优源
YOUYUAN

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)

Interim Report 2014

CONTENTS

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

Mr Wong Yat Sum, *FCCA, HKICPA*

AUTHORISED REPRESENTATIVES

Mr Ke Wentuo
Mr Wong Yat Sum

CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG SHARE REGISTRAR

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

REGISTERED OFFICE

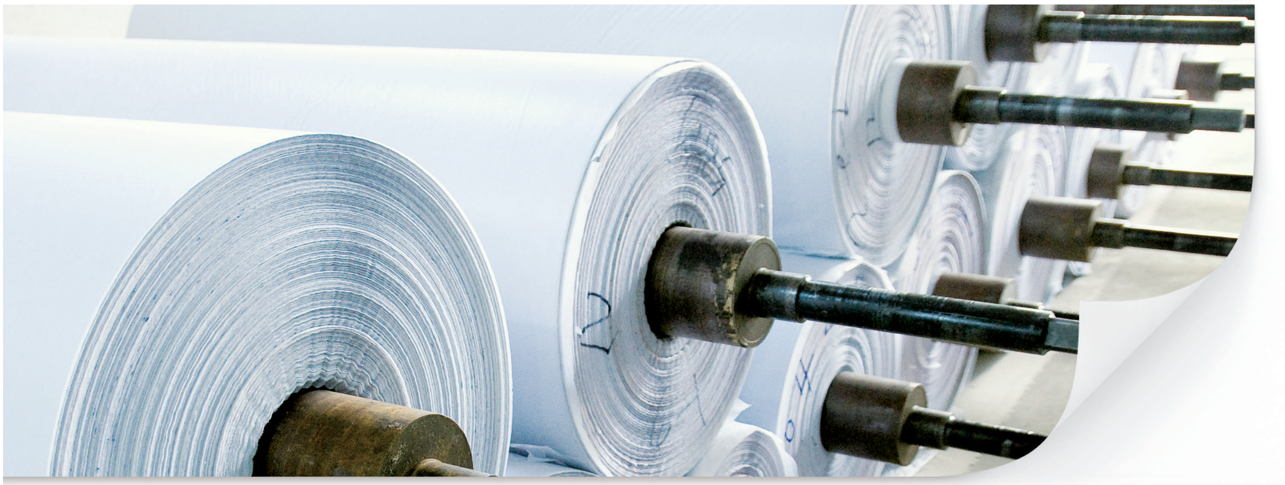
Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HEADQUARTERS IN THE PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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



COMPANY'S WEBSITE

www.youyuan.com.hk

PLACE OF LISTING AND STOCK CODE

The Stock Exchange of Hong Kong Limited
2268

PRINCIPAL BANKERS

In Hong Kong:

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

In the PRC:

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

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

LEGAL ADVISORS

Hong Kong law:

Orrick, Herrington & Sutcliffe

PRC law:

King & Wood Mallesons

Cayman Islands law:

Conyers Dill & Pearman

INVESTORS AND MEDIA RELATIONS

iPR Ogilvy Ltd

BUSINESS REVIEW AND OUTLOOK

The year 2014 started with a relatively slow first quarter, prompted by a later-than-usual Chinese New Year break that precipitated sluggishness in the run-up to the festive days and subsequently followed by a prolonged resumption to normal activity levels.

Manufacturing and consumption activities gradually picked up in the second quarter of the year. For the first six months of 2014, the total output in the industrial sector increased 8.8% and retail sales of consumer goods rose 10.8% year on year. Nonetheless, exports had yet to recover. The country's total exports by value for the first six months declined 0.9% from the same period last year.

This sluggish manufacturing and consumption situation inflicted repercussions on the Group's results for the first half. Firstly, prices of wood pulp remained on downward trend during the first half, prompted by the generally weak demand across the board and the overabundant inventories in most regions. The Group, which generally prices its products at a stable margin above raw material costs and has its proprietary de-inked pulp production capability, had been particularly affected when prices of wood pulp trended down.

On 7 April 2014, the Company as the borrower entered into a facility agreement with a syndicate of seven banks arranged by The Hongkong and Shanghai Banking Corporation Limited and China Citic Bank International Limited as mandated lead arrangers and bookrunners, pursuant to which a three-year term loan facility in the principal amount of US$110 million was made available to the Company on the terms and conditions stated therein for the purpose of refinancing the existing facilities and other general corporate funding requirements of the Group.

