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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in Yusei Holdings Limited, you should at once hand this circular together and the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of Yusei Holdings Limited.

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**YUSEI HOLDINGS LIMITED**

**友成控股有限公司\***

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 8319)

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION  
IN RELATION TO THE ACQUISITION OF 30% EQUITY INTEREST  
IN HANGZHOU YUSEI INDUSTRIAL COMPANY, LIMITED; AND  
(2) PROPOSED GRANT OF THE GENERAL MANDATE**

**Financial adviser to Yusei Holdings Limited**



**Independent financial adviser**

**to the Independent Board Committee and the Independent Shareholders**



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A letter from the Independent Board Committee is set out on page 16 of this circular and a letter from Somerley to the Independent Board Committee and the Independent Shareholders is set out on pages 17 to 32 of this circular.

A notice convening the EGM to be held at No. 8 Youcheng Road, Xiaoshan Economic & Technological Development Zone, Zhejiang, the PRC on Monday, 19 January 2009 at 4:00 p.m. is set out on pages 49 to 53 of this circular. Whether or not you are able to attend and vote at the aforesaid EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

*This circular will remain on the GEM website at [www.hkgem.com](http://www.hkgem.com) on the "Latest Company Announcements" page for at least 7 days from the date of its posting.*

31 December 2008

\* for identification purpose only

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## CHARACTERISTICS OF THE GEM

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The GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of the GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on the GEM, there is a risk that securities traded on the GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on the GEM.

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following expressions have the following meanings:*

“Acquisition”	the proposed acquisition of 30% equity interest in Yusei Industrial by the Company from Yusei Japan pursuant to the Acquisition Agreement
“Acquisition Agreement”	the agreement dated 15 December 2008 entered into between the Company and Yusei Japan in respect of the Acquisition
“Announcement”	the announcement dated 15 December 2008 made by the Company, in relation to, among other things, the Acquisition
“associate(s)”	the meaning ascribed to it under the GEM Listing Rules
“Board”	the board of Directors
“Company”	Yusei Holdings Limited (stock code: 8319), an exempted company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on GEM
“Completion”	the completion of the Acquisition Agreement pursuant to its terms and conditions
“connected person(s)”	the meaning ascribed to it under the GEM Listing Rules
“Consideration”	US\$3 million (equivalent to approximately HK\$23.3 million) to be satisfied by the Company upon Completion
“controlling shareholder”	the meaning ascribed to it under the GEM Listing Rules
“Conversion Share(s)”	new Share(s) to be allotted and issued by the Company upon exercise of the conversion rights attaching to the Convertible Note
“Convertible Note”	redeemable convertible note with principal amount of US\$3 million to be issued by the Company to Yusei Japan upon Completion pursuant to the Acquisition Agreement
“Deed of Representations and Warranties”	the deed of representations and warranties dated 15 December 2008 entered into between the Company and Yusei Japan
“Director(s)”	the director(s) of the Company

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## DEFINITIONS

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“EGM”	the extraordinary general meeting of the Company to be convened on Monday, 19 January 2009 for the purpose of considering and, if though fit, approving the Acquisition Agreement and the transactions contemplated thereunder (including the issue of the Convertible Note) and the proposed grant of the General Mandate
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“General Mandate”	the general unconditional mandate proposed to be granted by the Shareholders to the Directors to exercise the power of the Company to allot, issue and deal with new Shares not exceeding 20% of the total nominal amount of the share capital of the Company in issue at the time of passing the relevant resolution on the terms set out in the notice of the EGM
“Group”	the Company and its subsidiaries from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board, comprising all independent non-executive Directors, established to advise the Independent Shareholders regarding the Acquisition Agreement and the transactions contemplated thereunder (including the issue of the Convertible Note)
“Independent Shareholders”	Shareholders other than the following: Yusei Japan, Mr. Xu Yong and their respective associates, and those who are required to abstain from voting at the EGM approving the Acquisition
“Independent Third Party(ies)”	third party(ies) independent of the Company and connected persons of the Company and are not connected persons of the Company
“Initial Conversion Price”	HK\$2.00 per Conversion Share (subject to adjustments)
“Latest Practicable Date”	24 December 2008, being the latest practicable date for ascertaining certain information included in this circular
“Mr. Xu Yong”	an executive Director whose brother owned 70% equity interest in Yusei Industrial as at the Latest Practicable Date

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## DEFINITIONS

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“PRC”	the People’s Republic of China, which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“PRC GAAP”	accounting principles generally accepted in the PRC
“Property”	comprising a piece of land held by Yusei Industrial and located at No. 335 Hongxing Road, Qiaonan Area, Xiaoshan Economic & Technological Development Zone in Xiaoshan District, Hangzhou City, Zhejiang Province, the PRC (中國浙江省杭州市蕭山區蕭山經濟技術開發區橋南區鴻興路335號) with a total site area with land use rights certificate of 59,996 sq. m., on which buildings for industrial and dormitory purposes were built or are under construction
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	shareholder(s) of the Company
“Somerley”	Somerley Limited, a corporation licensed to carry out business in Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition
“sq. m.”	square meters
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Valuer”	Asset Appraisal Limited, a Registered Professional Surveyor and an Independent Third Party
“Yusei Industrial”	杭州友成實業有限公司 (Hangzhou Yusei Industrial Company, Limited*), formerly known as 杭州友成置業有限公司 (Hangzhou Yusei Property Company Limited*), a sino-foreign joint venture enterprise established under the laws of the PRC, and was owned as to 70% by a brother of Mr. Xu Yong and as to 30% by Yusei Japan as at the Latest Practicable Date

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## DEFINITIONS

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“Yusei Japan”	株式會社友成機工 (Yusei Machinery Corporation), a company incorporated in Japan with limited liability and the controlling Shareholder
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent.

*If there is any inconsistency between the Chinese names of the PRC entities mentioned in this circular and their English translations, the Chinese version shall prevail.*

*Unless otherwise specified in this circular, translations of RMB into HK\$ and US\$ into HK\$ are made in this circular, for illustration only, at the rate of RMB1.00 to HK\$1.13 and US\$1.00 to HK\$7.75 respectively. No representation is made that any amount in RMB or US\$ could have been or could be converted at those rates or any other rates.*

*\* for identification purpose only*

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LETTER FROM THE BOARD

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**YUSEI HOLDINGS LIMITED**

**友成控股有限公司\***

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 8319)

*Executive Directors:*

Mr. Keisuke Murakoshi  
Mr. Xu Yong

*Non-executive Directors:*

Mr. Katsutoshi Masuda  
Mr. Akio Suzuki  
Mr. Toshimitsu Masuda  
Mr. Toshinobu Ito

*Independent non-executive Directors:*

Mr. Lo Ka Wai  
Mr. Fan Xiaoping  
Mr. Hisaki Takabayashi

*Registered office:*

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

*Head office and principal place of  
business in the PRC:*

No. 8 Youcheng Road,  
Xiaoshan Economic & Technological  
Development Zone,  
Zhejiang  
311215  
The PRC

*Business office in Hong Kong:*

Unit 901,  
Fortune Commercial Building,  
362 Sha Tsui Road,  
Tsuen Wan,  
N.T.,  
Hong Kong

31 December 2008

*To the Shareholders*

Dear Sir or Madam,

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION  
IN RELATION TO THE ACQUISITION OF 30% EQUITY INTEREST  
IN HANGZHOU YUSEI INDUSTRIAL COMPANY, LIMITED; AND  
(2) PROPOSED GRANT OF THE GENERAL MANDATE**

**INTRODUCTION**

On 15 December 2008, the Board announced in the Announcement that the Company as the purchaser and Yusei Japan as the vendor entered into the conditional Acquisition Agreement pursuant to which

\* for identification purpose only



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## LETTER FROM THE BOARD

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the Company has agreed to acquire 30% of the equity interest in Yusei Industrial from Yusei Japan at the Consideration of US\$3 million (equivalent to approximately HK\$23.3 million) which will be satisfied by way of issue of the Convertible Note by the Company to Yusei Japan upon Completion. The Company and Yusei Japan also entered into the Deed of Representations and Warranties on 15 December 2008 whereby Yusei Japan has given certain representations and warranties in favour of the Company in relation to the Acquisition.

The Acquisition constitutes a discloseable transaction of the Company under the GEM Listing Rules. As Yusei Japan owned 66% of the issued share capital of the Company as at the Latest Practicable Date and is the controlling Shareholder, Yusei Japan is a connected person of the Company. The Acquisition (including the issue of the Convertible Note) therefore also constitutes a connected transaction for the Company and is subject to announcement, reporting and Independent Shareholders' approval requirements under the GEM Listing Rules. Yusei Japan and its associates shall abstain from voting on the resolution approving the Acquisition at the EGM. Furthermore, as Yusei Industrial is owned as to 70% by a brother of Mr. Xu Yong, Mr. Xu Yong and his associates shall also abstain from voting on the resolution approving the Acquisition at the EGM.

Furthermore, with a view to providing the Company with flexibility to finance future investments or projects when opportunities arise, the Board proposes to seek the approval from the Shareholders to grant a general unconditional mandate to the Directors to allot, issue and deal with new Shares not exceeding 20% of the total nominal amount of the share capital of the Company in issue at the time of passing the relevant resolution granting the General Mandate.

The purpose of this circular is to give you, among others, (1) further details of the Acquisition (including the issue of the Convertible Note); (2) the recommendations of the Independent Board Committee to the Independent Shareholders regarding the Acquisition; (3) the advice of Somerley to the Independent Board Committee and the Independent Shareholders regarding the Acquisition; (4) further details of the proposed grant of the General Mandate; and (5) a notice of the EGM.

### (I) THE ACQUISITION

#### **The Acquisition Agreement**

##### *Date*

15 December 2008

##### *Parties*

Vendor: Yusei Japan, a company established in Shizuoka, Japan and is principally engaged in the design, fabrication and sales of plastic injection moulds

Purchaser: the Company

As at the Latest Practicable Date, Yusei Japan owned 66% of the issued share capital of the Company and is the controlling Shareholder. Accordingly, Yusei Japan is a connected person of the Company.

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## LETTER FROM THE BOARD

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### *Assets to be acquired*

30% equity interest in Yusei Industrial.

### *Consideration*

The Consideration of US\$3 million (equivalent to approximately HK\$23.3 million) will be settled by way of issue of the Convertible Note by the Company to Yusei Japan upon Completion.

The Consideration was arrived at after arm's length negotiation between the parties to the Acquisition Agreement with reference to, among others, the net assets value of Yusei Industrial as adjusted by the valuation of the Property of RMB56.7 million (equivalent to approximately HK\$64.1 million) as at 31 October 2008 as valued by the Valuer, the report of which is set out in Appendix I to this circular. The Consideration represents a discount of approximately 9.3% to the amount of the attributable interest of the adjusted net assets value of Yusei Industrial as at 30 September 2008 of approximately RMB22.7 million (equivalent to approximately HK\$25.7 million).

### *Conditions Precedent*

Completion shall be conditional upon:

- (a) the passing of a resolution by the Shareholders (other than those who are required to abstain from voting under the GEM Listing Rules) at the EGM approving the Acquisition Agreement and the transactions contemplated thereunder (including but not limited to the issue of the Convertible Note and the Conversion Shares) in compliance with the GEM Listing Rules;
- (b) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Conversion Shares;
- (c) the obtaining of all necessary PRC government's consents and regulatory approvals in respect of the Acquisition Agreement and the transactions contemplated thereunder; and
- (d) the representations and warranties given by Yusei Japan in respect of the Acquisition remaining true, accurate, complete and not misleading in all material respects as at the date of the Acquisition Agreement and Completion.

The Company may at any time waive the above condition (d) by notice in writing to Yusei Japan. As at the Latest Practicable Date, no conditions precedent had been fulfilled or waived.

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## LETTER FROM THE BOARD

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### *Completion*

Completion shall take place upon the fulfillment (or, as the case may be, waiver) of the conditions precedent under the Acquisition Agreement.

### **Convertible Note**

The principal terms of the Convertible Note are as follows:

Issuer: The Company.

Principal amount: US\$3 million in aggregate.

