YUSEI HOLDINGS LIMITED
友成控股有限公司*

(Incorporated in the Cayman Islands with limited liability)
(Stock code: 8319)

Annual Report **2009**

* for identification only

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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This report, for which the directors of Yusei Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Yusei Holdings Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:—

1. *the information contained in this report is accurate and complete in all material respects and not misleading;*

2. *there are no other matters the omission of which would make any statement in this report misleading; and*

3. *all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

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CORPORATE INFORMATION

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

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Xiaoshan Economy & Technology Development Zone
Zhejiang
311215
The PRC

BUSINESS ADDRESS IN HONG KONG

Unit 1, 9/F
Fortune Commercial Building
362 Sha Tsui Road
Tsuen Wan
N.T. Hong Kong

COMPANY SECRETARY

Mr. Shum Shing Kei CPA

COMPLIANCE OFFICER

Mr. Xu Yong

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

AUTHORISED REPRESENTATIVES

Mr. Xu Yong
Mr. Shum Shing Kei

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
Butterfield House, 68 Fort Street
P.O. Box 705, George Town
Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
46th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

STOCK CODE

8319

AUDITORS

SHINEWING (HK) CPA Limited

PRINCIPAL BANKERS

Industrial and Commercial Bank of China
54 Chenghe Street
Xiaoshan
Hangzhou
Zhejiang 311201
The PRC

Agricultural Bank of China
Jianshe Road
Xiaoshan Economy & Technology Development Zone
Zhejiang
311215
The PRC

Shanghai Pudong Development Bank
55 Tiyu Road
Chengxiang Town, Xiaoshan
Zhejiang
311215
The PRC

The Bank of Tokyo-Mitsubishi, UFJ Ltd
20/F, AZIA Center
1233 Lujiazui Ring Road
Pudong Shanghai
People's Republic of China

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the year ended 31 December 2009, 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. The Group also provides services for certain assembling and further processing of plastic components for its customers.

The Group's overall turnover for the year ended 31 December 2009 was approximately RMB554,484,000, representing an increase of 19.3% as compared to that of approximately RMB464,764,000 for the year ended 31 December 2008. The Group's customers are mainly the manufacturers of branded home electrical appliances, office equipment and plastic components with production facilities located in the PRC.

FINANCIAL REVIEW

TURNOVER

The Group's turnover for the year ended 31 December 2009 increased by 19.3% to approximately RMB554,484,000 as compared to that of approximately RMB464,764,000 for the year ended 31 December 2008.

During the year, the Group put more resources in the production of plastic injection mould products and certain assembling and further processing of plastic components for maintenance and enhancement its position as a one-stop total solution provider in the plastic injection moulding industry.

GROSS PROFIT

The Group achieved a gross profit of approximately RMB93,511,000 for the year ended 31 December 2009, representing an increase of approximately 14.4% as compared to that of approximately RMB81,775,000 for the year ended 31 December 2008. During the year, the overall gross profit margin was stable.

DISTRIBUTION COSTS

Distribution costs for the year ended 31 December 2009 increased by approximately 55.5% to approximately RMB13,132,000 as compared to that of approximately RMB8,443,000 for the year ended 31 December 2008. Such increase was mainly attributable to increase in turnover.

NET FOREIGN EXCHANGE LOSS

Net foreign exchange loss for prior year mainly represented the loss arising from exchange rate translation of Japanese Yen ("JPY") denominated obligations under finance leases and bank borrowings at the balance sheet date as a result of the appreciation of the Japanese Yen against RMB.

ADMINISTRATIVE EXPENSES

Administrative expenses for the year ended 31 December 2009 increased by approximately 22.3% to approximately RMB44,527,000 as compared to that of approximately RMB36,414,000 for the year ended 31 December 2008. Such increase was mainly attributable to the Group's expansion.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCE COSTS

Finance costs for the year ended 31 December 2009 increased to approximately RMB16,928,000 as compared to that of approximately RMB13,695,000 for the year ended 31 December 2008. Such increase was attributable to the increase in the Group's average bank borrowings as a result of the Group's expansion.

PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company increased by approximately 58.2 times from approximately RMB336,000 for the year ended 31 December 2008 to approximately RMB19,562,000 for the year ended 31 December 2009. It was mainly attributable to no foreign exchange loss incurred during the year.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2009, the equity amounted to approximately RMB183,492,000. Current assets amount to approximately RMB459,587,000, of which bank balance, deposits and cash and pledged bank deposits totaling approximately RMB145,002,000. The Group had non-current assets of RMB345,816,000 and its current liabilities amounted to approximately RMB451,321,000, comprising mainly its creditors and accrued charges and bank borrowings. The net asset value per share was RMB1.15. The Group expresses its gearing ratio as a percentage of finance leases and borrowings over total assets. As at 31 December 2009, the Group had a gearing ratio of 45.1%.

SEGMENT INFORMATION

The sole principal activity of the Group is moulding fabrication, manufacturing and trading of moulds and plastic components. All the Group's operations are located and carried out in the PRC. As the Group operated in a single operating segment, no segmental analysis has been presented accordingly.

EMPLOYMENT AND REMUNERATION POLICY

As at 31 December 2009, the total number of the Group's staff was approximately 2,100. The total staff costs (including directors' remuneration) amounted to approximately RMB63,180,000 for the year. The Group remunerates its employees based on their performance, experience and prevailing industry practice. The Group provides retirement benefit for its employees in Hong Kong in form of mandatory provident fund and provides similar schemes for its employees in the PRC.

CHARGE ON GROUP ASSETS

As at 31 December 2009, the Group's bank borrowings are secured by certain pledge bank deposits, land use rights and property, plant and equipment of the Group with an aggregate net carrying values of approximately RMB3,165,000 (2008: nil), RMB9,351,000 (2008: RMB3,452,000) and RMB79,724,000 (2008: RMB38,437,000), respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

FOREIGN CURRENCY RISK

The Group carries on business in Renminbi ("RMB"), United States dollars ("US$") and JPY and therefore the Group is exposed to foreign currency risk as the values of these currencies fluctuate in the international market.

The Group's exposure to foreign currency risk is attributable to the debtors, deposits and prepayments; bank balances, deposits and cash; creditors and accrued charges; obligations under finance leases and bank borrowings of the Group which are denominated in foreign currencies of US$ and JPY. The functional currencies of the relevant group entities are RMB and HK$. The Group currently does not have a foreign currency hedging policy in respect of foreign currency exposure. However, the directors monitor the related foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

CAPITAL COMMITMENTS

As at 31 December 2009, the Group had a capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment totalling approximately RMB213,000.

OUTLOOK

Management will actively adopted the Group's strategy to leverage on the experience of its management team in the plastic component manufacturing industry and its expertise in mould development to enhance the quality of its products, expand its customer base and strengthen the leading position in the high-end mould industry and its overall core competitiveness in relation to the one-stop services ranging from products development, plastic injection, aluminium-plating and assembling.

As a service provider to the well-known international branded manufacturers, the management believes that the Group possesses the managerial characteristics which our major customers may appreciate, including: (i) high-level demand on the quality of the products, particularly in the automotive parts and components, office automation machines like assembling parts of photocopies and printers must meet a high standard of precision in order to ensure the machine work effectively; (ii) emphasis on production efficiency to shorten the production cycle; and (iii) active participation in production process of the suppliers to ensure the product quality and the mutual communication to improve the suppliers' production efficiency. In addition, to deliver the parts and components of high precision to the customers, the Group put much efforts in acquisition of advanced production machineries which were made by the international well-known branded manufacturers.

In 2009, the Group had a series of marketing activities in exploring the overseas market, including sending the directors and salesmen to Europe, USA and Brazil to visit the potential customers, and concluded several business contracts with overseas customers, which bring momentum to the Group for growth in moulding business.

For keeping abreast of the current development in the market and the customers' needs, the Group strengthens the communication with customers in USA and Japan. Apart from seconding technicians to Japan for training, the Group employed experienced salesmen and technicians from United Kingdom and Japan to improve the capability of marketing and technical ability.

MANAGEMENT DISCUSSION AND ANALYSIS

As regards the quality of the products, the Group had adopted ERP system to facilitate the production flow and monitor the product quality. To response the changing technology in the industry, the Company will continue to acquire and install advanced machinery and equipment and to increase the ability to design and develop precision plastic injection moulds. The Company will rely on the one-stop solution from precision mould, plastic injection, aluminium plating to assembling to improve the sales network to capture opportunities in order to increase market share and to enlarge the customer bases. Nevertheless, the Group is cautious in accepting the new customers and we take into account of all factors in the process, including product pricing and the reputation of the potential customers and so on. For market exploring, the Group will continue to promote its business internationally and during the period, the Group had built up business relationship with several new internationally reputable customers in Europe and America such as Germany, France and Brazil, and serves them with high-quality moulds.