SEGMENTAL ANALYSIS

Wrapping tissue paper

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

Total revenue generated from wrapping tissue paper was RMB560.1 million, contributed to approximately 78.7% of the Group's revenue for this reporting period.

Copy paper

Revenue generated from copy paper was RMB84.1 million, representing a decrease of 30.6% when compared with that of the six months ended 30 June 2013, and contributed to approximately 11.8% of the Group's revenue. The decrease in revenue was mainly due to commencement of modification and upgrading works for 1 production line with a designed annual production capacity of 14,000 tonnes during this reporting period. The works represent part of the regular maintenance routine for the facilities to support product quality at high levels and improve efficiency.

Wall paper backing paper

The wall paper backing paper production line with a designed annual production capacity of 35,000 tonnes completed the trial operation during this reporting period. The first batch of standard products was delivered to customers in June 2014 and generated RMB0.9 million of sales.

Other products

Other products, comprising paper towel and ivory boards, generated revenue of RMB66.9 million during this reporting period and contributed to approximately 9.4% of the Group's revenue for this reporting period.

GEOGRAPHICAL ANALYSIS

The Group's revenue was entirely generated from mainland China. Eastern China and Southern China were the largest markets of the Group (by breakdown of locations from which sales were originated), with over 90% of Group's revenue for this reporting period being derived from these two regions.

BUSINESS REVIEW AND OUTLOOK

OPERATIONAL ANALYSIS

As at 30 June 2014, the Group operated 33 production lines with designed annual production capacities aggregating 320,000 tonnes, including 195,000 tonnes for wrapping tissue paper, 44,000 tonnes for copy paper, 35,000 tonnes for wall paper backing paper and 46,000 tonnes for other products.

During this reporting period, modification and upgrading works for 1 copy paper production line with designed annual production capacity of 14,000 tonnes commenced, with resumption of operation expected in 2015.

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

PROSPECTS

Looking ahead, the Central Government of China has started to adopt a gradual relaxation of its monetary tightening policies, complemented by lowering of reserve deposit ratio of commercial banks with the People's Bank of China and implementating other credit easing measures. Manufacturing, consumption and export activities are expected to recover momentarily.

Meanwhile, following a prolonged period of disciplined procurement and aggressive depletion, wood pulp inventories across China are expected to tighten up as manufacturing activities revive, paving the way for the Group to price its products and gain further cost advantages from its self-owned de-inking capability.

In conclusion, barring any unforeseen circumstances, the Group remains cautiously optimistic about the operating environment and the sector in the second half of the year.

RESULTS

Revenue of the Group for the six months ended 30 June 2014 was RMB712.0 million, representing a slight decrease of approximately 4.0% from RMB741.4 million for the six months ended 30 June 2013. Profit and total comprehensive income attributable to owners of the Company increased by approximately 1.1% from RMB131.1 million for the six months ended 30 June 2013 to RMB132.6 million for the six months ended 30 June 2014. The increase in profit and total comprehensive income attributable to owners of the Company was attributable to lower costs from increased use of de-inked pulp and lower income tax expenses, the effect of which was partly set off by the lower overall average selling price of the Group's products.

Basic earnings per share for the six months ended 30 June 2014 increased to RMB0.121 per share when compared with RMB0.119 per share for the six months ended 30 June 2013, based on the profit attributable to owners of the Company of RMB132.6 million (For the six months ended 30 June 2013: RMB131.1 million) and the weighted average of 1,100,000,000 shares (For the six months ended 30 June 2013: 1,100,000,000 shares) in issue during the reporting period.

Gross profit

Gross profit of the Group decreased modestly to RMB222.9 million for the six months ended 30 June 2014 from RMB241.3 million for the six months ended 30 June 2013. Overall gross profit margin of the Group slightly decreased from 32.5% for the six months ended 30 June 2013 to 31.3% for the six months ended 30 June 2014.

