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)

2018 ANNUAL RESULTS ANNOUNCEMENT

Financial Highlights

- Revenue increased by approximately 53.9% to approximately RMB4,059.8 million
- Profit and total comprehensive income attributable to owners of the Company decreased by approximately 31.3% to RMB661.0 million
- Basic earnings per share was RMB0.532
- The Board does not recommend declaration and payment of any final dividend

The board of directors (the "Board") of Youyuan International Holdings Limited (the "Company") is pleased to announce the audited and consolidated annual results of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2018.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	**2018**	2017
		RMB'000	*RMB'000*
Revenue	4	**4,059,840**	2,638,825
Cost of sales		**(2,419,076)**	(1,747,505)
Gross profit		**1,640,764**	891,320
Other income and other gains and losses		**(34,663)**	463,410
Share of profit of an associate		**—**	67,000
Selling and distribution expenses		**(178,341)**	(64,023)
Administrative expenses		**(128,599)**	(125,693)
Finance costs		**(220,979)**	(94,853)
Other expenses		**(86,455)**	(56,190)
Profit before tax	5	**991,727**	1,080,971
Income tax expense	6	**(266,049)**	(90,848)
Profit and total comprehensive income for the year		**725,678**	990,123
Attributable to:			
Owners of the Company		**661,041**	961,981
Non-controlling interests		**64,637**	28,142
		725,678	990,123
		RMB	*RMB*
Earnings per share	8		
Basic		**0.532**	0.799
Diluted		**N/A**	0.775

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2018

	Notes	**2018** *RMB'000*	2017 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**3,278,844**	2,807,588
Prepaid lease payments		**516,434**	529,603
Goodwill		**613,498**	613,498
Intangible assets		**203,520**	230,292
Deposits paid for acquisition of property, plant and equipment		**436,619**	206,604
Deposits paid for acquisition of prepaid lease payments		**—**	49,966
Deposit paid for acquisition of non-controlling interests		**41,520**	33,150
Other prepayments		**69,429**	106,439
		5,159,864	4,577,140
CURRENT ASSETS			
Inventories		**80,273**	117,274
Trade and other receivables	9	**2,090,024**	1,754,689
Prepaid lease payments		**12,865**	12,865
Derivative financial assets		**3,273**	—
Bank balances and cash		**519,639**	846,343
		2,706,074	2,731,171
CURRENT LIABILITIES			
Trade and other payables	10	**448,768**	465,525
Income tax payables		**98,003**	63,285
Bank and other borrowings		**1,320,761**	660,140
Convertible bonds		**339,790**	262,127
Unsecured notes		**492,667**	—
Derivative component of convertible bonds		**637**	12,880
Derivative financial liabilities		**—**	4,307
		2,700,626	1,468,264
NET CURRENT ASSETS		**5,448**	1,262,907
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,165,312**	5,840,047

	2018	2017
	RMB'000	*RMB'000*
NON-CURRENT LIABILITIES		
Bank and other borrowings	**16,000**	789,790
Unsecured notes	**—**	433,580
Deferred consideration	**326,733**	375,907
Deferred taxation	**70,551**	67,597
	413,284	1,666,874
NET ASSETS	**4,752,028**	4,173,173
CAPITAL AND RESERVES		
Share capital	**107,330**	108,397
Reserves	**4,329,179**	3,683,795
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY	**4,436,509**	3,792,192
Non-controlling interests	**315,519**	380,981
TOTAL EQUITY	**4,752,028**	4,173,173

NOTES

1. GENERAL

Youyuan International Holdings Limited (the "Company") was incorporated in the Cayman Islands on 12 October 2009 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 27 May 2010. Its immediate and ultimate parent is Smart Port Holdings Limited (incorporated in the British Virgin Islands) and its ultimate controlling shareholder is Mr. Ke Wentuo who is also the Chairman of the Company. The addresses of the registered office of the Company is situated at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands and its principal place of business in the People's Republic of China (the "PRC") is Xibin Industrial Zone, Jinjiang City, Fujian Province, the PRC.

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

The Company acts as an investment holding company. The principal activities of its subsidiaries are manufacturing and trading of wrapping tissue paper, wall paper products, copy paper and other products.

