YOUYUAN INTERNATIONAL HOLDINGS LIMITED
優源國際控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2268)

2018 INTERIM RESULTS ANNOUNCEMENT

Financial Highlights

- Revenue increased by approximately 86.7% to RMB1,833.6 million
- Profit and total comprehensive income attributable to owners of the Company increased by approximately 7.7% to RMB236.7 million
- Basic earnings per share were RMB0.190
- The Board does not recommend declaration and payment of any interim dividend

The board of directors (the "Board") of Youyuan International Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the six months ended 30 June 2018. The Company's audit committee has reviewed the results and the unaudited condensed consolidated interim financial information of the Group for the six months ended 30 June 2018 before recommending them to the Board for approval.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the six months ended 30 June 2018

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2018

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

	At 30 June 2018 *RMB'000* *(unaudited)*	At 31 December 2017 *RMB'000* *(audited)*
NET CURRENT ASSETS	**910,433**	1,262,907
TOTAL ASSETS LESS CURRENT LIABILITIES	**5,779,431**	5,840,047
NON-CURRENT LIABILITIES		
Bank borrowings	**455,677**	789,790
Convertible bonds	**165,641**	—
Unsecured notes	**458,749**	433,580
Deferred consideration	**301,428**	375,907
Deferred taxation	**65,571**	67,597
	1,447,066	1,666,874
NET ASSETS	**4,332,365**	4,173,173
CAPITAL AND RESERVES		
Share capital	**107,391**	108,397
Reserves	**3,906,288**	3,683,795
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY	**4,013,679**	3,792,192
Non-controlling interests	**318,686**	380,981
TOTAL EQUITY	**4,332,365**	4,173,173

NOTES

1. BASIS OF PREPARATION

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

The condensed financial statements should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2017. The accounting policies and methods of computation used in the preparation of the condensed consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2017 except as stated below.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current period, the Group has adopted all the new and revised International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board that are relevant to its operations and effective for its accounting period beginning on 1 January 2018. IFRSs comprise International Financial Reporting Standards ("IFRS"); International Accounting Standards ("IAS"); and Interpretations.

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

IFRS 9 Financial Instruments

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

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

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

(a) **Classification**

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

- those to be measured at amortised cost.

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

(b) **Impairment**

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

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

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

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

Note:

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

IFRS 15 Revenue from Contracts with Customers

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

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

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

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

3. FAIR VALUE MEASUREMENTS

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

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

Level 1 inputs:	quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.
Level 2 inputs:	inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3 inputs:	unobservable inputs for the asset or liability.

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

(a) **Disclosures of level in fair value hierarchy:**

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

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

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

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

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

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

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

Level 3 fair value measurements

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

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

There were no changes in the valuation techniques used.

4. REVENUE AND SEGMENT INFORMATION

(a) Revenue

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

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

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

(b) Products within each operating segment

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

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

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

(c) **Segment revenue and segment results**

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

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

5. FINANCE COSTS

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

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

6. INCOME TAX EXPENSE

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

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

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

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

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

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

7. PROFIT FOR THE PERIOD

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

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

8. DIVIDENDS

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

9. EARNINGS PER SHARE

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

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

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

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

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

10. TRADE AND OTHER RECEIVABLES

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

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

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

11. TRADE AND OTHER PAYABLES

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

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

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

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

12. CONTINGENT LIABILITIES

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

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

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

BUSINESS REVIEW

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

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

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

Segmental analysis

Wrapping tissue paper

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

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

Copy paper

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

Wall paper products

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

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

Other products

Other products, comprising paper towel, and core boards, generated revenue of RMB105.0 million, contributed to approximately 5.7% of the Group's revenue for the reporting period.

Geographical analysis

The entire Group's revenue was generated from mainland China. Eastern China and Southern China were the largest markets of the Group (in terms of locations from which sales were originated), with over 83.0% of Group's revenue for this reporting period was derived from these two regions.