Other income and other gains and losses

Other income and other gains and losses of the Group decreased from a net gain of RMB6.4 million for the six months ended 30 June 2013 to a net gain of RMB3.7 million for the six months ended 30 June 2014, mainly due to a decrease in net foreign exchange gain of RMB against other currencies.

Selling and distribution costs

Selling and distribution costs of the Group increased by approximately 4.3% from RMB4.5 million for the six months ended 30 June 2013 to RMB4.6 million for the six months ended 30 June 2014, representing approximately 0.6% and 0.7% of the Group's revenue for the reporting periods, respectively.

Administrative expenses

Administrative expenses of the Group increased by approximately 8.0% from RMB36.6 million for six months ended 30 June 2013 to RMB39.5 million for the six months ended 30 June 2014, representing approximately 4.9% and 5.5% of the Group's revenue for the reporting periods, respectively. The increase was primarily due to increases in depreciation charges for property, plant and equipment, property tax and employee benefits expenses.

Finance costs

Finance costs of the Group increased by approximately 39.5% from RMB19.3 million for the six months ended 30 June 2013 to RMB27.0 million for the six months ended 30 June 2014, primarily due to an increase in the average bank borrowings during the reporting period.

Interest rates of bank loans ranged from 1.68% to 8.31% for the six months ended 30 June 2014, compared with 1.91% to 8.31% for the six months ended 30 June 2013.

Other expenses

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

Taxation

Tax charge decreased by approximately 77.2% from RMB41.0 million for the six months ended 30 June 2013 to RMB9.3 million for six months ended 30 June 2014, primarily due to the lower tax rate applied to the Group's subsidiaries in mainland China starting from 2014. The Group's effective tax rates for the six months ended 30 June 2013 and 2014 were 23.8% and 6.6%, respectively. The decrease in the effective tax rate was mainly due to the entitlement of the preferential tax rate for two of the Group's subsidiaries in mainland China and approximately RMB15,761,000 of an overprovision of income tax for 2013 was credited to profit and loss in this reporting period.

Profit and total comprehensive income attributable to owners of the Company

Profit and total comprehensive income attributable to owners of the Company increased slightly from RMB131.1 million for the six months ended 30 June 2013 to RMB132.6 million for the six months ended 30 June 2014. The ratio of profit and total comprehensive income attributable to owners of the Company to revenue increased slightly from approximately 17.7% for the six months ended 30 June 2013 to approximately 18.6% for the six months ended 30 June 2014.

Inventories, trade receivables and payables turnover cycle

The Group's inventories mainly comprise raw materials including wood pulp, recovered paper for de-inked pulp production. For the six months ended 30 June 2014, the inventory turnover cycle was approximately 54.1 days (For the year ended 31 December 2013: 50.4 days).

The turnover cycle for trade receivables for the six months ended 30 June 2014 lengthened to 155.0 days (For the year ended 31 December 2013: 110.1 days) primarily due to longer credit periods granted to customers. The Group's standard credit term to customers ranges from 90 days to 120 days.

The turnover cycle for trade and bills payables for the six months ended 30 June 2014 lengthened to 93.8 days (For the year ended 31 December 2013: 72.2 days), which was longer than the 60 days credit period granted by the Group's suppliers.

Borrowings

During this reporting period, the Group secured a US$110.0 million (equivalent to approximately RMB663.5 million) facility from a syndicate of seven banks for a three-year tenor.

As at 30 June 2014, the Group's bank borrowings balance amounted to RMB1,417.9 million, of which RMB506.4 million will be due for repayment within the next twelve months (As at 31 December 2013: RMB970.8 million, of which RMB573.8 million would be due for repayment within the next twelve months).

As at 30 June 2014, the Group's bank borrowings amounted to RMB1,417.9 million, carried at variable interest rates (As at 31 December 2013: RMB799.8 million).

As at 30 June 2014, the Group's net gearing ratio, which was calculated on the basis of total borrowings less bank balances and cash and pledged bank deposits as a percentage of shareholder equity, was 29.8% (As at 31 December 2013: 35.8%).

Pledge of assets

As at 30 June 2014, the Group pledged certain of its property, plant and equipment, land use rights and bank deposits with an aggregate carrying value of RMB483.0 million (As at 31 December 2013: RMB537.0 million) as collaterals for the credit facilities granted to the Group.

