING ACTIVITIES		
Profit before tax	**171,355**	120,722
Adjustments for:		
Interest income	**(600)**	(131)
Finance costs	**9,077**	12,605
Loss on disposal of property, plant and equipment	**9**	6
Share-based payments	**—**	2,327
Depreciation of property, plant and equipment	**19,650**	14,687
Depreciation of investment properties	**—**	228
Release of prepaid lease payments	**2,874**	2,874
Overprovision of listing and related expenses	**(3,092)**	—
Reversal of allowance for obsolete inventories	**—**	(179)
Operating cash flows before movements in working capital	**199,273**	153,139
Increase in inventories	**(83,960)**	(28,706)
Increase in trade and other receivables	**(36,014)**	(33,348)
Increase in trade and other payables	**41,852**	34,237
Decrease in amount due to a related party	**—**	(8,584)
Cash generated from operations	**121,151**	116,738
Income taxes paid	**(22,697)**	(13,076)
NET CASH FROM OPERATING ACTIVITIES	**98,454**	103,662
INVESTING ACTIVITIES		
Payments for acquisition of property, plant and equipment	**(280,469)**	(160,806)
Payments for prepaid lease payments	**(65,305)**	(6,650)
Decrease in pledged bank deposits	**1,131**	2,823
Interest received	**600**	131
Proceeds from disposal of property, plant and equipment	**—**	37
NET CASH USED IN INVESTING ACTIVITIES	**(344,043)**	(164,465)
FINANCING ACTIVITIES		
Proceeds from issue of new shares	**—**	565,537
New bank borrowings raised	**193,000**	139,000
Repayments of bank borrowings	**(200,200)**	(94,000)
Advance from immediate holding company	**—**	44,381
Interest paid	**(14,273)**	(13,917)
Payments of transaction costs attributable to issue of new shares	**(17,068)**	(10,017)
Repayment to ultimate controlling shareholder	**—**	(1,649)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(38,541)**	629,335

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2011

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
	(unaudited)	(audited)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(284,130)**	568,532
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**463,634**	86,825
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**179,504**	655,357

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2011

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2011 are same as those followed in the preparation of the annual financial statements of the Company and its subsidiaries (collectively referred as the "Group") for the year ended 31 December 2010, except as described below.

In the current interim period, the Group has applied, for the first time, the following new and revised standards and interpretations ("new or revised IFRSs"):

- Improvements to IFRSs issued in 2010
- IAS 24 (as revised in 2009) Related Party Disclosure
- Amendments to IAS 32 Classification of Rights Issues
- Amendments to IFRIC - Int 14 Prepayment of a Minimum Funding Requirement
- IFRIC - Int 19 Extinguishing Financial Liabilities with Equity Instruments.

The application of the new and revised IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

The Group has not early applied new or revised standards that have been issued but are not yet effective. The following new or revised standards have been issued after the date the consolidated financial statements for the year ended 31 December 2010 were authorised for issuance and are not yet effective:

IFRS 10	Consolidated Financial Statements[2]
IFRS 11	Joint Arrangement[2]
IFRS 12	Disclosures of Interests in Other Entities[2]
IFRS 13	Fair Value Measurment[2]
IAS 1 (revised)	Presentation of Items of Other Comprehensive Income[1]
IAS 19 (as revised in 2011)	Employee Benefits[2]
IAS 27 (as revised in 2011)	Separate Financial Statemnets[2]
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]

[1] Effective for annual periods beginning on or after 1 July 2012
[2] Effective for annual periods beginning on or after 1 January 2013

The directors of the Company anticipate that the application of these new or revised standards and interpretations will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

Information reported to the Chief Executive Officer of the Company, being the chief operating decision maker, for the purposes of resources allocation and assessment of segment performance focuses on types of goods delivered.

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

- Double-sided Machine Finished ("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.