Operational analysis

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Results

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

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

Gross profit

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

Other income and other gains and losses

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

Share of profits of an associate

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

Selling and distribution expenses

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

Administrative expenses

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

Finance costs

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

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

Other expenses

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

Taxation

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

Profit and total comprehensive income attributable to owners of the Company

Profit and total comprehensive income attributable to owners of the Company increased from RMB219.8 million for the six months ended 30 June 2017 to

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

Inventories, trade receivables and payables turnover cycle

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

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

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

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

Borrowings

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

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

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

Convertible bonds

On 20 October 2017, the Company issued 4.5% guaranteed convertible bonds which will be due on 20 October 2018 (extendable for one year) ("October 2017 CB"), in the aggregate principal amount of HK$200.0 million (approximately RMB167.0 million) with an initial conversion price of HK$4.4625 per share of the Company (subject to adjustment). Pursuant to the supplemental deed entered into between the Company and the bondholder, the maturity date of the October 2017 CB extends from 20 October 2018 to 20 October 2019. Upon exercise in full of the subscription rights attaching to the October 2017 CB at the conversion price of HK$4.4625 (subject to adjustment), a maximum of 44,817,927 shares of the Company will be allotted and issued under the general mandate granted by the shareholders at the annual general meeting of the Company held on 25 May 2017 ("General Mandate"). No shares of the Company has been issued as at the date of this announcement under the October 2017 CB.

On 13 November 2017, the Company issued 4.5% guaranteed convertible bonds which will be due on 13 November 2018 (extendable for 6 months) ("November 2017 CB"), in the aggregate principal amount of US$20.0 million (approximately RMB130.4 million) with an initial conversion price of HK$4.98 per share of the Company (subject to adjustment). Upon exercise in full of the subscription rights attaching to the November 2017 CB at the conversion price of HK$4.98 (subject to adjustment), a maximum of 31,325,301 shares of the Company will be allotted and issued under the General Mandate. No shares of the Company has been issued as at the date of this announcement under the November 2017 CB.

On 1 February 2018, the Company issued 4.5% guaranteed convertible bonds which will be due on 1 February 2019 (extendable for one year) ("February 2018 CB") in the aggregate principal amount of US$22.0 million (approximately RMB143.4 million) with an initial conversion price of HK$4.4625 per share of the Company (subject to adjustment). Upon exercise in full of the subscription rights attaching to the February 2018 CB at the conversion price of HK$4.4625 (subject to adjustment), a maximum of 38,453,781 shares of the Company will be allotted and issued under the General Mandate. No shares of the Company has been issued as at the date of this announcement under the February 2018 CB.

Unsecured notes

As at 30 June 2018, the Group's unsecured notes balance amounted to RMB458.7 million which will be due in October 2019.

Liquidity and financial resources

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

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

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

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

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

Foreign currency exposure

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

Pledge of assets

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

Capital expenditure

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

Human resources management

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

Dividend

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

PROSPECTS

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

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

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

CORPORATE GOVERNANCE AND OTHER INFORMATION

Corporate Governance Code

Our Company has adopted the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. For the six months ended 30 June 2018, the Directors consider that our Company has complied with all the code provisions as set out in the CG Code, except for a deviation from code provision A.6.7.

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

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

Model Code for Securities Transactions

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

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

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

For the year ended 31 December 2017, the Company repurchased a total of 15,633,000 Shares of HK$0.10 per share from the open market, of which 3,800,000 repurchased Shares were cancelled and the remaining balance of 11,833,000 repurchased Shares were subsequently cancelled on 9 February 2018.

Audit Committee

The Company has established an audit committee ("Audit Committee") on 30 April 2010 with written terms of reference in compliance with the CG Code. The primary responsibilities of the audit committee are to review and supervise financial reporting processes and internal control system of the Group. As at 30 June 2018, the audit committee comprises Mr. Chow Kwok Wai, Prof. Zhang Daopei and Prof. Chen Lihong, being the three independent non-executive Directors. Mr. Chow Kwok Wai is the chairman of our audit committee.

The Audit Committee reviewed the Company's financial reporting and internal control system, and the Group's consolidated financial statements for the year ended 31 December 2017 and the unaudited condensed consolidated financial statements for the six months ended 30 June 2018, which have been reviewed by the Company's external auditor. The Audit Committee is of the opinion that these statements have complied with the applicable accounting standards, rules and regulations, and that adequate disclosures have been made.

Publication of results announcement and interim report

This announcement is published on the websites of the Company (www.youyuan.com.hk) and The Stock Exchange of Hong Kong Limited (www.hkexnews.hk). The 2018 interim report of the Company will be despatched to the Shareholders and made available on the same websites in due course.

By Order of the Board
Youyuan International Holdings Limited
KE Wentuo
Chairman

Hong Kong, 29 August 2018

As at the date of this announcement, the executive directors of the Company are Mr. Ke Wentuo, Mr. Ke Jixiong, Mr. Cao Xu, Mr. Zhang Guoduan and Ms. Lian Bi Yu; and the independent non-executive directors of the Company are Prof. Zhang Daopei, Prof. Chen Lihong and Mr. Chow Kwok Wai.