Capital expenditure

For the six months ended 30 June 2014, the Group invested RMB98.0 million (For the six months ended 30 June 2013: RMB152.0 million) in construction of production facilities and equipment.

DIVIDEND

The Board has resolved to declare of an interim dividend for the six months ended 30 June 2014 of HK 3.9 cent per share (For the six months ended 30 June 2013: HK 3.9 cents per share), totaling HK$42,900,000, amounted to approximately RMB34,500,000. It is expected that the interim dividend will be paid on or about 22 September 2014 to the shareholders of the Company (the "Shareholders") whose names appear on the register of members of the Company on 12 September 2014.

CLOSURE OF REGISTER OF MEMBER

The register of members of the Company will be closed from 8 September 2014 to 12 September 2014 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the interim dividend (payable on or about 22 September 2014), all transfers of shares of the Company accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 pm on 5 September 2014 for registration of transfer.

HUMAN RESOURCES MANAGEMENT

As at 30 June 2014, the Group employed approximately 1,800 staff (As at 30 June 2013: approximately 1,900 staff) and the total remuneration for the six months ended 30 June 2014 amounted to approximately RMB37.0 million (For the six months ended 30 June 2013: RMB34.4 million). The Group's remuneration packages are commensurate with the experience and qualifications of individual employees and general market conditions. Bonuses are linked to the Group's financial results as well as individual performances. The Group also ensures that all employees are provided with adequate training and professional development opportunities to satisfy their career development needs.

SHARE OPTION SCHEME

Pursuant to the written resolutions passed by all the Shareholders on 30 April 2010, the Company approved and adopted a share option scheme (the "Scheme") for the purpose of giving eligible persons an opportunity to have a personal stake in our Company, motivating them to optimise their future performance and efficiency to our Group, rewarding them for their past contributions, attracting, retaining or otherwise maintaining on-going relationships with such eligible person who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of our Group, and additionally in the case of executives, to enable our Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

As at 30 June 2014, 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 2014, the interests of each Director and chief executive of our Company in the shares of the Company with a nominal value of HK$0.10 each (the "Shares"), underlying Shares and debentures of our Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to our Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

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

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

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

(ii) 26,070,000 Shares held by Denron International Limited ("Denron"), which is wholly beneficially owned by Ms Cai Lishuang. Mr Ke Wentuo, being the spouse of Ms Cai Lishuang, is deemed to be interested in the said 26,070,000 Shares held by Denron.

Note 2: The interest in 36,300,000 Shares refers to the same block of Shares held by Everproud International Limited, which is wholly owned by Mr Ke Jixiong.

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

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

The register of substantial shareholders required to be kept by our Company under Section 336 of Part XV of the SFO shows that as at 30 June 2014, in addition to the interests disclosed under the paragraph headed "Directors and Chief Executives' Interests in the Shares and Underlying Shares and Debentures of our Company or any Associated Corporation", our Company was notified of the following substantial shareholders' interests and short positions in the Shares and underlying Shares, being interests of 5% or more.

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

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

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

Note 3: Cathay Special Paper Limited is wholly owned by Cathay Capital Holdings II, L.P., a limited liability partnership.

Except as disclosed above, as at 30 June 2014, 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.

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

On 7 April 2014, the Company as borrower entered into the facility agreement ("Facility Agreement") with a syndicate of seven banks for a three-year term loan in the principal amount of US$110 million (the "Facility"), pursuant to which the Facility Agreement includes a condition imposing specific performance obligations on Mr Ke Wentuo, the controlling shareholder of the Company (the "Controlling Shareholder") who is interested in approximately 57.38% of the issued share capital of the Company as of the date of the Facility Agreement. It will be a change of control in the event that (i) the Controlling Shareholder and his associates collectively do not or cease to own at least 40% of the, direct or indirect, beneficial shareholding interest in the issued share capital of, and carrying 40% of the voting rights in the Company, free from any security; (ii) the Controlling Shareholder and his associates collectively do not or cease to have management control of the Company; (iii) the Controlling Shareholder and his associates collectively are not or cease to be the single largest shareholder of the Company; or (iv) the Controlling Shareholder is not or cease to be the chairman of the board of directors (the "Board").