Maturity date: The date falling on the third anniversary of the first issue of the Convertible Note.

Interest: The Convertible Note shall not bear any interest.

Transferability: The Convertible Note shall not be assigned or transferred to a connected person of the Company without the prior written consent of the Company. In the event that Yusei Japan is the holder of the Convertible Note, Yusei Japan is entitled to transfer the Convertible Note (in amount of a whole multiple of US\$100,000 or such lesser amount representing the entire outstanding principal amount of the Convertible Note) to its holding company and/or wholly-owned subsidiaries provided that Mr. Katsutoshi Masuda and/or his family interest is/are the ultimate controlling shareholders and beneficial owner of such holding company and/or wholly-owned subsidiaries at the time of transfer. The Company will notify the Stock Exchange immediately upon becoming aware of any dealings in the Convertible Note by connected persons of the Company. The Convertible Note shall not be transferable except as aforesaid.

Conversion: A holder of the Convertible Note, subject to compliance with public float requirement pursuant to the GEM Listing Rules by the Company, shall have the right at any time and from time to time during the period commencing immediately after the date of issue of the Convertible Note up to and including the maturity date to convert the whole or part of the principal amount of the Convertible Note in amount of a whole multiple of US\$100,000 or such lesser amount representing the entire outstanding principal amount of the Convertible Note at an exchange rate of US\$1.00 to HK\$7.75. No fractional Conversion Share will be issued on conversion and an equivalent cash payment in Hong Kong dollars in respect of such fraction (except in cases where any such cash payment would amount to less than HK\$10.00) will be made to the holder of the Convertible Note. There is no restriction on subsequent sale of the Conversion Shares.

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## LETTER FROM THE BOARD

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- Initial Conversion Price:** The Convertible Note shall be converted at the Initial Conversion Price of HK\$2.00 per Conversion Share (subject to adjustments).
- Redemption:** The Company may at any time redeem the whole or part of the Convertible Note which remains outstanding prior to its maturity date in amount of a whole multiple of US\$100,000 or such lesser amount representing the entire outstanding principal amount of the Convertible Note.
- Unless previously converted or redeemed, the Company shall redeem the Convertible Note at its outstanding principal amount without any interest on its maturity date.
- Save for the occurrence of any events of default as set out in the terms and conditions of the Convertible Note, the holder thereof shall not be entitled to demand for early repayment of the Convertible Note.
- Voting rights:** The holder of the Convertible Note will not be entitled to attend or vote at any general meetings of the Company by reason only of it being the holder of the Convertible Note.
- Ranking:** The Conversion Shares falling to be issued upon exercise of the conversion rights attaching to the Convertible Note will, when issued, rank *pari passu* in all respects with all other Shares in issue as at the date of conversion.
- Listing:** The Convertible Note will not be listed on the Stock Exchange or any other stock exchange. An application has been made to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

### ***Conversion Shares***

Upon full conversion of the Convertible Note at the Initial Conversion Price (subject to adjustments) and for illustration only, a total of 11,625,000 Conversion Shares will be issued, representing (i) approximately 7.3% of the issued share capital of the Company as at the Latest Practicable Date; and (ii) approximately 6.8% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares. The Conversion Shares will be allotted and issued pursuant to a specific mandate to be sought at the EGM. The Directors consider that there will not be a change in control of the Company as a result of the issue of the Convertible Note.

The Initial Conversion Price of HK\$2.00 per Conversion Share represents (i) a premium of approximately 5.3% over the closing price of HK\$1.90 per Share as quoted on the Stock Exchange on 15 December 2008, being the date of the Acquisition Agreement; (ii) a premium of approximately 5.3% over the average of the closing prices of HK\$1.90 per Share as quoted

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## LETTER FROM THE BOARD

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on the Stock Exchange for the last 10 consecutive trading days immediately prior to and including the date of the Acquisition Agreement; (iii) a premium of approximately 3.6% over the average of the closing prices of approximately HK\$1.93 per Share as quoted on the Stock Exchange for the last 30 consecutive trading days immediately prior to and including the date of the Acquisition Agreement; (iv) a premium of approximately 5.3% over the closing price of HK\$1.90 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and (v) a premium of approximately 62.6% to the net assets value per Share as at 30 June 2008 of approximately HK\$1.23.

### **The Deed of Representations and Warranties**

#### *Date*

15 December 2008

#### *Parties*

- (1) Yusei Japan, a company established in Shizuoka, Japan and is principally engaged in the design, fabrication and sales of plastic injection moulds
- (2) the Company

#### *Subject Matter*

The Company and Yusei Japan entered into the Deed of Representations and Warranties on 15 December 2008, which, as a separate and independent document from the Acquisition Agreement, contained detailed representations and warranties given by Yusei Japan in favour of the Company in relation to the Acquisition.

The Deed of Representations and Warranties is part and parcel of the Acquisition and confers protection on the Company as regards the assets, liabilities, financial position and state of affairs of Yusei Industrial. Pursuant to the terms of the Deed of Representations and Warranties, Yusei Japan shall indemnify the Company against any losses and expenses incurred as a result of breach by Yusei Japan of the representations and warranties contained therein.

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## LETTER FROM THE BOARD

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### Effects on the shareholding structure of the Company

Set out below is a table showing the Company's shareholding structure (i) as at the Latest Practicable Date; and (ii) immediately after issue of the Conversion Shares upon full conversion of the Convertible Note at the Initial Conversion Price by Yusei Japan, assuming that there is no other change in the issued share capital of the Company save for the issue of the Conversion Shares:

	As at the Latest Practicable Date		Upon full conversion of the Convertible Note at the Initial Conversion Price	
	<i>No. of Shares</i>	<i>%</i>	<i>No. of Shares</i>	<i>%</i>
Yusei Japan	105,600,000	66.0	117,225,000	68.3
Mr. Xu Yong	9,600,000	6.0	9,600,000	5.6
Public Shareholders	44,800,000	28.0	44,800,000	26.1
	<b><u>160,000,000</u></b>	<b><u>100.0</u></b>	<b><u>171,625,000</u></b>	<b><u>100.0</u></b>

As shown from the above, there is potential dilution of public shareholding of the Company from 28.0% to approximately 26.1% upon full conversion of the Convertible Note at the Initial Conversion Price.

### Information on Yusei Industrial

Yusei Industrial is a sino-foreign joint venture enterprise established by a brother of Mr. Xu Yong and Yusei Japan in the PRC with limited liability on 25 February 2003 and has a fully paid-up registered capital of US\$8 million (equivalent to HK\$62 million). As at the Latest Practicable Date, Yusei Industrial was owned as to 70% by a brother of Mr. Xu Yong and as to 30% by Yusei Japan. The total investment cost contributed by Yusei Japan to Yusei Industrial is US\$2.4 million (equivalent to approximately HK\$18.6 million).

Yusei Industrial is principally engaged in the design, manufacture and sales of precision moulds with a term of operation for 50 years until 24 February 2053. Yusei Industrial has commenced such business since August 2007 with its products principally exported to overseas markets. The major asset of Yusei Industrial is the Property which is situated at No. 335 Hongxing Road, Qiaonan Area, Xiaoshan Economic & Technological Development Zone in Xiaoshan District, Hangzhou City, Zhejiang Province, the PRC (中國浙江省杭州市蕭山區蕭山經濟技術開發區橋南區鴻興路335號), comprising a parcel of land with a total site area with land use rights certificate of 59,996 sq. m. on which the construction of nine blocks of buildings with a total gross floor area of approximately 53,250 sq. m. were completed while two blocks of buildings

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## LETTER FROM THE BOARD

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with a total gross floor area of approximately 5,622 sq. m. are under construction. The Property is designated for industrial and dormitory purposes, of which approximately 23,919 sq. m. are being occupied by Yusei Industrial as its production base and staff quarters, approximately 15,573 sq. m. are being leased to Independent Third Parties as production base and 13,645 sq. m. are being leased to the Company as its production base.

Based on its audited financial statements for the year ended 31 December 2007 prepared under the PRC GAAP, Yusei Industrial had an audited net assets value of approximately RMB65.3 million (equivalent to approximately HK\$73.8 million) as at 31 December 2007. The audited net loss before and after taxation of Yusei Industrial were nil and approximately RMB171,241 (equivalent to approximately HK\$0.2 million) for the two years ended 31 December 2007 respectively. The unaudited net profit of Yusei Industrial was approximately RMB320,185 (equivalent to approximately HK\$0.4 million) for the nine months ended 30 September 2008.

### **Financial effect of the Acquisition**

Following the Completion, Yusei Industrial will become an associated company of the Group and its financial position and its result will be equity accounted for in the consolidated financial statements of the Group. It is expected that there will likely be positive effect on the earnings, and thus net assets of the Group. The total assets of the Company would be increased as a result of recognition of the investment in Yusei Industrial. Since the Convertible Note is to be issued by the Company as settlement of the Consideration, the total liabilities and the equity of the Company will be increased by recognition of the liability and equity components of the Convertible Note upon Completion.

### **Reasons for and benefits of the Acquisition**

The Group is principally engaged in the design, development and fabrication of precision plastic injection moulds, and the manufacture of plastic components in the PRC, with its principal operation located in Hangzhou, the PRC. The Group also provides services for certain assembling and further processing of plastic components for its customers.

Through the Acquisition, the Group can further develop its business network with an opportunity to explore the overseas markets through Yusei Industrial's business network and experience in overseas markets, which in turn enhance the customer and revenue base of the Group.

Based on the above, the Directors consider that the Acquisition Agreement (including the issue and the terms of the Convertible Note) is on normal commercial terms which are fair and reasonable and the Acquisition is in the interests of the Group and the Shareholders as a whole.

### **Fund raising activities of the Company in the twelve months immediately preceding the Latest Practicable Date**

The Company has not effected any equity fund raising exercises in the twelve months immediately preceding the Latest Practicable Date.

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## LETTER FROM THE BOARD

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### (II) PROPOSED GRANT OF THE GENERAL MANDATE

With a view to providing the Company with flexibility to finance future investments or projects when opportunities arise, the Board proposes to seek the approval from the Shareholders to grant a general unconditional mandate to the Directors to allot, issue and deal with new Shares not exceeding 20% of the total nominal amount of the share capital of the Company in issue at the time of passing the relevant resolution granting the General Mandate.

Based on 160,000,000 Shares in issue as at the Latest Practicable Date and assuming there is no change in the issued share capital of the Company until the date of the EGM, the General Mandate, if granted, will empower the Directors to allot, issue and deal with up to a maximum of 32,000,000 new Shares. However, the Company has no current plan to issue any Shares under the General Mandate.

The General Mandate, if granted, shall expire (i) at the conclusion of the Company's next annual general meeting; (ii) at the expiry of the period within which the Company is required by applicable laws or its articles of association to hold its next annual general meeting; or (iii) when varied, revoked or renewed by an ordinary resolution of the Shareholders in a general meeting, whichever is the earliest.

### GEM LISTING RULES IMPLICATIONS

The Acquisition constitutes a discloseable transaction of the Company under the GEM Listing Rules. As Yusei Japan owned 66% of the issued share capital of the Company as at the Latest Practicable Date and is the controlling Shareholder, Yusei Japan is a connected person of the Company. The Acquisition (including the issue of the Convertible Note) therefore also constitutes a connected transaction for the Company and is subject to announcement, reporting and Independent Shareholders' approval requirements under the GEM Listing Rules. Yusei Japan and its associates shall abstain from voting on the resolution approving the Acquisition at the EGM. Furthermore, as Yusei Industrial is owned as to 70% by a brother of Mr. Xu Yong, Mr. Xu Yong and his associates shall also abstain from voting on the resolution approving the Acquisition at the EGM.

### EGM

The EGM will be held at No. 8 Youcheng Road, Xiaoshan Economic & Technological Development Zone, Zhejiang, the PRC on Monday, 19 January 2009 at 4:00 p.m. to consider and, if thought fit, approve, among others, the Acquisition Agreement and the transactions contemplated thereunder (including the issue of the Convertible Note) and the proposed grant of the General Mandate.