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"). IFRSs comprise International Financial Reporting Standards ("IFRS"); International Accounting Standards ("IAS"); and Interpretations. The consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and with the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622).

International Accounting Standard Board has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in the consolidated financial statements.

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Application of new and revised IFRSs

International Accounting Standard Board has issued a number of new and revised IFRSs that are first effective for annual periods beginning on or after 1 January 2018. Of these, the following new or revised IFRS, are relevant to the Group:

(i) IFRS 9 Financial Instruments; and

(ii) IFRS 15 Revenue from Contracts with Customers

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

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 Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

(a) **Classification**

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

- those to be measured subsequently at fair value through other comprehensive income ("FVTOCI") or fair value through profit or loss ("FVTPL"), and

- 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.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income.

(b) **Measurement**

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in other income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains (losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

- FVTPL: Assets that do not meet the criteria for amortised cost are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss and presented net within other gains (losses) in the period in which it arises.

Changes in the fair value of financial assets at FVTPL are recognised in other gains (losses) in the statement of profit or loss as applicable.

(c) **Impairment**

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVTOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

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.

Set out below is the impact of the adoption of IFRS 9 on the Group.

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

Financial assets	**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 (Note)	Loans and receivables	Amortised cost	1,626,980	1,626,980

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application.

Note: Trade and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortised cost. No allowance for impairment over these receivables was recognised in opening retained earnings 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 recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 Revenue and IAS 11 Construction Contracts and the related interpretations.

The adoption of IFRS 15 resulted in the following changes to the Group's accounting policies.

Revenue from the sale paper products is recognised when control of the goods has transferred, being when the goods have been shipped to the customer's specific location (delivery). Following delivery, the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on selling the goods and there is no unfulfilled obligation that could affect the customer's acceptance of 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.

New and revised IFRSs in issue but not yet effective

The Group has not early applied new and revised IFRSs that have been issued but are not yet effective for the financial year beginning 1 January 2018. These new and revised IFRSs include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
IFRS 16 Leases	1 January 2019
IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019
Annual Improvements to IFRSs 2015 - 2017 Cycle	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of IFRS 16 which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for IFRS 16, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ended 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that interim financial report.

IFRS 16 Leases

IFRS 16 replaces IAS 17 Leases and related interpretations. The new standard introduces a single accounting model for lessees. For lessees the distinction between operating and finance leases is removed and lessees will recognise right-of-use assets and lease liabilities for all leases (with optional exemptions for short-term leases and leases of low value assets). IFRS 16 carries forward the accounting requirements for lessors in IAS 17 substantially unchanged. Lessors will therefore continue to classify leases as operating or financing leases.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

Based on a preliminary assessment, the standard will affect primarily the accounting for the Group's operating leases. The Group's office property leases are currently classified as operating leases and the lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term. Under IFRS 16 the Group may need to recognise and measure a liability at the present value of the future minimum lease payments and recognise a corresponding right-of-use asset for these leases. The interest expense on the lease liability and depreciation on the right-of-use asset will be recognised in profit or loss. The Group's assets and liabilities will increase and the timing of expense recognition will also be impacted as a result.

The Group's future minimum lease payments under non-cancellable operating leases for its office properties amounted to approximately RMB1,623,000 as at 31 December 2018. These leases are expected to be recognised as lease liabilities, with corresponding right-of-use assets, once IFRS 16 is adopted. The amounts will be adjusted for the effects of discounting and the transition reliefs available to the Group.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of IFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's consolidated financial statements from 2019 onwards.

IFRIC 23 Uncertainty over Income Tax Treatments

The interpretation of IAS 12 Income Taxes sets out how to apply that standard when there is uncertainty about income tax treatments. Entities are required to determine whether uncertain tax treatments should be assessed separately or as a group depending on which approach will better predict the resolution of the uncertainties. Entities will have to assess whether it is probable that a tax authority will accept an uncertain tax treatment. If yes, the accounting treatment will be consistent with the entity's income tax filings. If not, however, entities are required to account for the effects of the uncertainty using either the most likely outcome or expected value method depending on which method is expected to better predict its resolution.

The Group is unable to estimate the impact of the interpretation on the consolidated financial statements until a more detailed assessment has been completed.