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

CORPORATE GOVERNANCE AND OTHER INFORMATION

CORPORATE GOVERNANCE CODE

Our Company has adopted the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. For the six months ended 30 June 2014, the Directors consider that our Company has complied with all the code provisions as set out in the Code, except for deviation under code provision E.1.2 of the Code which provides that the chairman of the Board should attend the annual general meeting. Mr Ke Wentuo, the chairman and an executive director of the Company, did not attend the annual general meeting of the Company held on 8 May 2014 in Hong Kong (the "Annual General Meeting") due to other business commitment. The Annual General Meeting was chaired by Mr Ke Jixiong, the chief executive officer and an executive director of the Company, instead.

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.

MODEL CODE FOR SECURITIES TRANSACTIONS

Our Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct for Directors in their dealings in the securities of our Company. Having made specific enquiry to all our Directors, all our Directors confirmed that they have complied with the required standard of dealings as set out in the Model Code throughout the reporting period.

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

For the six months ended 30 June 2014, neither our Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of our Company.

AUDIT COMMITTEE

The Company has established an audit committee on 30 April 2010 with written terms of reference in compliance with the Code. The primary responsibilities of the audit committee are to review and supervise financial reporting processes and internal control system of the Group. As at 30 June 2014, the audit committee comprises Mr Chow Kwok Wai, Prof. Zhang Daopei and Prof. Chen Lihui, being the three independent non-executive Directors. Mr Chow Kwok Wai is the chairman of our audit committee.

The members of audit committee reviewed the Company's financial reporting system and internal control system and the Group's audited financial statements for the year ended 31 December 2013 and interim report for the six months ended 30 June 2014 in conjunction with the Company's external auditor. They were of the opinion that these statements had complied with the applicable accounting standards, rules and regulations, and that adequate disclosures had been made.

NOMINATION COMMITTEE

Our Company established a nomination committee on 22 December 2011 with written terms of reference in compliance with the Code. As at 30 June 2014, the nomination committee comprised Prof. Zhang Daopei, Prof. Chen Lihui and Mr Ke Wentuo. Prof. Zhang Daopei is the chairman of the nomination committee. The nomination committee considers and recommends to the Board suitably qualified persons to become Directors and is responsible for reviewing the structure, size and composition of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategies.

REMUNERATION COMMITTEE

Our Company established a remuneration committee on 30 April 2010 with written terms of reference in compliance with the Code. As at 30 June 2014, the remuneration committee comprised, Prof. Zhang Daopei, Prof. Chen Lihui and Mr Ke Wentuo. Prof. Chen Lihui is the chairman of the remuneration committee. The primary responsibilities of our remuneration committee are to make recommendations to the Board on the remuneration packages of the Directors and senior management personnel of our Group and to ensure that no Director or any of his associates is involved in deciding his own remuneration.

USE OF NET PROCEEDS FROM INITIAL PUBLIC OFFERING

The Shares were listed on 27 May 2010 on the Main Board of the Stock Exchange. The total net proceeds from the listing after the issue of the Shares amounted to approximately RMB510.5 million, which had been intended to be applied as set out in the section headed "Use of Proceeds" of the prospectus of the Company dated on 14 May 2010 (the "Prospectus"). As at 30 June 2014, RMB494.8 million have been used in the manner as described in the Prospectus and RMB15.7 million remained unutilized.

SUFFICIENCY OF PUBLIC FLOAT

Based on the publicly available information and to the best of the Directors' knowledge, information and belief and at the date of this report, our Company has maintained sufficient public float during the six months ended 30 June 2014.

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, 14 August 2014

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Youyuan International Holdings Limited (the "Company" and its subsidiaries (collectively referred to as the "Group") set out on pages 15 to 28, which comprises the condensed consolidated statement of financial position as of 30 June 2014 the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
14 August 2014