A notice convening the EGM is set out on pages 49 to 53 of this circular. Whether or not you are able to attend and vote at the aforesaid EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.



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## LETTER FROM THE BOARD

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### PROCEDURE TO DEMAND A POLL AT GENERAL MEETING

Pursuant to the Articles of the Company, at any general meeting, a resolution put to the vote of a meeting shall be decided on a show of hands unless voting by a poll is required by the rules of the designated stock exchange or (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by:

- (a) the chairman of the meeting; or
- (b) at least three members present in person (or in the case of a member being a corporation by its duly authorized representative) or by proxy for the time being entitled to vote at the meeting; or
- (c) a member or members present in person (or in the case of a member being a corporation by its duly authorized representative) or by proxy and representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting; or
- (d) a member or members present in person (or in the case of a member being a corporation by its duly authorized representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right; or
- (e) if required by the rules of the designated stock exchange, any Director or Directors who, individually or collectively, hold proxies in respect of Shares representing five percent or more of the total voting rights at the meeting.

A demand by a person as proxy for a member or in the case of a member being a corporate by its duly authorized representative shall be deemed to be the same as a demand by a member.

### RECOMMENDATION

The Directors consider that the Acquisition Agreement and the transactions contemplated thereunder (including the issue and the terms of the Convertible Note) are on normal commercial terms which are fair and reasonable and the Acquisition and the proposed grant of the General Mandate are in the interests of the Group and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Acquisition Agreement and the transactions contemplated thereunder and the proposed grant of the General Mandate.

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## LETTER FROM THE BOARD

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### ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee, the letter from Somerley and the additional information set out in the appendices to this circular.

Yours faithfully,  
For and on behalf of the Board of  
**Yusei Holdings Limited**  
**Katsutoshi Masuda**  
*Chairman*

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LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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**YUSEI HOLDINGS LIMITED**

**友成控股有限公司\***

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 8319)

31 December 2008

*To the Independent Shareholders*

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION  
IN RELATION TO THE ACQUISITION OF 30% EQUITY INTEREST IN  
HANGZHOU YUSEI INDUSTRIAL COMPANY, LIMITED**

We refer to the circular of the Company dated 31 December 2008 (the “Circular”), of which this letter forms part. Terms used herein shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to advise you as to whether, in our opinion, the Acquisition Agreement and the transactions contemplated thereunder (including the issue and the terms of the Convertible Note) are on normal commercial terms which are fair and reasonable and the Acquisition is in the interests of the Group and the Independent Shareholders as a whole.

Somerley has been appointed as the independent financial adviser to advise us and you regarding the terms of the Acquisition Agreement and the transactions contemplated thereunder. Details of its advice, together with the principal factors and reasons it has taken into consideration in giving its advice, are set out in its letter on pages 17 to 32 of the Circular. Your attention is also drawn to the letter from the Board as set out on pages 5 to 15 of the Circular and the additional information set out in the appendices to the Circular.

Having considered the terms of the Acquisition Agreement, the principal factors and reasons considered by, and the advice of Somerley as set out in its letter of advice, we are of the view that the Acquisition Agreement and the transactions contemplated thereunder (including the issue and the terms of the Convertible Note) are on normal commercial terms which are fair and reasonable and the Acquisition is in the interests of the Group and the Independent Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Acquisition Agreement and the transactions contemplated thereunder.

Your faithfully,

For and on the behalf of the Independent Board Committee

**Mr. Lo Ka Wai**  
*Independent non-executive  
Director*

**Mr. Fan Xiaoping**  
*Independent non-executive  
Director*

**Mr. Hisaki Takabayashi**  
*Independent non-executive  
Director*

\* *for identification purpose only*

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## LETTER FROM SOMERLEY

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*The following is the letter of advice from Somerley Limited to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.*



### SOMERLEY LIMITED

10th Floor  
The Hong Kong Club Building  
3A Chater Road  
Central  
Hong Kong

31 December 2008

*To: the Independent Board Committee and the Independent Shareholders*

Dear Sirs,

### **DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF 30% EQUITY INTEREST IN HANGZHOU YUSEI INDUSTRIAL COMPANY, LIMITED**

#### **INTRODUCTION**

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in relation to the terms of the Acquisition, and the transactions contemplated thereunder. Details of the Acquisition are set out in the letter from the Board contained in the circular (the “**Circular**”) of the Company to the Shareholders dated 31 December 2008, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise required.

The Acquisition constitutes a discloseable transaction of the Company under the GEM Listing Rules. Yusei Japan owned as to 66% of the issued share capital of the Company as at the Latest Practicable Date and is the controlling Shareholder and therefore, Yusei Japan is a connected person of the Company. The Acquisition (including the issue of the Convertible Note) therefore constitutes a connected transaction for the Company and is subject to announcement, reporting and Independent Shareholders’ approval requirements under the GEM Listing Rules. Yusei Japan and its associates shall abstain from voting on the resolution approving the Acquisition at the EGM. Furthermore, as Yusei Industrial is owned as to 70% by a brother of Mr. Xu Yong, Mr. Xu Yong and his associates shall also abstain from voting on the resolution approving the Acquisition at the EGM.

The Independent Board Committee, comprising all of the independent non-executive Directors, namely Mr. Lo Ka Wai, Mr. Fan Xiaoping and Mr. Hisaki Takabayashi, has been established to make a recommendation to the Independent Shareholders as to the terms of the Acquisition and the transactions contemplated thereunder. We, Somerley Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in the same regard.

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## LETTER FROM SOMERLEY

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Somerley Limited is independent of the Company and Yusei Japan, or their respective connected parties (as defined under the GEM Listing Rules) and, accordingly, Somerley Limited is considered eligible to give independent advice on the terms of the Acquisition and the transactions contemplated thereunder. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company.

In formulating our opinion, we have reviewed, among other things, the Acquisition Agreement, the Deed of Representations and Warranties, the annual reports of the Company for the two years ended 31 December 2007, the interim report of the Company for the six months period ended 30 June 2008, valuation report of the Property as set out in Appendix I of the Circular, the audited financial statements (prepared based on PRC GAAP) for the two years ended 31 December 2007 of Yusei Industrial and the management accounts of Yusei Industrial for the nine months period ended 30 September 2008. We have also discussed with the Company regarding the business of the Group and the business prospect of Yusei Industrial.

We have also relied on the information and facts supplied, and the opinions expressed, by the Directors and senior management of the Company, which we have assumed to be true, accurate and complete in all material aspects at the time they were made and up to the date of the EGM. We have also sought and received confirmation from the Company that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach our advice and recommendation as set out in this letter and to justify our reliance on such information. We have no reason to believe that any material information has been withheld, nor doubt the truth or accuracy of the information provided. We have also assumed that all statements and representations contained or referred to in this Circular were accurate and not misleading as at the date of this Circular and will continue to be accurate and not misleading up to the date of the EGM. We have not, however, conducted any independent investigation into the business and affairs of the Group, nor have we carried out any independent verification of the information supplied.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In formulating our opinion and recommendation with regard to the terms of the Acquisition and the transactions contemplated thereunder, we have taken into account the following principal factors and reasons:

#### **1. Information on the Group**

The Group is principally engaged in design, development and fabrication of precision plastic injection moulds, and the manufacture of plastic components in the PRC, with its principal operation located in Hangzhou, the PRC. The Group also provides services for certain assembling and further processing of plastic components for its customers. All the operations and majority of the sales of the Group are currently located and carried out domestically in the PRC. According to the management of the Company, the Group's customers are mainly the branded electrical appliances suppliers, office equipment suppliers and automotive lamp suppliers of Japanese background with manufacturing facilities in the PRC.

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## LETTER FROM SOMERLEY

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Set out below are the key financial and operating figures of the Group for the two years ended/as at 31 December 2007 and six months periods ended/as at 30 June 2007 and 2008.

	<b>For the six months period ended/as at 30 June</b>		<b>For the year ended/as at 31 December</b>	
	<b>2008</b>	<b>2007</b>	<b>2007</b>	<b>2006</b>
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(audited)</i>	<i>(audited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	209,101	194,391	444,747	372,773
Gross profit	40,612	38,086	90,232	68,959
Profit before taxation	14,687	13,990	38,556	17,416
Profit attributable to equity holders	10,311	10,407	30,865	12,375
Total assets	503,702	408,843	486,202	382,603
Total liabilities	(330,084)	(258,568)	(314,421)	(237,299)
Total equity	173,618	150,275	171,781	145,304

Turnover of the Group has been increased by 19.3% from approximately RMB372,773,000 in 2006 to approximately RMB444,747,000 in 2007. Turnover of the Group for the six months period ended 30 June 2008 also reported an increase of approximately 7.6% to approximately RMB209,101,000 as compared to that for the corresponding period in 2007. The Group also recorded approximately 30.8% growth in gross profit from approximately RMB68,959,000 for the year ended 31 December 2006 to approximately RMB90,232,000 for the year ended 31 December 2007. For the six months period ended 30 June 2008, the Group's gross profit further increased by 6.6% to approximately RMB40,612,000 as compared to that for the corresponding period in 2007. According to the management of the Company, the increase in turnover was mainly contributed by the continuous investment and enhancement by the Group in its production of plastic injection mould products and certain assembling and further processing of plastic components.

The Group has reported profits during the two financial years ended 31 December 2007. Profit attributable to equity holders increased substantially by 149.4% from approximately RMB12,375,000 in 2006 to approximately RMB30,865,000 in 2007. The substantial increase in profit attributable to equity holders was mainly due to (i) the increase in gross profit as a result of increase in sales and the improved gross profit margin; and (ii) the decrease in amortised fair value of estimated vesting Shares granted to a director, selected employees and technical consultants which was accounted for as administrative expenses in 2007. Profit attributable to equity holders for the six months period ended 30 June 2008 was approximately RMB10,311,000, representing a slight decrease of approximately 0.9% as compared to that for the corresponding period in 2007. As reported in the Company's 2008 interim report, such decrease was mainly attributable to the slow-down of automobile industry in the PRC after oil price increase and economical cool-down measures adopted by the PRC government.

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## LETTER FROM SOMERLEY

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As at 30 June 2008, the Group had total assets of approximately RMB503,702,000, representing an increase of approximately 3.6% as compared to that as at 31 December 2007. Such increase in total assets was mainly due to the increase in property, plant and equipment and inventories during the period. The total liabilities of the Group as at 30 June 2008 was approximately RMB330,084,000, representing an increase of approximately 5.0% as compared to that as at 31 December 2007, which was mainly due to the increase in the Group's bank borrowings as a result of the Group's expansion. Bank borrowings of the Group as at 30 June 2008 was approximately RMB189,637,000, representing an increase of approximately 21.3% as compared to the total bank borrowings of the Group of approximately RMB156,352,000 as at 31 December 2007.

### 2. Information on Yusei Industrial

As stated in the letter from the Board in the Circular, Yusei Industrial is a sino-foreign joint venture enterprise established by a brother of Mr. Xu Yong and Yusei Japan in the PRC with limited liability on 25 February 2003 and Yusei Industrial was owned as to 70% by the brother of Mr. Xu Yong and as to 30% by Yusei Japan as at the Latest Practicable Date. Yusei Industrial is principally engaged in the design, manufacture and sales of precision moulds and has commenced its business since August 2007 with its products principally exported to overseas markets. According to the Directors, the major clients of Yusei Industrial comprise mainly automotive lamp suppliers of European and American background, and products of Yusei Industrial are mainly exported to European countries and North and South America.

Set out below are the key financial and operating figures of Yusei Industrial for the two years ended/as at 31 December 2007 (based on the audited financial statements of Yusei Industrial prepared in accordance with the PRC GAAP) and nine months period ended/as at 30 September 2008 (based on unaudited management accounts of Yusei Industrial).