The following is an analysis of the Group's revenue and results by operating segment for the period under review:

	Segment revenue Six months ended 30 June		**Segment results Six months ended 30 June**	
	2011 RMB'000 (unaudited)	2010 RMB'000 (audited)	**2011 RMB'000 (unaudited)**	2010 RMB'000 (audited)
Double-sided MF Tissue Paper	**313,535**	319,492	**106,525**	111,688
Single-sided MF Tissue Paper	**211,809**	136,942	**73,455**	48,070
Copy Paper	**68,012**	55,050	**19,744**	17,581
Other products	**92,970**	24,428	**16,628**	3,895
	686,326	535,912	**216,352**	181,234
Selling and distribution expenses			**(3,797)**	(2,479)
Administrative expenses			**(33,266)**	(23,549)
Listing expenses			**—**	(19,011)
Other income and other gains and losses			**1,143**	(2,868)
Finance costs			**(9,077)**	(12,605)
Profit before tax			**171,355**	120,722
Taxation			**(22,738)**	(19,195)
Profit and total comprehensive income for the period			**148,617**	101,527

4. OTHER INCOME AND OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
	(unaudited)	(audited)
Bank interest income	**600**	131
Loss on disposal of property, plant and equipment	**(9)**	(6)
Net foreign exchange losses	**(2,763)**	(2,694)
Donation	**—**	(880)
Government grants (note)	**190**	150
Gross rental income from investment properties	**—**	656
Less: direct operating expenses from investment properties	**—**	(228)
Overprovision of listing and related expenses	**3,092**	—
Others	**33**	3
	1,143	(2,868)

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.

5. FINANCE COSTS

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
	(unaudited)	(audited)
Interest on:		
Bank borrowings wholly repayable within five years	**14,101**	13,917
Less: Amounts capitalised	**(5,024)**	(1,312)
	9,077	12,605

During the six months ended 30 June 2011, the borrowing costs of RMB5,024,000 (Six months ended 30 June 2010: RMB1,312,000) capitalised are attributable to funds borrowed specifically for the purpose of obtaining particular qualifying assets.

6. INCOME TAX EXPENSE

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

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

Youlanfa obtained a high and new technology enterprise certificate in 2010 and was entitled to a preferential tax rate of 15% for three year period from 2009 to 2011, subject to annual review by the relevant tax authority.

Pursuant to the relevant laws and regulations in the PRC, 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. Years 2008 and 2009 were the exemption years, and years 2010 to 2012 are subject to 50% reduced tax rate of 12.5%.

The subsidiaries in jurisdictions other than the PRC have no assessable profit for both periods. No provision for the Hong Kong Profits Tax has been made as the Group did not have any assessable profit arising in Hong Kong for both periods.

Under the EIT 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 condensed consolidated financial statements in respect of temporary differences attributable to accumulated distributable profits of the PRC Subsidiaries amounting to RMB687,580,000 (unaudited) at 30 June 2011 (At 31 December 2010: RMB537,450,000 (audited)), 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.

7. PROFIT FOR THE PERIOD

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

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
	(unaudited)	(audited)
Depreciation of property, plant and equipment	**19,650**	14,687
Depreciation of investment properties	**—**	228
Release of prepaid lease payments	**2,874**	2,874
Total depreciation and amortisation expenses	**22,524**	17,789
Cost of inventories recognised as expenses	**469,974**	354,678
Reversal of allowance for obsolete raw materials	**—**	(179)

8. DIVIDENDS

No dividends were paid, declared or proposed for the six months ended 30 June 2011. The directors do not recommend the payment of an interim dividend (Six months ended 30 June 2010: Nil).

9. EARNINGS PER SHARE - BASIC

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

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
	(unaudited)	(audited)
Earnings		
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share	**148,617**	101,527

	Six months ended 30 June	
	2011	2010
	(unaudited)	(audited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,000,000,000**	798,342,000

For the six months ended 30 June 2010, the weighted average number of ordinary shares had been adjusted retrospectively for (i) the 10,000 shares issued at the date of incorporation and pursuant to the reorganisation and (ii) 749,990,000 shares issued pursuant to the capitalisation issue. In addition, the effect of 250,000,000 shares issued pursuant to the global offering is more fully described in note 15.

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

10. PROPERTY, PLANT AND EQUIPMENT

	Carrying values RMB'000
At 1 January 2011 (audited)	**1,005,940**
Additions	**185,488**
Depreciation for the period	**(19,650)**
Disposals	**(9)**
At 30 June 2011 (unaudited)	**1,171,769**

During the six months ended 30 June 2011, the Group spent approximately RMB280 million on the new production facilities mainly in the PRC in order to enlarge its production capabilities.

11. INVENTORIES

	At 30 June 2011 RMB'000 (unaudited)	At 31 December 2010 RMB'000 (audited)
Raw materials	217,560	131,755
Work in progress	92	36
Finished goods	12,804	14,705
	230,456	146,496

12. TRADE AND OTHER RECEIVABLES

Trade and other receivables mainly represent trade receivables of RMB279,008,000 (At 31 December 2010: RMB244,451,000).