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2014

	NOTES	Six months ended 30 June	
		2014	2013
		RMB'000	RMB'000
		(unaudited)	(unaudited)
Revenue		**711,983**	741,437
Cost of sales		**(489,060)**	(500,158)
Gross profit		**222,923**	241,279
Selling and distribution expenses		**(4,642)**	(4,451)
Administrative expenses		**(39,515)**	(36,600)
Other income and other gains and losses	4	**3,697**	6,353
Finance costs	5	**(26,962)**	(19,334)
Other expenses		**(13,580)**	(15,156)
Profit before tax		**141,921**	172,091
Income tax expense	6	**(9,344)**	(41,014)
Profit and total comprehensive income for the period attributable to owners of the Company	7	**132,577**	131,077
Earnings per share - Basic (RMB)	9	**0.121**	0.119

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2014

	NOTES	At 30 June 2014 RMB'000 (unaudited)	At 31 December 2013 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10	**2,077,072**	2,018,393
Prepaid lease payments		**346,361**	364,555
Deposits paid for acquisition of property, plant and equipment		**21,408**	10,512
		2,444,841	2,393,460
CURRENT ASSETS			
Inventories	11	**152,238**	140,353
Trade and other receivables	12	**618,815**	730,585
Prepaid lease payments		**7,635**	7,874
Pledged bank deposits		**71,170**	60,170
Time deposit		**35,000**	—
Bank balances and cash		**647,756**	142,130
		1,532,614	1,081,112
Assets classified as held for sale		**14,615**	—
		1,547,229	1,081,112
CURRENT LIABILITIES			
Trade and other payables	13	**328,208**	330,249
Tax liabilities		**522**	21,779
Bank borrowings	14	**506,433**	573,801
		835,163	925,829
Liabilities associated with assets classified as held for sale		**15,077**	—
		850,240	925,829
NET CURRENT ASSETS		**696,989**	155,283
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,141,830**	2,548,743
NON-CURRENT LIABILITIES			
Bank borrowings	14	**911,510**	397,000
Deferred taxation		**3,500**	3,500
		915,010	400,500
		2,226,820	2,148,243
CAPITAL AND RESERVES			
Share capital	15	**95,580**	95,580
Reserves		**2,131,240**	2,052,663
TOTAL EQUITY		**2,226,820**	2,148,243

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

	Attributable to owners of the Company				
	Share capital	**Share premium**	**Other reserves**	**Accumulated profits**	**Total**
	RMB'000	RMB'000	RMB'00	RMB'000	RMB'000
At 1 January 2013 (audited)	87,680	325,069	446,703	1,079,075	1,938,527
Profit and total comprehensive income for the period	—	—	—	131,077	131,077
Bonus issue	7,900	(7,900)	—	—	—
Dividends recognised as distribution	—	—	—	(46,750)	(46,750)
Transferred to accumulated profits (Note)	—	(38,250)	—	38,250	—
At 30 June 2013 (unaudited)	95,580	278,919	446,703	1,201,652	2,022,854
At 1 January 2014 (audited)	**95,580**	**224,919**	**476,693**	**1,351,051**	**2,148,243**
Profit and total comprehensive income for the period	—	—	—	**132,577**	**132,577**
Dividends recognised as distribution (Note 8)	—	—	—	**(54,000)**	**(54,000)**
At 30 June 2014 (unaudited)	**95,580**	**224,919**	**476,693**	**1,429,628**	**2,226,820**

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(unaudited)	(unaudited)
NET CASH FROM OPERATING ACTIVITIES	**277,112**	176,058
INVESTING ACTIVITIES		
Payments for property, plant and equipment	**(103,372)**	(135,318)
Placement of pledged bank deposits	**(11,000)**	—
Placement of time deposit	**(35,000)**	—
Receipt in advance for assets held for sale	**15,077**	—
Interest received	**2,643**	2,639
NET CASH USED IN INVESTING ACTIVITIES	**(131,652)**	(132,679)
FINANCING ACTIVITIES		
Dividend paid	**(53,819)**	(46,593)
New bank borrowings raised	**891,309**	427,450
Repayments of bank borrowings	**(444,167)**	(356,785)
Interest paid	**(33,157)**	(27,983)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**360,166**	(3,911)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**505,626**	39,468
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**142,130**	336,795
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**647,756**	376,263

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2014 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013.