	<b>For the nine months period ended/as at 30 September 2008 (unaudited) RMB'000</b>	<b>For the year ended/as at 31 December 2007 (audited) RMB'000</b>	<b>2006 (audited) RMB'000</b>
Turnover	11,856	2,894	–
Gross profit	1,779	248	–
Profit/(loss) attributable to equity holders	320	(171)	–
Total assets	93,555	69,404	67,029
Total liabilities	(28,239)	(4,152)	(1,606)
Total equity	65,316	65,252	65,423

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## LETTER FROM SOMERLEY

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As the moulding business of Yusei Industrial only commenced in August 2007, the turnover of Yusei Industrial reported for the financial year ended 31 December 2007 of approximately RMB2,894,000 mainly represented the turnover generated from the sales of precision moulds by Yusei Industrial for the five months ended 31 December 2007. Turnover and gross profit of Yusei Industrial gradually increased since then and for the nine months period ended 30 September 2008, turnover and gross profit of Yusei Industrial were approximately RMB11,856,000 and RMB1,779,000 respectively. In the meantime, Yusei Industrial has recorded profit attributable to equity holders of approximately RMB320,000 for the nine months period ended 30 September 2008, which was mainly attributable to the increase in operational efficiency and expansion of client base in 2008 after the first five months' operation in 2007.

As at 30 September 2008, Yusei Industrial had total assets of approximately RMB93,555,000 and its assets comprise mainly the Property and the cash and bank balance of approximately RMB21,246,000. The Property is situated at No. 335 Hongxing Road, Qiaonan Area, Xiaoshan Economic & Technological Development Zone in Xiaoshan District, Hangzhou City, Zhejiang Province, the PRC (中國浙江省杭州市蕭山區蕭山經濟技術開發區橋南區鴻興路335號), comprising a parcel of land with land use rights certificate of 59,996 sq. m. on which the construction of nine blocks of buildings with a total gross floor area of approximately 53,250 sq. m. were completed while two blocks of buildings with a total gross floor area of approximately 5,622 sq. m. are under construction. The Property is designated for industrial and dormitory purposes, of which approximately 23,919 sq. m. are being occupied by Yusei Industrial as its production base and staff quarters, approximately 15,573 sq. m. are being leased to Independent Third Parties as production base and 13,645 sq. m. are being leased to the Company as its production base. According to the valuation report of the Property issued by the Valuer as set out in the appendix I to the Circular, the market value of the Property was approximately RMB56,700,000 as at 31 October 2008.

As to the liabilities of Yusei Industrial as at 30 September 2008, Yusei Industrial reported total liabilities of approximately RMB28,239,000 which comprise mainly normal trade accounts payables. Yusei Industrial had no bank loans as at 30 September 2008.

### **3. Reasons for the Acquisition**

As set out in the letter from the Board in the Circular, through the Acquisition, the Group can further develop its business network with an opportunity to explore the overseas markets through Yusei Industrial's business network and experience in overseas markets, which will in turn enhance the customer and revenue base of the Group.



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## LETTER FROM SOMERLEY

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As discussed in the paragraphs under section headed “Information on the Group”, all the operations and majority of sales of the Group are currently located and carried out domestically in the PRC with its customers mainly comprising electrical appliances suppliers, office equipment suppliers and automotive lamp suppliers of Japanese background. In addition, the Directors advised us that it is the intention of the Group to grow and promote its business internationally. As disclosed in the Company’s 2008 interim report, during the six months period ended 30 June 2008, the Group had built up business relationship with several new internationally reputable customers in Europe and America such as Germany, France and Brazil. Given that Yusei Industrial is principally engaged in the design, manufacture and export sales of precision moulds with its clients comprising mainly automotive lamp suppliers of European and American background, the Group’s investment in Yusei Industrial is therefore considered in line with the Group’s business development strategy, and the customers’ profile and business network of Yusei Industrial in overseas markets are also considered complementary to the Group’s future business development and expansion. On such basis, we concur with the Directors’ view that the Acquisition is in the interests of the Group and the Independent Shareholders.

#### **4. Principal terms of the Acquisition Agreement**

##### *The Consideration*

As set out in the letter from the Board in the Circular, the Consideration of US\$3 million (equivalent to approximately HK\$23.3 million) was arrived at after arm’s length negotiation between the parties to the Acquisition Agreement with reference to, among others, the net assets value of Yusei Industrial as adjusted by the valuation of the Property of RMB56.7 million (equivalent to approximately HK\$64.1 million) as at 31 October 2008 as valued by the Valuer. As discussed in section headed “Information on Yusei Industrial” above, the total assets of Yusei Industrial as at 30 September 2008 mainly comprise, amongst others, the Property. We consider therefore the basis for arriving at the Consideration, which is based on net assets value of Yusei Industrial adjusted by valuation of the Property, reasonable.

We have reviewed and discussed with the Valuer regarding, amongst others, the assumptions and methodologies adopted for the valuation of the Property. According to the valuation report of the Property (details of which are set out in appendix I of the Circular), we understand that the land that forms part of the Property is valued by comparison method where comparison is made based on prices realised or market prices of comparable properties of similar size, character and location, and are analysed and weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of capital values. We also understand from the Valuer that for those nature of buildings and structures of the Property where no known market can be identified, the Depreciated Replacement Costs Method, which uses current replacement costs adjusted by deduction made to allow for age, condition, functional obsolescence, etc. to arrive at the fair value of a property in its existing state as at the date of valuation, has been adopted. Based on our discussions with the Valuer and review of the valuation report, we consider that the methodologies applied are reasonable and consistent with market practices.

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## LETTER FROM SOMERLEY

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The Consideration represents a discount of approximately 9.3% to the amount of the attributable interest of the adjusted net assets value of Yusei Industrial as at 30 September 2008 of approximately RMB22.7 million (equivalent to approximately HK\$25.7 million).

For the purpose of our assessment of the Consideration, we have identified five companies listed on the Stock Exchange which are principally engaged in businesses similar to that of Yusei Industrial as at the Latest Practicable Date (the “**Industrial Comparables**”). Since Yusei Industrial has only short operating history given its commencement of business in August 2007, price-to-earnings ratio may not be considered as an appropriate parameter for the analysis of the fairness and reasonableness of the Consideration. In addition, the assets of Yusei Industrial comprise mainly the Property, we therefore consider the use of the price-to-book (“**P/B**”) ratio is more appropriate in assessing the fairness and reasonableness of the Consideration. In such circumstances, we have compared the P/B ratio of Yusei Industrial with those of the Industrial Comparables.

<b>Company (stock code)</b>	<b>Market capitalization as at the Latest Practicable Date (HK\$ million)</b>	<b>Closing price as at the Latest Practicable Date (HK\$)</b>	<b>P/B ratio (times)</b>
V.S. International Group Limited (stock code: 1002)	69.36	0.080	0.13
New Universe International Group Limited (stock code: 8068)	182.59	0.100	0.68
Lung Kee (Bermuda) Holdings Limited (stock code: 255)	1,395.03	2.250	0.79
EVA Precision Industrial Holdings Limited (stock code: 838)	417.74	0.590	0.44
The Company (stock code: 8319)	304.00	1.900	1.55
	<b>Mean</b>		<b>0.72</b>
		<b>Maximum</b>	<b>1.55</b>
		<b>Minimum</b>	<b>0.13</b>
<b>Yusei Industrial (Note)</b>			<b>0.91</b>

Source: Website of the Stock Exchange

Note: Based on the Consideration and the amount of the attributable interest of the net assets value of Yusei Industrial as at 30 September 2008, as adjusted by the valuation of the Property of RMB56.7 million (equivalent to approximately HK\$64.1 million) as at 31 October 2008 as appraised by the Valuer.

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## LETTER FROM SOMERLEY

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As shown in the table above, the P/B ratios of the Industrial Comparables range from 0.13 times to 1.55 times with the mean of 0.72 times. Despite that the P/B ratio of Yusei Industrial of approximately 0.91 times (calculated based on the Consideration and the amount of the attributable interest of the net assets value of Yusei Industrial as at 30 September 2008 as adjusted by the valuation of the Property as at 31 October 2008 as appraised by the Valuer) is higher than the mean of the P/B ratios of the Industrial Comparables, it is within the range of the P/B ratios of the Industrial Comparables and in particular, substantially lower than the P/B ratio of the Company. Having considered, amongst other things, that the Acquisition is beneficial to the Group's future business development and expansion to overseas markets as discussed in the section headed "Reasons for the Acquisition" and the fact that the majority of the assets of Yusei Industrial comprises the Property, we are of the view that the Consideration is fair and reasonable.

The Consideration will be settled entirely by way of issue of the Convertible Note by the Company to Yusei Japan upon Completion. Further details of the terms of the Convertible Note are set out in the letter from the Board in the Circular.

### *The Convertible Note*

In order to assess the fairness and reasonableness of the principal terms of the Convertible Note, we have sought the issues of convertible notes/bonds of other listed companies in Hong Kong (trading in shares of which are not under prolonged suspension) with a term of three years and in the principal amount of not more than HK\$50 million announced in the period from 1 January 2008 to 15 December 2008 (being the date of the Acquisition Agreement) and identified a total of 12 comparable convertible notes/bonds during the period under review (the "**Comparables**"). Details of the Comparables are summarised below:

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**LETTER FROM SOMERLEY**

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<b>Date of announcement</b>	<b>Company (Stock code)</b>	<b>Principal amount (HK\$ 'million)</b>	<b>Maturity (Years)</b>	<b>Coupon per annum (%)</b>	<b>Redemption price at maturity (%)</b>	<b>Premium/ (discount) of the initial conversion price over/(to) the closing price of shares on the last trading day (%)</b>
<i>2008</i>						
5 February	Sunny Global Holdings Limited (stock code: 1094)	16.2	3	0	100	(86.70)
20 February	Golife Concepts Holdings Limited (stock code: 8172)	40	3	2	100	18.64
4 March	China HealthCare Holdings Limited (stock code: 673)	20	3	2	100	110.90
6 May	China Digital Licensing (Group) Limited (formerly know as Shen Nong China (Group) Limited) (stock code: 8175)	40	3	1	100	38.46
3 June	China Digital Licensing (Group) Limited (formerly know as Shen Nong China (Group) Limited) (stock code: 8175)	11.16	3	1	100	38.46
4 June	Golife Concepts Holdings Limited (stock code: 8172)	7	3	2	100	(19.35)
9 July	Golife Concepts Holdings Limited (stock code: 8172)	35	3	0	100	(37.50)
2 September	China Chief Cable TV Group Limited (stock code: 8153)	50	3	2	100	0.22
25 September	Rising Development Holdings Limited (stock code: 1004)	43.2	3	0	100	(13.04)
29 September	Radford Capital Investment Limited (stock code: 901)	45	3	0	100	(9.09)
9 October	Unity Investments Holdings Limited (stock code: 913)	38	3	0	100	(5.71)
11 November	Celestial Asia Securities Holdings Limited (stock code: 1049)	42.8	3	2	100	14.90
	<b>Mean</b>			<b>1.0%</b>		<b>4.18%</b>
	<b>High</b>			<b>2.0%</b>		<b>110.90%</b>
	<b>Low</b>			<b>0.0%</b>		<b>(86.70)%</b>
	The Convertible Note	US\$3 million	3	0	100	5.3

*Source: Website of the Stock Exchange*

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## LETTER FROM SOMERLEY

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(i) *Initial Conversion Price*

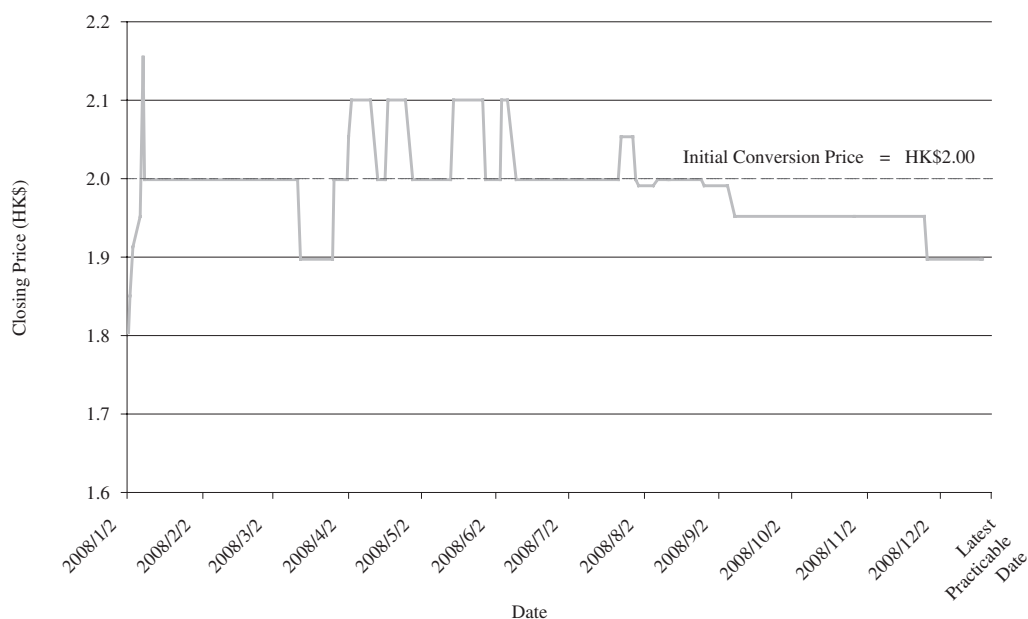
The Initial Conversion Price of HK\$2.00 represents:

- (a) a premium of approximately 5.3% over the closing price of HK\$1.90 per Share as quoted on the Stock Exchange on 15 December 2008, being the date of the Acquisition Agreement;
- (b) a premium of approximately 5.3% over the average of the closing prices of HK\$1.90 per Share as quoted on the Stock Exchange for the last 10 consecutive trading days immediately prior to and including the date of the Acquisition Agreement;
- (c) a premium of approximately 3.6% over the average of the closing prices of approximately HK\$1.93 per Share as quoted on the Stock Exchange for the last 30 consecutive trading days immediately prior to and including the date of the Acquisition Agreement;
- (d) a premium of approximately 5.3% over the closing price of approximately HK\$1.90 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (e) a premium of approximately 62.6% to the net assets value per Share as at 30 June 2008 of approximately HK\$1.23.

## LETTER FROM SOMERLEY

Set out below is a chart showing the historical closing price of the Shares for the period from 1 January 2008 up to and including the Latest Practicable Date (the “**Period**”) as compared to the Initial Conversion Price:

### Historical closing Share price



Source: Website of the Stock Exchange

A table showing the trading volume of the Shares for the Period is also set out below:

	Monthly trading volume of the Shares (Shares) (note 1)	Average trading volume of the Shares per trading day during the month (Shares)	% of average daily trading volume of the Shares to the total issued Shares (note 2)	% of average daily trading volume of the Shares to public float (note 3)
<b>2008</b>				
January	1,230,000	55,909	0.03%	0.12%
February	78,000	4,105	0.00%	0.01%
March	220,000	11,579	0.01%	0.03%
April	162,000	7,714	0.00%	0.02%
May	424,000	21,200	0.01%	0.05%
June	100,000	5,000	0.00%	0.01%
July	246,000	11,182	0.01%	0.02%
August	14,000	737	0.00%	0.00%
September	2,000	95	0.00%	0.00%
October	–	0	0.00%	0.00%
November	–	0	0.00%	0.00%
December (Note 4)	2,000	111	0.00%	0.00%

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## LETTER FROM SOMERLEY

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*Notes:*

- (1) Source: Website of the Stock Exchange
- (2) Calculated based on the number of total issued Shares as at each month end during the Period.
- (3) Calculated based on the number of total issued Shares as at each month end during the Period less the number of Shares being held by the substantial Shareholders and the Directors at each month end during the Period.
- (4) Up to the Latest Practicable Date.

As illustrated above, the trading volumes of the Shares were thin during the Period and there were no trading in the months of October and November 2008. During the Period, the highest closing price of the Share of HK\$2.15 per Share was recorded on 8 January 2008 and the lowest closing price of HK\$1.80 was recorded on 2 January 2008. The Initial Conversion Price represents a discount of approximately 7% to and a premium of approximately 11% over the highest and lowest closing prices of the Share respectively. The Initial Conversion Price also represents a premium of 0.5% over the average closing price of approximately HK\$1.99 per Share during the period under review.

As to the Comparables' analysis, we also observed that the Comparables had conversion prices ranged from a discount to the then latest closing price of the underlying securities immediately prior to the signing of the relevant agreements of approximately 86.7% to a premium over the then latest closing price of the underlying securities immediately prior to the signing of relevant agreements of approximately 110.9%, with an average of approximately 4.18% premium. The premium over the closing price per Share on the date of the Acquisition Agreement represented by the Initial Conversion Price is higher than the average of the Comparables.

Also as stated in the letter from the Board in the Circular, the Initial Conversion Price will be subject to adjustments including customary adjustments for, amongst others, share consolidation or reclassification of shares, share subdivision, capitalization of profits or reserves, capital distribution, bonus issue, rights issue, modification of rights of conversion and other issues at less than the market price. We consider that these customary adjustments are in line with market conventions.

On the above basis, we consider the Initial Conversion Price is fair and reasonable.

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## LETTER FROM SOMERLEY

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(ii) *Coupon rate and redemption premium*

The coupon rates of the Comparables were between zero coupon to 2.0% per annum. The zero coupon rate of the Convertible Note is at the low end of the range of coupon rates of the Comparables.

We observed that under the terms of the Convertible Note, unless previously converted or redeemed, the Company shall redeem the Convertible Note on its maturity date at its outstanding principal amount without any interest, which is considered in line with the Comparables. Also as set out in the terms and conditions of the Convertible Note, we note that while holder(s) of the Convertible Note shall not be entitled to demand for early repayment of the Convertible Note (save for the occurrence of the events of default), the Company can at any time redeem any Convertible Note which remains outstanding prior to or on its maturity date at its outstanding principal amount. This will on one hand reduce the immediate pressure on the liquidity of the Group, while the early redemption right exercisable by the Company will also allow the Group to redeem the Convertible Note without additional finance costs before maturity after taking into account the then financial position of the Group. Redemption of all or part of the Convertible Note will also avoid or minimise the dilution effect on shareholdings of the Independent Shareholders.

### **5. The Deed of Representations and Warranties**

As set out in the letter from the Board in the Circular, the Company and Yusei Japan also entered into the Deed of Representations and Warranties on 15 December 2008, pursuant to which Yusei Japan shall indemnify the Company against any losses and expenses incurred as a result of breach by Yusei Japan of the representations and warranties contained therein.

We have reviewed the Deed of Representations and Warranties. We are of the view that the Deed of Representations and Warranties is to confer protection on the Company as regards the assets, liabilities, financial position and state of affairs of Yusei Industrial, and the terms of the Deed of Representations and Warranties are considered as in line with market conventions.



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## LETTER FROM SOMERLEY

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### 6. Dilution effect on shareholdings

Based on the total principal amount of the Convertible Note of US\$3 million and the Initial Conversion Price of HK\$2.00, a total of 11,625,000 Conversion Shares will be issued, representing approximately 7.3% of the issued share capital of the Company as at the Latest Practical Date and approximately 6.8% of the issued share capital of the Company as enlarged by the issue and allotment of the Conversion Shares.

	<b>As at the</b>		<b>Upon full conversion of</b>	
	<b>Latest Practicable Date</b>		<b>the Convertible Note</b>	
			<b>at the Initial</b>	
	<i>No. of Shares</i>	<i>%</i>	<i>No. of Shares</i>	<i>%</i>
Yusei Japan	105,600,000	66.0	117,225,000	68.3
Mr. Xu Yong	9,600,000	6.0	9,600,000	5.6
Public Shareholders	<u>44,800,000</u>	<u>28.0</u>	<u>44,800,000</u>	<u>26.1</u>
	<u><u>160,000,000</u></u>	<u><u>100.0</u></u>	<u><u>171,625,000</u></u>	<u><u>100.0</u></u>

As illustrated in the table above, the Independent Shareholders will suffer a dilution of approximately 6.8% on their shareholdings upon the issue and allotment of the Conversion Shares.

We however consider the dilution acceptable having considered, amongst other things, that:

- (a) the issue of the Convertible Note would enable the Group to complete the Acquisition with no immediate cash outlay upon Completion and additional interest expenses;
- (b) bank borrowings would adversely affect the Group's gearing position, increase the Group's interest expenses and in turn affect the Group's profitability; and
- (c) the capital base of the Company will be enlarged and strengthened if the Convertible Note is converted.

On such basis, we are of the view that the potential dilution on the shareholdings of the Independent Shareholders is acceptable.

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## LETTER FROM SOMERLEY

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### 7. Financial effects of the Acquisition on the Group

#### *Net assets value*

Based on the latest published interim report of the Company, the unaudited consolidated net assets value of the Group as at 30 June 2008 was approximately RMB173,618,000. The Acquisition will not have material adverse impact on the net assets value of the Group given that the Consideration represents a discount to the attributable interest of the adjusted net assets value of Yusei Industrial and the financing of the Acquisition is being entirely satisfied by way of the issue of the Convertible Note.

#### *Earnings*

The Directors advised that Yusei Industrial will become an associated company of the Group upon Completion and its result will be equity accounted for in the Group's consolidated income statement.

Given that the Consideration represents a discount to the attributable interest of the adjusted net assets value of Yusei Industrial as at 30 September 2008, such discount from the Acquisition will be realised in the income statement of the Group upon Completion.

In addition, while Yusei Industrial has recorded an unaudited net profit of approximately RMB320,000 for the nine months period ended 30 September 2008, the Directors believe that the Acquisition will have positive effect on the earnings of the Group in the long run.

#### *Cash flow*

As the Acquisition is financed entirely by the issue of the Convertible Note, the Acquisition will not result in cash outflow (save for the incidental costs relating to the Acquisition) unless and until the Group (at its discretion) redeems the Convertible Note. Accordingly, the Acquisition is not expected to have material adverse effect on the overall cash flow and liquidity position of the Group.

### OPINION AND RECOMMENDATION

With regard to the Acquisition, we have considered the above principal factors and reasons, in particular:

- (i) the Group's investment in Yusei Industrial is in line with the Group's business development strategy, and the customers' base and business network of Yusei Industrial in overseas markets are considered complementary to the Group's future business development and expansion;
- (ii) the Consideration represents a discount of approximately 9.3% to the amount of the attributable interest of the adjusted net assets value of Yusei Industrial as at 30 September 2008 of approximately RMB22.7 million (equivalent to approximately HK\$25.7 million);

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## LETTER FROM SOMERLEY

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- (iii) principal terms of the Convertible Note are considered in line with the Comparables as detailed in the sub-section named “The Convertible Note” under the section headed “Principal terms of the Acquisition Agreement” above;
- (iv) the Initial Conversion Price represents a premium over the average closing price of approximately HK\$1.99 per Share during the period from 1 January 2008 to the Latest Practicable Date, and the premium over the closing price per Share on the date of the Acquisition Agreement represented by the Initial Conversion Price is higher than the average of the Comparables;
- (v) since bank borrowings would adversely affect the Group’s gearing position, increase the Group’s interest expenses and in turn may adversely affect the Group’s profitability, the issue of the Convertible Note will enable the Group to complete the Acquisition with no immediate cash outlay and additional interest expenses upon Completion;
- (vi) the capital base of the Company will be enlarged and strengthened if the Convertible Note is converted;
- (vii) dilution effect on the shareholding of the Independent Shareholders as a result of any exercise of conversion rights under the Convertible Note is considered acceptable based on reasons set out under section headed “Dilution effect on shareholdings” above; and
- (viii) there will not be material adverse financial effects on the Group immediately upon Completion.

Based on the above, we consider the Acquisition is on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Independent Shareholders as a whole, and that the terms of the Acquisition Agreement (including the issue and the terms of the Convertible Note) are fair and reasonable as far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to approve the Acquisition Agreement at the EGM.