4. SEGMENT INFORMATION

(a) Products within each operating segment

Information reported to the Chief Executive Officer of the Company ("Chief Executive Officer"), 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 operating decision maker have been aggregated in arriving at the reportable 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;
- Wall paper products - manufacturing for sale of wall paper and wall paper backing paper;
- Copy paper - manufacturing for sale of copy paper; and
- Other products - manufacturing for sale of paper towels, ivory boards and core boards.

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

	Segment revenue		Segment results	
	2018	2017	**2018**	2017
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Wrapping tissue paper	**2,171,569**	1,684,849	**786,356**	549,221
Wall paper products	**1,380,957**	535,290	**739,336**	250,752
Copy paper	**290,108**	217,371	**83,648**	63,878
Other products	**217,206**	201,315	**31,424**	27,469
	4,059,840	2,638,825	**1,640,764**	891,320
Other income and other gains and losses			**(34,663)**	463,410
Share of profit of an associate			**—**	67,000
Selling and distribution expenses			**(178,341)**	(64,023)
Administrative expenses			**(128,599)**	(125,693)
Finance costs			**(220,979)**	(94,853)
Other expenses			**(86,455)**	(56,190)
Profit before tax			**991,727**	1,080,971

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

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

(c) **Geographical information**

The Group principally operates in the PRC (country of domicile of the operating subsidiaries). All non-current assets of the Group are located in the PRC.

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

5. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

	2018	2017
	RMB'000	*RMB'000*
Employee benefits expenses (including directors):		
Salaries, wages and other benefits	**91,637**	75,229
Retirement benefit scheme contributions	**10,053**	5,924
	101,690	81,153
Depreciation of property, plant and equipment	**168,417**	130,216
Amortisation of prepaid lease payments	**13,169**	12,952
Amortisation of intangible assets	**26,772**	8,924
Total depreciation and amortisation expenses	**208,358**	152,092
Auditors' remuneration	**3,089**	3,324
Research and development cost recognised as expenses (included in other expenses)	**86,455**	56,190
Cost of inventories recognised as expenses	**2,419,076**	1,747,505

6. INCOME TAX EXPENSE

	2018	2017
	RMB'000	*RMB'000*
Current tax		
Charge for the year	**263,095**	86,036
Deferred tax		
Charge for the year	**2,954**	4,812
	266,049	90,848

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

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

The income tax expense for the year 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, 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 years.

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 year, the preferential tax rate of 15% has applied to Xiyuan and Senry.

7. DIVIDENDS

On 28 March 2019, the Board does not recommend declaration and payment of any final dividend in respect of the year ended 31 December 2018 (2017: Proposed final dividend of Nil).

8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	2018	2017
	RMB'000	*RMB'000*
Earnings		
Earnings for the purpose of calculating basic earnings per share	**661,041**	961,981
Finance cost saving on conversion of convertible bonds outstanding	—	12,952
Fair value gain on derivative component of convertible bonds reversed	—	(25,811)
Exchange gain on liability and derivative components of convertible bonds reversed	—	(5,521)
Earnings for the purpose of calculating diluted earnings per share	**661,041**	943,601

	2018	2017
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,243,508,999**	1,203,994,648
Effect of dilutive potential ordinary shares arising from convertible bonds outstanding	—	13,168,899
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**1,243,508,999**	1,217,163,547

For the year ended 31 December 2018, as the exercise of the Group's outstanding convertible bonds would be anti-dilutive, no diluted earnings per share was presented.

9. TRADE AND OTHER RECEIVABLES

	2018	2017
	RMB'000	*RMB'000*
Trade receivables	**1,898,954**	1,620,046
Other prepayments	**122,198**	112,952
Other receivables and deposits	**64,995**	6,934
Prepaid expenses	**3,877**	2,125
Other tax recoverable	**—**	12,632
	2,090,024	1,754,689

The Group allows a credit period range from 30 days to 180 days (2017: 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:

	2018	2017
	RMB'000	*RMB'000*
0 to 60 days	**907,783**	771,624
61 to 120 days	**779,423**	662,872
121 to 180 days	**211,748**	185,550
	1,898,954	1,620,046

The carrying amount of the Group's trade receivables is denominated in RMB.

As at 31 December 2018 and 2017, no trade receivable balance was past due nor impaired. The Group does not hold any collateral over the trade balances.