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

Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to IAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting
IFRIC 21	Levies

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

3. SEGMENT INFORMATION

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

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

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

3. SEGMENT INFORMATION (Continued)

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

	Segment revenue		Segment results	
	Six months ended 30 June		Six months ended 30 June	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Wrapping tissue paper	**560,088**	531,340	**188,714**	192,299
Copy paper	**84,124**	121,280	**22,951**	36,151
Wall paper backing paper	**896**	—	**(201)**	—
Other products	**66,875**	88,817	**11,459**	12,829
	711,983	741,437	**222,923**	241,279
Selling and distribution expenses			**(4,642)**	(4,451)
Administrative expenses			**(39,515)**	(36,600)
Other income and other gains and losses			**3,697**	6,353
Finance costs			**(26,962)**	(19,334)
Other expenses			**(13,580)**	(15,156)
Profit before tax			**141,921**	172,091

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

4. OTHER INCOME AND OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Bank interest income	**2,643**	2,639
Loss on disposal of property, plant and equipment	—	(5)
Net foreign exchange gain	**862**	3,032
Government grants (note)	**132**	593
Others	**60**	94
	3,697	6,353

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

5. FINANCE COSTS

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest on:		
Bank borrowings wholly repayable within five years	**32,074**	30,191
Less: Amounts capitalised	**(5,112)**	(10,857)
	26,962	19,334

During the six months ended 30 June 2014, the borrowing costs RMB5,112,000 (six months ended 30 June 2013: RMB10,857,000) capitalised are attributable to funds borrowed specifically for the purpose of obtaining particular qualifying assets such as its production facilities.

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current tax:		
Charge for the period	**25,105**	41,014
Overprovision in prior period	**(15,761)**	—
	9,344	41,014

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

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

Youlanfa obtained a high and new technology enterprise certificate in 2013 and was approved in 2013 to entitle to a preferential tax rate of 15% for three year period from 2012 to 2014, subject to annual review by the relevant tax authority.

Xiyuan obtained a high and new technology enterprise certificate in 2013 and was approved in 2014 to entitle to a preferential tax rate of 15% for three year period from 2013 to 2015, subject to annual review by the relevant tax authority. Subsequent to the annual review in 2014, an overprovision of approximately RMB15,761,000 of income tax for 2013 was credited to profit and loss in current period, representing the over provided EIT rate of 25% in 2013.

In current interim period, the preferential tax rate of 15% has applied to Youlanfa and Xiyuan, which is subject to annual review in 2015.

7. PROFIT FOR THE PERIOD

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

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Depreciation of property, plant and equipment	**38,910**	31,231
Release of prepaid lease payments	**3,818**	4,357
Total depreciation and amortisation expenses	**42,728**	35,588
Research and development cost recognised as an expense (included in other expenses)	**13,580**	15,156
Cost of inventories recognised as expenses	**489,060**	500,158

8. DIVIDEND

During the current interim period, a final dividend of HK 6.3 cents per share in respect of the year ended 31 December 2013 (six months ended 30 June 2013: HK 5.3 cents per share in respect of the year ended 31 December 2012) has been declared and paid. The aggregate amount of the final dividend declared and paid in the current interim period amounted to approximately HK$69,300,000 (equivalent to approximately RMB54,000,000) and HK$69,069,000 (equivalent to approximately RMB53,819,000), respectively.

Subsequent to the end of the reporting period, the directors have resolved to declare the payment of an interim dividend of HK 3.9 cents per share for the six months ended 30 June 2014 (six months ended 30 June 2013: HK 3.9 cents per share).

9. EARNINGS PER SHARE - BASIC

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

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share	**132,577**	131,077

	Six months ended 30 June	
	2014	2013
	(unaudited)	(unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,100,000,000**	1,100,000,000

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

10. PROPERTY, PLANT AND EQUIPMENT

	Carrying values RMB'000
At 1 January 2014 (audited)	2,018,393
Additions	97,589
Depreciation for the period	(38,910)
At 30 June 2014 (unaudited)	2,077,072

During the six months ended 30 June 2014, the Group mainly incurred approximately RMB98 million (six months ended 30 June 2013: RMB152 million) on the construction of new production facilities in the PRC and capitalised interest in order to enlarge its production capabilities.