Yours faithfully  
For and on behalf of  
**SOMERLEY LIMITED**  
**Kenneth Chow**  
*Director – Corporate Finance*

*The following is the text of a letter and valuation certificate, prepared for the purpose of incorporation in this circular received from the Valuer, an independent valuer, in connection with its valuation as at 31 October 2008 of the Property held by Yusei Industrial.*



**Asset Appraisal Limited**  
**資產評估顧問有限公司**

Add Rm 802 8/F On Hong Commercial Building  
145 Hennessy Road Wanchai Hong Kong  
地址: 香港灣仔軒尼詩道145號安康商業大廈8樓802室  
Tel: (852) 2529 9448  
Fax: (852) 3521 9591

31 December 2008

**The Board of Directors**

**Yusei Holdings Limited**

Unit 901,  
Fortune Commercial Building,  
362 Sha Tsui Road,  
Tsuen Wan, N.T.

Dear Sirs,

**Re: Valuation of Land, Various Buildings and Structures of Yusei Mould Industrial Park, No.335 Hongxing Road, Qiaonan Area, Xiaoshan Economic & Technological Development Zone, Xiaoshan District, Hangzhou City, Zhejiang Province, the People's Republic of China (the "PRC")**

In accordance with the instructions from Yusei Holdings Limited (the "Company") to value the captioned property interests (the "Properties") held by 杭州友成實業有限公司 (transliterated as Hangzhou Yusei Industrial Company, Limited) ("Yusei Industrial"), we confirm that we have carried out inspections of the Properties, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the Properties as at 31 October 2008 (the "date of valuation").

**BASIS OF VALUATION**

Our valuation of the Properties represents the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

**TITLESHIP**

We have been provided with copies of legal documents regarding the Properties. However, we have not verified ownership of the Properties and the existence of any encumbrances that would affect their ownership.

We have also relied upon the legal opinion provided by the PRC legal advisers, namely Jing Heng Law Group Firm (京衡律師集團事務所, the “PRC Legal Opinion”), to the Company on the relevant laws and regulations in the PRC, on the nature of Yusei Industrial’s land use rights in the Properties. Its material content has been summarized in the valuation certificate attached herewith.

### **VALUATION METHODOLOGY**

In valuing the land portion of the Properties, we have adopted the comparison method where comparison based on prices realised or market prices of comparable properties is made. Comparable properties of similar size, character and location are analysed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of capital values.

For nature of buildings and structures of the Properties where no known market can be identified, we have adopted the Depreciated Replacement Costs Method to value them. It is a method of using current replacement costs to arrive at the fair value of a property in existing state as at the date of valuation. We have estimated the current replacement costs at new of the buildings and other site works, from which deductions are then made to allow for age, condition, functional obsolescence, etc.

### **ASSUMPTIONS**

Our valuation has been made on the assumption that the owner sells the Properties on the market without the benefit of deferred terms contracts, leaseback, joint ventures, management agreements or any similar arrangement which would serve to affect the value of the Properties.

As the Properties are held by the owner by means of long term Land Use Rights granted by the Government, we have assumed that the owner has free and uninterrupted rights to use the Properties for the whole of the unexpired term of the land use rights.

Other special assumptions for our valuation (if any) would be stated out in the footnotes of the valuation certificate attached herewith.

### **LIMITING CONDITIONS**

No allowance has been made in our report for any charges, mortgages or amounts owing on the Properties valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their value.

We have relied to a very considerable extent on the information given by the Company and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, tenancy and all other relevant matters.

We have not carried out detailed site measurements to verify the correctness of the floor areas in respect of the Properties but have assumed that the floor areas shown on the documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations.

We have inspected the exterior and, where possible, the interior of the buildings and structures of the Properties. However, no structural survey has been made for them. In the course of our inspection, we did not note any apparent defects. We are not, however, able to report whether the buildings and structures inspected by us are free of rot, infestation or any structural defect. No test was carried out on any of the building services and equipment.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We have also sought confirmation from the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

**Remarks**

In valuing the Properties, we have complied with all the requirements contained in Chapter 8 of the Rules Governing the Listing of Securities on the Growth Enterprise Market issued by The Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards on Properties (First Edition 2005) published by The Hong Kong Institute of Surveyors effective from 1 January 2005.

Unless otherwise stated, all monetary sums stated in this report are in Renminbi (RMB).

Our valuation certificate is attached herewith.

Yours faithfully,  
for and on behalf of

**Asset Appraisal Limited**

**Sandra Lau**

*MFin MHKIS AAPI RPS(GP)*

*Director*

*Sandra Lau is a member of the Hong Kong Institute of Surveyors, an Associate of the Australian Property Institute and a Registered Professional Surveyor in General Practice. She is on the list of Property Valuers for Undertaking Valuations for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers of the Hong Kong Institute of Surveyors, Registered Business Valuer under the Hong Kong Business Forum and has over 10 years' experience in valuation of properties in Hong Kong, in Macau and in the PRC.*

## VALUATION CERTIFICATE

## Group I – Properties Held by Yusei Industrial for Investment and Owner Occupation

Property	Description and tenure	Particulars of occupancy	Market Value in
			Existing State as at 31 October 2008 RMB
Land, various buildings and structures of Yusei Mould Industrial Park, No.335 Hongxing Road, Qiaonan Area, Xiaoshan Economic & Technological Development Zone, Xiaoshan District, Hangzhou City, Zhejiang Province, the PRC	<p>The Properties comprise a parcel of land with a total area of 59,996 square metres on which seven blocks of 2 to 4-storey industrial building and two blocks of 6-storey dormitory building are erected. They were all completed in 2006.</p> <p>The aforesaid completed buildings have a total gross floor area of approximately 53,249.96 square metres.</p> <p>In addition, as at the date of our inspection, the construction works of two 3-storey industrial buildings (Phase II) were in progress. Upon completion, Phase II will provide a total gross floor area of 5,622 square metres. As advised by the Company, Phase II will be completed by the end of 2008.</p> <p>The land use rights in the subject land parcel are held for a term expiring on 24 February 2053.</p>	As at the date of our inspection, portion of the Properties with a gross floor area of 29,218.39 square metres was subject to various tenancies at a total monthly rent of RMB224,604.97 with the latest term expiring on 31 December 2010 whilst the remaining portion was occupied by Yusei Industrial for workshop and dormitory purposes.	56,700,000

## Notes:

- Pursuant to Land Use Rights Grant Contract (ref. no.2003-41) entered into between 杭州市蕭山區國土資源局 (transliterated as Hangzhou City Xiaoshan District State-owned Land Resources Bureau) and 杭州友成置業有限公司 (transliterated as Yusei Hangzhou Property Co., Ltd.) (now known as Yusei Industrial) on 18 July 2003, the latter acquired the land use rights in the Properties with an area of 66,669 square metres at a consideration of RMB8,000,280. As revealed by a receipt dated 22 July 2003, the aforesaid land purchase price has been fully settled.
- As stipulated in the Land Use Rights Certificate {ref. no.Hang Xiao Kai Guo Yong (2006) 18} dated 23 May 2006, the land use rights in the subject land parcel with an area of 59,996 square metres are held by, Yusei Industrial for a term expiring on 24 February 2053 for industrial uses.

3. As stipulated in nine sets of Building Ownership Certificate {ref. nos. Hang Fang Quan Zheng Xiao Zi Di 00040492, 00040494, 00040496, 00040498, 00040499, 00040500, 00040502, 00040503 and 00040506} all dated 29 December 2007, the completed buildings of the Properties with a total gross floor area of 53,249.96 square metres are held by Yusei Industrial for industrial and ancillary purposes.
4. As confirmed by Yusei Industrial, the total construction cost and construction cost expended to the Phase II as at the date of valuation were approximately RMB4,350,000 and RMB3,798,300 respectively.
5. The status of the title and grant of major approvals and licences of the Properties in accordance with the information provided by Yusei Industrial and the PRC Legal Opinion is as follows:  
  
Land Use Rights Certificate: Yes  
  
Building Ownership Certificate: Yes (except Phase II)
6. The PRC Legal Opinion on the Properties is summarized as follows:
  - 6.1 Pursuant to the Land Use Rights Grant Contract issued on 18 July 2003, a parcel of land with an area of 66,669 square metres was granted to Yusei Industrial at a land premium of RMB8,000,280;
  - 6.2 Yusei Industrial has fully settled the land premium and has legally obtained the Land Use Rights Certificate {ref. no. Hang Xiao Kai Guo Yong (2006) 18} for the property with an area of 59,996 square metres;
  - 6.3 the land use rights in the Properties are held by Yusei Industrial for a term expiring on 24 February 2053 for industrial purpose;
  - 6.4 the remaining portion of the subject land parcel with an area of 6,673 square metres forms part of the granted area as mentioned in the aforesaid Land Use Rights Grant Contract. Yusei Industrial has fully settled the land premium and shall have no legal impediment in obtaining the Land Use Rights Certificate for such remaining land portion;
  - 6.5 Yusei Industrial has legally obtained Building Ownership Certificate {ref. no. Hang Fang Quan Zheng Xiao Zi Di 00040492} for one of the completed buildings with a gross floor area of 6,123 square metres. As at the date of the PRC Legal Opinion, the subject building was subject to a tenancy for a term of three years commencing on 1 November 2007 and expiring on 31 October 2010 at a monthly rent of RMB48,984. The registration of the tenancy has been completed;
  - 6.6 Yusei Industrial has legally obtained Building Ownership Certificate {ref. no. Hang Fang Quan Zheng Xiao Zi Di 00040494} for another block of the completed buildings with a gross floor area of 6,440 square metres. As at the date of the PRC Legal Opinion, the building was occupied by Yusei Industrial for industrial operation purpose;
  - 6.7 Yusei Industrial has legally obtained Building Ownership Certificate {ref. no. Hang Fang Quan Zheng Xiao Zi Di 00040496} for another block of the completed buildings with a gross floor area of 6,440 square metres. As at the date of the PRC Legal Opinion, the building was subject to a tenancy for a term of three years commencing on 1 January 2008 and expiring on 31 December 2010 at a monthly rent of RMB51,520. The registration of the tenancy has been completed;



- 6.8 Yusei Industrial has legally obtained Building Ownership Certificate {ref. no. Hang Fang Quan Zheng Xiao Zi Di 00040498} for another block of the completed buildings with a gross floor area of 3,337.77 square metres. As at the date of the PRC Legal Opinion, Level 1 of the building with a gross floor area of 1,000 square metres was subject to a tenancy for a term of two years commencing on 1 July 2008 and expiring on 30 June 2010 at a monthly rent of RMB8,000. The registration for such tenancy has not been completed. Hence, such portion of the building may be subject to a penalty of RMB500 or prohibited to be leased. Portion of the building with a gross floor area of 2,225 square metres was leased to the Company for a term commencing on 1 September 2008 and expiring on 31 December 2009 at a monthly rent of RMB7.33 per square metre whilst the remaining portion of the building was not subject to any tenancy;
- 6.9 Yusei Industrial has legally obtained Building Ownership Certificate {ref. no. Hang Fang Quan Zheng Xiao Zi Di 00040499} for another block of the completed buildings with a gross floor area of 2,010.39 square metres. As at the date of the PRC Legal Opinion, the building was occupied by Yusei Industrial for industrial operation purpose;
- 6.10 Yusei Industrial has legally obtained Building Ownership Certificate {ref. no. Hang Fang Quan Zheng Xiao Zi Di 00040500} for another block of the completed buildings with a gross floor area of 2,010.39 square metres. As at the date of the PRC Legal Opinion, the building was subject to a tenancy for a term of three years commencing on 1 January 2008 and expiring on 31 December 2010 at a monthly rent of RMB16,083.12. The registration of the tenancy has been completed;
- 6.11 Yusei Industrial has legally obtained Building Ownership Certificate {ref. no. Hang Fang Quan Zheng Xiao Zi Di 00040502} for another block of the completed buildings with a gross floor area of 11,420 square metres. As at the date of the PRC Legal Opinion, the subject building was leased to the Company for a term commencing on 1 September 2008 and expiring on 31 December 2009 at a monthly rent of RMB7.33 per square metre;
- 6.12 Yusei Industrial has legally obtained Building Ownership Certificate {ref. no. Hang Fang Quan Zheng Xiao Zi Di 00040503} for another block of the completed buildings with a gross floor area of 7,637.36 square metres. As at the date of the PRC Legal Opinion, the building was occupied by Yusei Industrial for dormitory purpose;
- 6.13 Yusei Industrial has legally obtained Building Ownership Certificate {ref. no. Hang Fang Quan Zheng Xiao Zi Di 00040506} for another block of the completed buildings with a gross floor area of 7,831.05 square metres. As at the date of the PRC Legal Opinion, the building was occupied by Yusei Industrial for dormitory purpose;
- 6.14 Yusei Industrial has obtained Planning Permit for Construction Works and Construction Works Permit for Phase II of the Properties. Hence, Yusei Industrial has completed all relevant legal and proper procedures and applications for constructing Phase II. The construction works for Phase II are legal and protected by law;
- 6.15 the land use rights in the Properties and the building ownership of the completed buildings are legal, valid and free from any encumbrances; and
- 6.16 the land use rights and the completed buildings can be freely transferred, leased, mortgaged or disposed.
7. The market values of the Properties and Phase II as if they were fully completed on the date of valuation were RMB57,300,000 and RMB4,350,000 respectively.