As at 31 December 2018 and 2017, the Group has neither provided any allowance for doubtful debts nor impaired any trade receivables.

10. TRADE AND OTHER PAYABLES

	2018	2017
	RMB'000	*RMB'000*
Trade payables	**254,327**	309,911
Other payables for acquisition of plant and equipment	**31,588**	11,616
Other tax payables	**42,194**	51,126
Accrued staff costs and employee social security fund	**12,610**	11,828
Accrued electricity expenses	**5,425**	7,448
Other accrued expenses	**42,624**	73,596
Dividend payable to non-controlling interests	**60,000**	—
	448,768	465,525

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

	2018	2017
	RMB'000	*RMB'000*
Within 30 days	**135,860**	175,935
31 to 90 days	**118,467**	133,976
	254,327	309,911

The carrying amount of the Group's trade payables is denominated in RMB.

Trade payables principally comprise amounts outstanding for the purchase of goods. The credit period for purchase of goods is 30 days to 90 days. The Group has financial risk management policies in place to ensure that all payables are within the credit time frame.

BUSINESS REVIEW

In recent years, the supply side reform for the paper manufacturing industry undergone in China enabled optimisation of the internal environment of the industry with further regulation and consolidation. The Chinese Government requires faster closure of outdated and inefficient capacity and much more stringent approval requirements on new capacities, which is a move to solve over-capacity problem and regulate one of its most heavily heavy-polluting industries. The results of tightening measurements imposed is getting more obvious.

The outperformance of the Group was partly attributed to the improving supply-demand relationship in the country's paper sector, where the supply has been strictly disciplined while the demand for paper products is dominated by the daily consumption of the online shopping. Limited new capacity and rising prices benefitted the Group. Moreover, the Group's proactive strategy to achieve the appropriate balance among selling prices, sales volume and inventory levels for optimal profitability was effective.

Prices of raw pulp continued to keep climbing resulting from the growing furnish costs and tightened regulation on waste paper imports imposed by the government. Nevertheless, the profit margin of the Group is secured as benefiting from using self-manufactured de-inked pulp.

As for finished paper products, the prices have been upheld at a favourable level given the demand for package-use paper products continued to grow steadily in China and supply is getting tighter, with the difficulty of adding new capacity and continuous inefficient closures.

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 RMB2,171.6 million, contributed to approximately 53.5% of the Group's revenue for this 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 RMB1,380.9 million, contributed to approximately 34.0% of the Group's revenue for this reporting period.

Copy paper

Revenue generated from copy paper was RMB290.1 million, contributed to approximately 7.1% of the Group's revenue for this reporting period.

Other products

Other products, comprising paper towel, ivory boards and core boards, generated revenue of RMB217.2 million and contributed to approximately 5.4% of the Group's revenue for this reporting period.

Geographical Analysis

The entire Group's revenue was generated from mainland China. Eastern China and Southern China are the largest markets of the Group (in term of locations from which sales were originated), with over 83.5% of Group's revenue for this reporting period was derived from these two regions.

Operational Analysis

As at 31 December 2018, notwithstanding the Group remained operated 37 production lines, the designed annual production capacity increased from 428,000 tonnes to 466,000 tonnes in aggregate after maintenance and upgrade, including 298,000 tonnes for wrapping tissue paper, 52,000 tonnes for copy paper, 35,000 tonnes for wall paper backing paper and 81,000 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 year ended 31 December 2018 was RMB4,059.8 million, representing an increase of approximately 53.9% from RMB2,638.8 million for the year ended 31 December 2017. Profit and total comprehensive income attributable to owners of the Company decreased by approximately 31.3% from RMB962.0 million for the year ended 31 December 2017 to RMB661.0 million for the year ended 31 December 2018. The decrease in profit and total comprehensive income attributable to owners of the Company were attributable to an one-off gain on deemed disposal of an associate of approximately RMB343.7 million recognised in 2017, foreign exchange loss due to depreciation of Renminbi ("RMB") against US Dollars ("USD") and high finance costs recognised in 2018, the impact of which was partly set off by increase in sales volume and average selling price of the Group's products.