11. INVENTORIES

	At 30 June 2014 RMB'000 (unaudited)	At 31 December 2013 RMB'000 (audited)
Raw materials	136,816	119,864
Work in progress	99	89
Finished goods	15,323	20,400
	152,238	140,353

12. TRADE AND OTHER RECEIVABLES

Trade and other receivables mainly represent approximately RMB605,731,000 (31 December 2013: approximately RMB613,619,000), trade receivables.

The Group allows an average credit period of 90 to 120 days to its trade customers. The ageing of trade receivables presented based on the invoice date, which approximated the respective revenue recognition dates, at the end of the reporting period is as follows:

	At 30 June 2014 RMB'000 (unaudited)	At 31 December 2013 RMB'000 (audited)
0 to 30 days	166,143	172,189
31 to 60 days	159,487	156,328
61 to 90 days	154,561	164,814
91 to 120 days	125,540	120,288
	605,731	613,619

13. TRADE AND OTHER PAYABLES

	At 30 June 2014 RMB'000 (unaudited)	At 31 December 2013 RMB'000 (audited)
Trade payables	**129,368**	100,538
Notes payables	**127,000**	150,000
	256,368	250,538
Other payables for acquisition of plant and equipment	**38,601**	43,115
Other tax payables	**13,961**	13,234
Other payables and accrued operating expenses	**19,278**	23,362
	328,208	330,249

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

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

	At 30 June 2014 RMB'000 (unaudited)	At 31 December 2013 RMB'000 (audited)
Within 30 days	**73,759**	67,241
31 to 90 days	**55,609**	33,297
	129,368	100,538

The following is aged analysis of notes payables presented based on the invoice date at the end of the reporting period:

	At 30 June 2014 RMB'000 (unaudited)	At 31 December 2013 RMB'000 (audited)
91 to 180 days	**—**	150,000
181 to 365 days	**127,000**	—
	127,000	150,000

14. BANK BORROWINGS

	At 30 June 2014 RMB'000 (unaudited)	At 31 December 2013 RMB'000 (audited)
Secured bank borrowings	346,233	474,834
Unsecured bank borrowings	1,071,710	495,967
	1,417,943	970,801
Carrying amount repayable:		
Within one year	506,433	573,801
More than one year, but not exceeding two years	380,702	372,000
More than two years, but not exceeding five years	530,808	25,000
	1,417,943	970,801
Less: Amounts due within one year shown under current liabilities	(506,433)	(573,801)
Amounts shown under non-current liabilities	911,510	397,000

All unsecured bank borrowings are cross-guaranteed by the group companies. The remaining bank borrowings are secured by property, plant and equipment, prepaid lease payments and bank deposits with total carrying amounts approximately RMB483 million (31 December 2013: approximately RMB537 million).

On 7 April 2014, the Group entered into a facility agreement ("Facility Agreement") for a 3-year term loan facility (the "Facility") in the principal amount of USD110 million (equivalent to approximately RMB663.5 million) from a syndicate of seven banks. The Facility was made to the group for the purpose of refinancing of the existing facilities and other general corporate funding.

The Facility Agreement contains provisions which require certain specific performance obligations on the group and controlling shareholder of the Company.

As at 30 June 2014, the Facility has been fully drawn and the principal will be repaid by three installments by portions of 20%, 30% and 50% in April 2016, October 2016 and April 2017, respectively.

15. SHARE CAPITAL

	Number of shares	Share capital HK$
Authorised		
At 1 January 2013, 30 June 2013, 31 December 2013, 1 January 2014 and 30 June 2014		
- Ordinary shares of HK$0.1 each	10,000,000,000	1,000,000,000
Issued and fully paid		
At 1 January 2013		
- Ordinary shares of HK$0.1 each	1,000,000,000	100,000,000
Bonus issue		
- Ordinary shares of HK$0.1 each	100,000,000	10,000,000
At 30 June 2013, 31 December 2013, 1 January 2014 and 30 June 2014		
- Ordinary shares of HK$0.1 each	1,100,000,000	110,000,000

	At 30 June 2014 RMB'000 (unaudited)	At 31 December 2013 RMB'000 (audited)
Presented in RMB		
Share capital	95,580	95,580

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

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

16. CAPITAL COMMITMENTS

	At 30 June 2014 RMB'000 (unaudited)	At 31 December 2013 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	**63,937**	104,844