**1. RESPONSIBILITY STATEMENT**

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

- (a) the information contained in this circular is accurate and complete in all material respects and not misleading;
- (b) there are no other matters the omission of which would make any statement in this circular misleading; and
- (c) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

**2. SHARE CAPITAL**

The authorized and issued share capital of the Company as at the Latest Practicable Date were, and upon full conversion of the Convertible Note at the Initial Conversion Price will be as follows:

**Authorized share capital:**

		<i>HK\$</i>
<u>1,500,000,000</u>	Shares as at the Latest Practicable Date	<u>15,000,000</u>

**Issued and to be issued share capital:**

160,000,000	Shares as at the Latest Practicable Date	1,600,000
11,625,000	Conversion Shares to be issued upon full conversion of the Convertible Note at the Initial Conversion Price	116,250
<u>171,625,000</u>		<u>1,716,250</u>

### 3. DISCLOSURE OF DIRECTORS' INTERESTS

#### (a) Directors' and chief executives' interests in the securities of the Company and its associated corporation

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were deemed or taken to have under such provisions of the SFO); or (ii) to be entered in the register maintained by the Company referred to therein pursuant to section 352 of the SFO; or (iii) to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors, were as follows:

Name of Director	Name of company	Capacity	Number of shares or underlying shares (long position)	Approximate shareholding percentage
Katsutoshi Masuda ("Mr. Masuda")	Company	Corporate interest	117,225,000 (Note 1)	73.3%
Toshimitsu Masuda	Company	Corporate interest	117,225,000 (Note 2)	73.3%
Xu Yong	Company	Beneficial owner	9,600,000	6.0%
Mr. Masuda	Yusei Japan	Beneficial owner, corporate and family interests	49,820 (Note 3)	71.2%
Toshimitsu Masuda	Yusei Japan	Beneficial owner and corporate interest	27,460 (Note 4)	39.2%
Keisuke Murakoshi	Yusei Japan	Beneficial owner	6,370	9.1%
Akio Suzuki	Yusei Japan	Beneficial owner	12,110	17.3%

*Notes:*

1. Mr. Masuda is deemed to be interested in 71.2% of the issued share capital of Yusei Japan pursuant to the SFO. Yusei Japan is interested in 105,600,000 existing Shares and 11,625,000 underlying Shares to be issued upon exercise of the conversion rights attaching to the Convertible Note at the Initial Conversion Price and that Yusei Japan or its directors are accustomed or obliged to act in accordance with the directions or instructions of Mr. Masuda. By virtue of the SFO, Mr. Masuda is deemed to be interested in 117,225,000 Shares or underlying Shares held by Yusei Japan.
2. Mr. Toshimitsu Masuda, son of Mr. Masuda, holds 50% of the issued share capital of Conpri Co. Limited ("Conpri"). Conpri is interested in 36.8% of the issued share capital of Yusei Japan which in turn is interested in 105,600,000 existing Shares and 11,625,000 underlying Shares to be issued upon exercise of the conversion rights attaching to the Convertible Note at the Initial Conversion Price. By virtue of the SFO, Mr. Toshimitsu Masuda is deemed to be interested in 117,225,000 Shares or underlying Shares through his shareholding in Conpri.
3. Mr. Masuda holds 30% of the issued share capital of Conpri. Conpri or its directors are accustomed or obliged to act in accordance with the directions or instructions of Mr. Masuda. By virtue of the SFO, Mr. Masuda is deemed to be interested in 25,760 shares in Yusei Japan held by Conpri.
4. Mr. Toshimitsu Masuda holds 50% of the issued share capital of Conpri. Conpri is interested in 36.8% of the issued share capital of Yusei Japan. By virtue of the SFO, Mr. Toshimitsu Masuda is deemed to be interested in 25,760 shares in Yusei Japan held by Conpri.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests and short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were deemed or taken to have under such provisions of the SFO); or (ii) to be entered in the register maintained by the Company referred to therein pursuant to section 352 of the SFO; or (iii) to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors.

**(b) Directors' interests in assets/contracts and other interests**

Save for the agreements in relation to the continuing connected transactions as detailed in the Company's announcement dated 23 October 2008, the interest of Mr. Masuda, Mr. Toshimitsu Masuda, Mr. Keisuke Murakoshi and Mr. Akio Suzuki in the Acquisition Agreement and 70% equity interest in Yusei Industrial held by the brother of Mr. Xu Yong, as at the Latest Practicable Date, none of the Directors or proposed Directors had any direct or indirect interest in any assets which have been, or are proposed to be, acquired or disposed of by or leased to any member of the Group since 31 December 2007, being the date to which the latest published audited accounts of the Group were made up.

Save for the aforesaid, as at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date which was significant in relation to the business of the Group.

**(c) Directors' interests in service contracts**

The Company has entered into service contracts with executive Directors for a term of three years and thereafter be continuous unless and until terminated by either party thereto giving to the other not less than three months' prior written notice.

In addition, the Company has entered into letter of appointment with non-executive Directors and independent non-executive Directors which shall be continuous unless and until terminated by either party thereto giving to the other not less than three months' prior written notice.

Save for the aforesaid, as at the Latest Practicable Date, none of the Directors nor proposed Directors had any existing or proposed service contracts with any member of the Group other than contracts expiring or determinable by the Company or the relevant member of the Group within one year without payment of compensation (other than statutory compensation).

**4. DISCLOSURE OF INTERESTS BY PERSONS OTHER THAN DIRECTORS AND CHIEF EXECUTIVES**

As at the Latest Practicable Date, so far as is known to the Directors or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had or were deemed or taken to have interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

<b>Name of Shareholder</b>	<b>Capacity</b>	<b>Number of Shares or underlying Shares (long position)</b>	<b>Approximate shareholding percentage</b>
Yusei Japan	Beneficial owner	117,225,000 <i>(Note 1)</i>	73.3%
Conpri	Corporate interest	117,225,000 <i>(Note 2)</i>	73.3%
Mrs. Echiko Masuda	Family interests	117,225,000 <i>(Note 3)</i>	73.3%

*Notes:*

1. Yusei Japan is interested in 105,600,000 existing Shares and 11,625,000 underlying Shares to be issued upon exercise of the conversion rights attaching to the Convertible Note at the Initial Conversion Price.
2. Conpri is interested in 36.8% in the issued share capital of Yusei Japan. By virtue of the SFO, Conpri is deemed to be interested in 117,225,000 Shares or underlying Shares held by Yusei Japan.
3. Mrs. Echiko Masuda is the spouse of Mr. Masuda and is deemed to be interested in 117,225,000 Shares or underlying Shares held by Yusei Japan pursuant to the SFO.

Save as disclosed above, as at the Latest Practicable Date and so far as is known to the Directors or chief executive of the Company, no other person (not being a Director or chief executive of the Company) had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange, under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

Save for the disclosure made in the paragraph headed “Competing interest” below, as at the Latest Practicable Date, none of the Directors or proposed Directors held any directorship or employment in a company which has an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under provisions of Division 2 and 3 of Part XV of the SFO.

**5. LITIGATION**

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

**6. COMPETING INTEREST**

As at the Latest Practicable Date, Yusei Japan was interested in 66% equity interest of the Company. With its production and business operations based in Japan, Yusei Japan is principally engaged in the design, fabrication and sales of plastic injection moulds, and, to a lesser extent, the manufacture and sales of plastic component products. The plastic injection moulds fabricated by Yusei Japan are mainly applicable for the manufacture of headlight components including glass lens and reflector, automobile gauge board and other interior components for automobiles. Furthermore, Yusei Japan also fabricates plastic injection moulds for the manufacturing of peripheral plastic components for air conditioners and component parts for fishing tools.

As at the Latest Practicable Date, Yusei Japan was owned as to approximately 36.8% by Conpri, as to approximately 31.4% by Mr. Masuda, as to approximately 17.3% by Mr. Akio Suzuki, as to approximately 9.1% by Mr. Keisuke Murakoshi, as to approximately 3.0% by Mrs. Echiko Masuda and as to approximately 2.4% by Mr. Toshimitsu Masuda, respectively, and Mr. Masuda and Mr. Toshimitsu Masuda were the directors of Yusei Japan. Conpri, a company incorporated in Japan with limited liability, was owned as to 50% by Mr. Toshimitsu Masuda, as to 30% by Mr. Masuda, and as to 20% by Mrs. Echiko Masuda, and Mr. Masuda and Mr. Toshimitsu Masuda were directors of Conpri as at the Latest Practicable Date. Mrs. Echiko Masuda and Mr. Toshimitsu Masuda are the spouse and son of Mr. Masuda, respectively. Mr. Masuda, Mr. Akio Suzuki and Mr. Toshimitsu Masuda are the non-executive Directors and Mr. Keisuke Murakoshi is one of the executive Directors.

Notwithstanding that the Group and Yusei Japan are engaged in similar business activities to certain extent, there is a clear delineation and independence of the Group's business from that of Yusei Japan. In particular, the Group's target markets (being the PRC, Taiwan, Hong Kong and the Macau Special Administrative Region of the PRC (the "Group's Exclusive Markets")) are territorially different from that of Yusei Japan. The locations of the production facilities are different and separate between the Group and Yusei Japan. The management responsible for the day-to-day operations of the Group and Yusei Japan is also different. The Directors believe that Yusei Japan does not compete with the Group.

Notwithstanding that the Directors believe that Yusei Japan does not compete with the Group, to clearly delineate the business operations of the Group from that of Yusei Japan and to avoid any possible future competition with the Group, Yusei Japan and its shareholders (collectively "the Covenantors") have entered into a deed of non-competition dated 19 September 2005 (the "Deed of Non-competition"), pursuant to which each of the Covenantors irrevocably and unconditionally undertakes and covenants with the Company that each of the Covenantors shall:

- (1) not either on his/her/its own account or for any other person, firm or company, and (if applicable) shall procure that its subsidiaries (other than the Company and any member of the Group) or companies controlled by each of the Covenantors shall not either on its own behalf or as agent for any person, firm or company and either directly or indirectly (whether as a shareholder, partner, consultant or otherwise and whether for profit, reward or otherwise) at any time solicit, interfere with or endeavour to entice away from any member of the Group any person, firm, company or organisation who to its knowledge is from time to time or has at any time been a customer or supplier or a business partner of any member of the Group;
- (2) not either alone or jointly with any other person, firm or company, carry on (including but not limited to making investments, setting up distribution channels and/or liaison offices and creating business alliances), participate, be engaged, concerned or interested in or in any way assist in or provide support (whether financial, technical or otherwise) to any business similar to or which competes (either directly or indirectly) or is likely to compete with the business of the design, development and fabrication of precision plastic injection moulds or the manufacturing of plastic components in the Group's Exclusive Markets

or the provision of certain assembling and further processing of plastic components for customers (the “Business”) from time to time carried out by any member of the Group (provision of assistance and support to the Group excepted) including the entering into of any contracts, agreements or other arrangements in relation to any of the above;

- (3) not directly or indirectly sell, distribute, supply or otherwise provide products being produced by the Group as at the latest practicable date prior to listing of the Company and the products that are produced or proposed to be produced by the Group in the course of its business (the “Group’s Product Portfolio”) to any purchaser or potential purchaser of any products within the Group’s Product Portfolio in the Group’s Exclusive Markets (the “Customers”) and upon receipt of any enquiry from the Customers for products which are within the Group’s Product Portfolio, to refer to the Company or any member of the Group all such business opportunities received by the Covenantors and provide sufficient information to enable the Company or any member of Group to reach an informed view and assessment on such business opportunities;
- (4) not directly or indirectly sell, distribute, supply or otherwise provide any products that are within the Group’s Product Portfolio where the relevant Covenantor(s) know(s), or is reasonably regarded as should have known, that such products are destined to be re-sold, re-distributed or re-supplied for the purpose of commercial exploitation in the Group’s Exclusive Markets;
- (5) upon receipt of any order or enquiry from customers outside the Group’s Exclusive Markets for products which are within the Group’s Product Portfolio and where the relevant Covenantor(s) know(s), or is reasonably regarded as should have known, that such products are destined to be re-sold, re-distributed or re-supplied for the purpose of commercial exploitation in the Group’s Exclusive Markets, the relevant Covenantor shall inform the Group in writing of such order or enquiry and refer such customer to contract directly with the Group for the order of the relevant product;
- (6) not do or say anything which may be harmful to the reputation of any member of the Group or which may lead any person to reduce their level of business with any member of the Group or seek to improve their terms of trade with any member of the Group; and
- (7) not solicit or entice or endeavour to solicit or entice any of the employees of or consultants to the Group to terminate their employment or appointment with any member of the Group.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, management Shareholders or their respective associates had an interest in any business which competes or may compete or had any other conflict of interest with the business of the Group.