Basic earnings per share for the year ended 31 December 2018 decreased by 33.4% to RMB0.532 per share when compared with the RMB0.799 per share for the year ended 31 December 2017, based on the profit and total comprehensive income attributable to owners of the Company of RMB661.0 million (For the year ended 31 December 2017: RMB962.0 million) and the weighted average of 1,243,508,999 shares (For the year ended 31 December 2017: 1,203,994,648 shares) in issue during this reporting period.

Gross profit

Gross profit of the Group increased to RMB1,640.8 million for the year ended 31 December 2018 from RMB891.3 million for the year ended 31 December 2017. Overall gross profit margin of the Group increased from 33.8% for the year ended 31 December 2017 to 40.4% for the year ended 31 December 2018.

Other income and other gains and losses

Other income and other gains and losses of the Group changed from a net gain of RMB463.4 million for the year ended 31 December 2017 to a net loss of RMB34.7 million for the year ended 31 December 2018, mainly due to an one-off gain on deemed disposal of an associate of approximately RMB343.7 million recognised in 2017, the increase in net foreign exchange losses as a result of the depreciation of RMB against USD and HKD for the bank and other borrowings, convertible bonds and unsecured notes denominated in USD or HKD, the impact of which was partly set off by the fair value gain of a forward hedging contract and fair value gain on derivative component of convertible bonds.

Share of profits of an associate

Share of profits of an associate of the Group amounts to RMB67.0 million for the year ended 31 December 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. Its results, assets and liabilities were fully consolidated in the profit or loss of the Group for this reporting period.

Selling and distribution costs

Selling and distribution costs of the Group increased by approximately 178.6% from RMB64.0 million for the year ended 31 December 2017 to RMB178.3 million for the year ended 31 December 2018, representing approximately 2.4% and 4.4% of the Group's revenue for the reporting periods, respectively.

Administrative expenses

Administrative expenses of the Group increased by approximately 2.3% from RMB125.7 million for the year ended 31 December 2017 to RMB128.6 million for the year ended 31 December 2018, representing approximately 4.8% and 3.2% of the Group's revenue for the reporting periods, respectively.

Finance costs

Finance costs of the Group increased by approximately 133.0% from RMB94.9 million for the year ended 31 December 2017 to RMB221.0 million for the year ended 31 December 2018, primarily due to an increase in the average interest rate of bank and other borrowings during this reporting period.

Interest rates of bank and other borrowings ranged from 4.35% to 22.75% for the year ended 31 December 2018, compared with 3.35% to 5.46% for the year ended 31 December 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 192.9% from RMB90.8 million for the year ended 31 December 2017 to RMB266.0 million for year ended 31 December 2018. The increase in tax charge was mainly due to increase in profit from operating subsidiaries in the PRC. The Group's effective tax rates for the years ended 31 December 2017 and 2018 were 8.4% and 26.8%, respectively.

Profit and total comprehensive income attributable to owners of the Company

Profit and total comprehensive income attributable to owners of the Company decreased from RMB962.0 million for the year ended 31 December 2017 to RMB661.0 million for the year ended 31 December 2018. The ratio of profit and total comprehensive income attributable to owners of the Company to revenue decreased from approximately 36.5% for the year ended 31 December 2017 to approximately 16.3% for the year ended 31 December 2018.

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 and finished goods for wall paper products. For the year ended 31 December 2018, the inventory turnover cycle was approximately 14.9 days (For the year ended 31 December 2017: 18.9 days*). Shorter inventory turnover cycle was mainly due better control on inventory management of the Group.

The turnover cycle of trade receivables for the year ended 31 December 2018 was 158.2 days (For the year ended 31 December 2017: 158.9 days*). The credit period granted to customers was ranged from 30 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 trade payables for the year ended 31 December 2018 was shortened to 42.6 days (For the year ended 31 December 2017: 48.9 days*). The credit period granted from our suppliers was ranged from 30 to 90 days.

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

Borrowings

As at 31 December 2018, the Group's bank and other borrowings balance amounted to RMB1,336.8 million, of which RMB1,320.8 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 31 December 2018, the Group's bank and other borrowings amounted to RMB968.6 million, carried at variable interest rates (As at 31 December 2017: RMB1,252.9 million).