The Group allows an average credit period of 60 days to its trade customers. The following is an analysing of trade receivables by age, presented based on the invoice date.

	At 30 June 2011 RMB'000 (unaudited)	At 31 December 2010 RMB'000 (audited)
0 to 30 days	167,061	138,767
31 to 60 days	111,947	105,684
	279,008	244,451

13. TRADE AND OTHER PAYABLES

	At 30 June 2011 RMB'000 (unaudited)	At 31 December 2010 RMB'000 (audited)
Trade payables	188,008	144,489
Notes payables	—	5,105
	188,008	149,594
Other payables for acquisition of plant and equipment	22,200	13,956
Accrued listing expenses	—	20,146
Other payables and accrued expenses	28,985	25,733
	239,193	209,429

Other payables and accrued expenses mainly represent accrued staff costs, professional fee and utilities expenses.

13. TRADE AND OTHER PAYABLES (continued)

The following is an analysis of trade payables by age, presented based on the invoice date.

	At 30 June 2011 RMB'000 (unaudited)	At 31 December 2010 RMB'000 (audited)
Within 30 days	106,998	99,142
31 to 90 days	81,010	45,347
	188,008	144,489

There are no note payables as at 30 June 2011. The notes payables as at 31 December 2010 aged from 31 to 90 days, based on the invoice date.

14. BANK BORROWINGS

	At 30 June 2011 RMB'000 (unaudited)	At 31 December 2010 RMB'000 (audited)
Secured bank borrowings	444,480	443,680
Unsecured bank borrowings	102,000	110,000
	546,480	553,680
The amount is repayable as follows:		
Within one year	380,160	264,560
More than one year	166,320	289,120
	546,480	553,680

Certain borrowings are guaranteed by group companies. Secured bank borrowings are secured by property, plant and equipment and land use right.

15. SHARE CAPITAL

	Number of shares	Share capital
		HK$
Ordinary shares of HK$0.1 each		
Authorised:		
At 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, 31 December 2010 and 30 June 2011	10,000,000,000	1,000,000,000
Issued and fully paid:		
At 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 global offering (note iii)	250,000,000	25,000,000
At 30 June 2010, 31 December 2010 and 30 June 2011	1,000,000,000	100,000,000

	At 30 June 2011 RMB'000 (unaudited)	At 31 December 2010 RMB'000 (audited)
Presented in RMB		
Share capital	**87,680**	87,680

Notes:

(i) On 14 January 2010, as part of the reorganisation, the Company, Mr. Ke Wen Tuo ("Mr. Ke") and Smart Port Holdings Limited ("Smart Port") entered into a share transfer agreement, pursuant to which Smart Port transferred its entire shareholding in Xi Yuan Paper Limited 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.

16. RELATED PARTY DISCLOSURES

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

Name	Relationships
福建優蘭發塗革紙製品有限公司 Fujian Youlanfa Leathercover Paper Co., Ltd.* ("YLF Leathercover")	YLF Leathercover was a company ultimately controlled by Mr. Ke Jixiong, the son of Mr. Ke.
漳州順雄貿易有限公司 Zhangzhou Shunxiong Trading Ltd.* ("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.

* English translation for identification only.

(b) Related parties transactions

During the six months ended 30 June 2010, the Group had the following related parties transactions:

(1) receipt of rental income of RMB656,000 from YLF Leathercover and;

(2) purchase of goods of RMB1,819,000 and RMB6,035,000 from Zhangzhou Shunxiong and YLF Leathercover, respectively.

All related parties transactions were discontinued after the listing of the shares of the Company on the Stock Exchange on 27 May 2010. There are no related parties transactions during the six months ended 30 June 2011.

(c) Compensation of key management personnel

The details of remuneration of key management personnel, represents emolument of directors of the Company during the six months ended 30 June 2011 are RMB1,193,000 (At 30 June 2010: RMB454,000).

17. CAPITAL COMMITMENTS

	At 30 June 2011 RMB'000 (unaudited)	At 31 December 2010 RMB'000 (audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	**362,460**	343,179
Capital expenditure authorised but not contracted for in respect of:		
Property, plant and equipment	**—**	54,810
Land use rights	**—**	67,000
	—	121,810