**7. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors confirmed that there was no material adverse change in the financial or trading position of the Group since 31 December 2007, being the date to which the latest published audited accounts of the Group were made up.

**8. EXPERTS AND CONSENTS**

- (a) The following are the qualifications of the experts who have given opinion or advice contained in this circular:

<b>Name</b>	<b>Qualification</b>
Somerley	a corporation licensed to carry out business in Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO
Valuer	Registered Professional Surveyor

- (b) As at the Latest Practicable Date, none of Somerley and the Valuer had any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (c) Each of Somerley and the Valuer has given and has not withdrawn its written consent to the issue of this circular, with the inclusion therein of its letter or the references to its names in the form and context in which they respectively appear.
- (d) None of Somerley and the Valuer had any direct or indirect interest in any assets which have been, or are proposed to be, acquired or disposed of by or leased to any member of the Group since 31 December 2007, being the date to which the latest published audited accounts of the Group were made up.

**9. GENERAL**

- (a) The company secretary as well as the qualified accountant of the Company is Mr. Shum Shing Kei who holds a master degree in financial management from the University of London, the United Kingdom and he is also an associate member of the Hong Kong Institute of Certified Public Accountants.
- (b) The compliance officer of the Company is Mr. Xu Yong.
- (c) The Company has established an audit committee comprising three independent non-executive Directors namely Mr. Lo Ka Wai (Committee Chairman), Mr. Fan Xiaoping and Mr. Takabayashi Hisaki, with written terms of reference in compliance with Rules 5.28 to 5.30 of the GEM Listing Rules. The primary duties of the audit committee are (i) to

review, in draft form, the Company's annual report and accounts, half-yearly report and quarterly reports and provide advice and comments thereon to the Board; and (ii) to review and supervise the Company's financial reporting and internal control procedures.

Mr. Lo Ka Wai, aged 38, was appointed as an independent non-executive Director on 2 September 2005. Mr. Lo graduated from the University of Wollongong, Australia in 1992 with a bachelor degree in commerce (with merit). Mr. Lo is a qualified accountant and is also a member of the Hong Kong Institute of Certified Public Accountants and CPA Australia. Mr. Lo is the secretary of Joint Victory Holdings Limited, a private company, and is an independent non-executive director of CIG-WH International (Holdings) Limited, a company listed on the Main Board of the Stock Exchange. Save as disclosed herein, Mr. Lo Ka Wai does not hold any directorship in other listed companies for the past three years.

Mr. Fan Xiaopin, aged 51, was appointed as an independent non-executive Director on 2 September 2005. Mr. Fan graduated from University of Zhejiang with a bachelor degree in physics in July 1982 and completed a master program in administration science and engineering in July 1988. Mr. Fan is currently a professor in the business administration department in the University of Zhejiang. Save for the directorship in the Company, Mr. Fan does not hold any directorship in other listed companies for the past three years.

Mr. Hisaki Takabayashi, aged 47, was appointed as an independent non-executive Director on 2 September 2005. Mr. Takabayashi graduated from Daitobonka University with a bachelor degree in Chinese in March 1983. Mr. Takabayashi was the deputy representative of the Shanghai Office of Shizuoka International Economic Organisation in 2002. At present, Mr. Takabayashi is the Business Bureau Supervisor of Japan and China Friendship Council of Shizuoka Prefecture. Except for the directorship in the Company, Mr. Fan does not hold any directorship in other listed companies in the past three years.

- (d) The Company's registered office is at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company's head office and principal place of business in the PRC is at No. 8 Youcheng Road, Xiaoshan Economic & Technological Development Zone, Zhejiang 311215, the PRC. The Company's business office in Hong Kong is at Unit 901, Fortune Commercial Building, 362 Sha Tsui Road, Tsuen Wan, N.T., Hong Kong. The Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, is at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong

**10. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection at the Hong Kong office of the Company at Unit 901, Fortune Commercial Building, 362 Sha Tsui Road, Tsuen Wan, N.T., Hong Kong during normal business hours from the date of this circular up to the date of the EGM:

- (a) the articles and association of the Company;
- (b) the Directors' service contracts referred to in this appendix;
- (c) the Acquisition Agreement;
- (d) the Deed of Representations and Warranties;
- (e) the letter from the Independent Board Committee as set out on page 16 of this circular;
- (f) the letter from Somerley to the Independent Board Committee and the Independent Shareholders as set out on pages 17 to 32 of this circular;
- (g) the property valuation report of the Property prepared by the Valuer as set out in Appendix I to this circular; and
- (h) the written consents referred to under the paragraph headed "Experts and consents" in this appendix.

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## NOTICE OF THE EGM

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### YUSEI HOLDINGS LIMITED

友成控股有限公司\*

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 8319)

### NOTICE OF THE EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “EGM”) of Yusei Holdings Limited (the “**Company**”) will be held at No. 8 Youcheng Road, Xiaoshan Economic & Technological Development Zone, Zhejiang, the People’s Republic of China on Monday, 19 January 2009 at 4:00 p.m. for the purpose of considering and, if thought fit, passing with or without modification the following resolutions as ordinary resolutions of the Company:

#### ORDINARY RESOLUTIONS

**1. “THAT**

- (a) the acquisition agreement dated 15 December 2008 entered into between the Company as purchaser and Yusei Machinery Corporation (“**Yusei Japan**”) as vendor (the “**Acquisition Agreement**”) pursuant to which the Company has agreed to acquire 30% equity interest in 杭州友成實業有限公司 (Hangzhou Yusei Industrial Company, Limited) (“**Yusei Industrial**”) from Yusei Japan at the consideration of US\$3 million (equivalent to approximately HK\$23.3 million), which will be satisfied by way of issue of a redeemable convertible note (the “**Convertible Note**”) for the principal amount of US\$3 million by the Company to Yusei Japan upon completion (a copy of the Acquisition Agreement is produced to this meeting marked “A” and initialed by the chairman of this meeting for the purpose of identification), be and is hereby approved, confirmed and ratified and the transactions contemplated thereunder be and are hereby approved;
- (b) conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, new shares of the Company (the “**Shares**”) to be allotted and issued upon the exercise of the conversion rights attached to the Convertible Note, the directors of the Company (the “**Directors**”) be and are hereby authorised to issue the Convertible Note and to allot and issue Shares upon the exercise of the conversion rights attached to the Convertible Note in accordance with the terms and conditions of the Convertible Note; and

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## NOTICE OF THE EGM

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- (c) the board of the Directors (the “**Board**”) be and are hereby authorised for and on behalf of the Company to do all acts and things, and to execute all documents, instruments and supplemental agreements or deeds whether under hand or seal of the Company as it consider necessary or desirable to give effect to the Acquisition Agreement and to complete the transactions contemplated thereunder with such changes as it may consider necessary, desirable or expedient.”

### 2. “THAT:

- (a) subject to paragraph (c) below, the exercise by the Directors during the Relevant Period (as defined in paragraph (d) below) of all the powers of the Company to allot, issue and otherwise deal with additional ordinary Shares or securities convertible into Shares, or options, warrants or similar rights to subscribe for any Shares and to make or grant offers, agreements or options which might require the exercise of such powers, subject to and in accordance with all applicable laws, be and is hereby approved generally and unconditionally;
- (b) the approval in paragraph (a) above shall be in addition to any other authorisations given to the Directors and shall authorise the Directors during the Relevant Period to make or grant offers, agreements or options which might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted and issued, or agreed conditionally or unconditionally to be allotted, issued or otherwise dealt with (whether pursuant to options or otherwise) by the Directors pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to:
  - (i) a Rights Issue (as defined in paragraph (d) below); or
  - (ii) the grant or exercise of any option under the share option scheme of the Company or similar arrangement for the time being adopted or to be adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries, of options to subscribe for, or rights to acquire Shares; or
  - (iii) any scrip dividend or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with the articles of association of the Company in force from time to time;

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## NOTICE OF THE EGM

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any issue of Shares upon the exercise of rights of subscription or conversion under the terms of any warrants issued by the Company or any securities which are convertible into Shares, shall not exceed the aggregate of:

- (i) 20 per cent of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this Resolution; and
  - (ii) (if the Directors are so authorised by a separate ordinary resolution of the shareholders of the Company) the nominal amount of any share capital of the Company repurchased by the Company subsequent to the passing of this Resolution (up to a maximum equivalent to 10% of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution), and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly;
- (d) for the purpose of this Resolution:

“**Relevant Period**” means the period from the passing of this Resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company, the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands or any other applicable law of the Cayman Islands to be held; and
- (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors under this Resolution;

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## NOTICE OF THE EGM

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“**Rights Issue**” means the allotment, issue or grant of Shares pursuant to an offer of Shares, or offer or issue of warrants, options or other securities giving rights to subscribe for Shares open for a period fixed by the Directors to holders of Shares on the register on a fixed record date in proportion to their then holdings of such Shares, subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any relevant jurisdiction, or any recognized regulatory body or any stock exchange in any territory applicable to the Company.”

By order of the Board of  
**Yusei Holdings Limited**  
**Katsutoshi Masuda**  
*Chairman*

PRC, 31 December 2008

\* *for identification purpose only*

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

*Business office in Hong Kong:*  
Unit 901,  
Fortune Commercial Building,  
362 Sha Tsui Road,  
Tsuen Wan,  
N.T.,  
Hong Kong

*Head office and principal place of  
business in the PRC:*  
No. 8 Youcheng Road,  
Xiaoshan Economic & Technological  
Development Zone,  
Zhejiang  
311215  
The People’s Republic of China

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## NOTICE OF THE EGM

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*Notes:*

1. A member of the Company entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more than one proxy to attend and, subject to the provisions of the articles and association of the Company, vote in his stead. A proxy need not be a member of the Company.
2. To be valid, the form of proxy together with a power of attorney or other authority, if any, under which it is signed or a certified copy of such power or authority must be deposited at the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 48 hours before the time of the meeting or any adjourned meeting.
3. Delivery of an instrument appointing a proxy should not preclude member from attending and voting in person at the above meeting or any adjournment thereof and in such event, the instrument appointing a proxy shall be deemed to be revoked.
4. In the case of joint holders of a share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she/it were solely entitled thereto. If more than one of such joint holders are present at the above meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
5. As at the date of this notice, the board of directors of the Company comprises Keisuke Murakoshi and Xu Yong as executive Directors, Katsutoshi Masuda, Akio Suzuki, Toshimitsu Masuda and Toshinobu Ito as non-executive Directors and Lo Ka Wai, Fan Xiaoping and Hisaki Takabayashi as independent non-executive Directors.