As at 31 December 2018, the Group's net gearing ratio, which was calculated on the basis of total bank and other borrowings, convertible bonds and unsecured notes less bank balances and cash as a percentage of shareholder equity, was 37.2% (As at 31 December 2017: 34.3%).

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 and other borrowings, convertible bonds and unsecured notes are mainly denominated in USD and HKD.

As at 31 December 2018, the Group's total equity attributable to owners of the Company amounted to RMB4,436.5 million (As at 31 December 2017: RMB3,792.2 million).

The Group's net current assets was approximately RMB5.4 million (As at 31 December 2017: RMB1,262.9 million) and the Group had cash and cash equivalents of approximately RMB519.6 million (As at 31 December 2017: RMB846.3 million).

As at 31 December 2018, the Group's current ratio (calculated by dividing current assets by current liabilities as at the end of the year) was approximately 1.0 times (As at 31 December 2017: 1.86 times).

Based on the existing cash and cash equivalents 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 and other borrowings, convertible bonds and unsecured notes in Hong Kong are denominated in USD or HKD, the Group had a foreign currency hedging contract to hedge against the foreign exchange risk.

Pledge of assets

As at 31 December 2018, the Group pledged certain of its property, plant and equipment and land use rights with an aggregate carrying value of RMB439.1 million (As at 31 December 2017: RMB460.1 million) as collaterals for the credit facilities granted to the Group.

Capital expenditure

For the year ended 31 December 2018, the Group invested RMB689.3 million (For the year ended 31 December 2017: RMB167.6 million) in construction of production facilities and equipment.

Human resources management

As at 31 December 2018, the Group employed approximately 1,900 staff (As at 31 December 2017: approximately 1,900 staff) and the total remuneration for the year ended 31 December 2018 was amounted to approximately RMB101.7 million (For the year ended 31 December 2017: RMB81.2 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 with adequate training and professional development opportunities to satisfy their career development needs.

Dividend

The Board does not recommend declaration and payment of any final dividend for the year ended 31 December 2018 (For the year ended 31 December 2017: Nil).

Prospects

Looking ahead, the global economy is expected to remain volatile while the trade tensions with the United States casting more variables to the global markets and dragging down China's economy which influences spending. The supply in the paper industry in China will continue to be affected by the government policies where more rigorous measures in environmental inspection and enforcement will be exercised resulting in a continuous elimination of backward production capacity by paper manufacturers. Despite the weakening economic outlook leading to market challenges, we believe that the demand for wrapping tissue paper and wall paper in the domestic consumption market will maintain the momentum of stable growth. The Group will reinforce its competitive advantages and adopt a more responsive operating strategy to solidify its leading position in the ever-changing environment.

After consolidating wall paper manufacturing business a year ago, the Group is empowered to capture opportunities across different sectors of paper business and continued leveraging its competitive advantages in traditional wrapping tissue paper business. The Group strives to improve its existing production and ancillary equipment for production output and increase synergies, and thus differentiating itself in the industry for the best shareholders' value.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Closure of register of members

The register of members of the Company will be closed from 24 May 2019 to 29 May 2019 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the right to attend and vote at the annual general meeting of the Company, all transfers 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 23 May 2019 for registration of transfer.

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 year ended 31 December 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 standards of our Company to ensure that formal and transparent procedures are in place to protect and maximise the interests of the shareholders (the "Shareholders") of our Company.

Model code for securities transactions by Directors

Our Company has adopted the Model Code (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

During the year ended 31 December 2018, the Company repurchased a total of 700,000 Shares of HKD0.10 per share from the open market at an aggregate consideration of approximately RMB1,523,000 (including transaction costs). Details of the repurchased Shares during the period are set out as follows:

Month of repurchases	Number of Shares repurchased	Price paid per share Highest *HK$*	Lowest *HK$*	Aggregate consideration paid (including expenses) *RMB'000*
September 2018	700,000	2.52	2.41	1,523
	700,000			1,523

The above Shares were cancelled on 19 December 2018.

The Directors believed that the repurchases of Shares were in the best interests of the Company and the Shareholders and that such repurchases of Shares would lead to an enhancement of the earnings per share of the Company.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 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 31 December 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 audited consolidated financial statements for the year ended 31 December 2018 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 annual 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 annual 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, 28 March 2019

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.