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries comprise the design, development and fabrication of plastic injection moulds and the manufacture of plastic components in the PRC. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The profit for the year ended 31 December 2009 and the state of affairs of the Group at that date are set out in the financial statements on pages 27 to 86.

The directors do not recommend the payment of a final dividend in respect of the year.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years is set out as follows:

RESULTS

	2009 RMB'000	2008 RMB'000	2007 RMB'000	2006 RMB'000 (Note)	2005 RMB'000
Revenue	**554,484**	464,764	444,747	372,773	256,923
Cost of sales	**(460,973)**	(382,989)	(354,515)	(303,814)	(205,693)
Gross profit	**93,511**	81,775	90,232	68,959	51,230
Other income	**6,603**	3,005	2,668	4,189	6,610
Distribution costs	**(13,132)**	(8,443)	(7,641)	(5,821)	(4,864)
Net foreign exchange loss	**–**	(19,276)	–	–	–
Administrative expenses	**(44,527)**	(36,414)	(37,507)	(42,738)	(30,539)
Finance costs	**(16,928)**	(13,695)	(9,196)	(7,173)	(4,324)
Share of losses of associates	**(2,418)**	–	–	–	–
Profit before taxation	**23,109**	6,952	38,556	17,416	18,113
Income tax expense	**(3,547)**	(6,616)	(7,691)	(5,041)	(4,072)
Profit for the year	**19,562**	336	30,865	12,375	14,041
ASSETS AND LIABILITIES					
Total assets	**805,403**	674,105	486,202	382,603	284,054
Total liabilities	**(621,911)**	(510,362)	(314,421)	(237,299)	(156,042)
	183,492	163,743	171,781	145,304	128,012

Note: The information is extracted from the Company's prospectus dated 30 September 2005.

REPORT OF THE DIRECTORS

BONUS ISSUE OF SHARES

The directors recommend a bonus issue of shares to the shareholders whose names appear on the register of members of the Company as at 14 May 2010 on the basis of one bonus share for every ten shares held by them. Such bonus issue of shares are to be approved by the shareholders in the Company's annual general meeting on 15 May 2010. These consolidated financial statements do not reflect the bonus issue of shares.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 32 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's memorandum and articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 35 to the consolidated financial statement and the consolidated statement of changes in equity, respectively.

The reserve available for distribution to shareholders is based on the lower of the aggregate amount of profit after taxation for the year and retained profits brought forward determined under accounting standards in the People's Republic of China and that determined under general accepted accounting principles of Hong Kong after deduction of the current year's appropriations to the statutory surplus reserve and statutory public welfare fund.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 76% of the total sales for the year and sales to the largest customer included therein amounted to 31%. Purchases from the Group's five largest suppliers accounted for 41% of the total purchases for the year and purchases from the largest suppliers included therein amounted to 11%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

REPORT OF THE DIRECTORS

DIRECTORS

The directors of the Company during the year were:

Executive directors:
Mr. Keisuke Murakoshi
Mr. Xu Yong

Non-executive directors:
Mr. Katsutoshi Masuda
Mr. Akio Suzuki
Mr. Toshimitsu Masuda
Mr. Toshinobu Ito
Mr. Lo Ka Wai*
Mr. Fan Xiaoping*
Mr. Hisaki Takabayashi*

* *Independent non-executive directors*

On 31 December 2009, Mr. Keisuke Murakoshi tendered resignation as an executive director of the Company which take effect on 1 January 2010.

In accordance with articles 87 and 88 of the Company's articles of association, Messrs. Akio Suzuki, Toshimitsu Masuda and Toshinobu Ito will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from Messrs. Lo Ka Wai, Fan Xiaoping and Hisaki Takabayashi and as at the date of this report still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 23 to 24 of the annual report.

DIRECTORS' SERVICE CONTRACTS

The Company has entered into service contracts with the executive directors for a term of 3 years. The contracts shall be continuing thereafter unless and until terminated by either party thereto giving to the other not less than three months written notice.

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

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in notes 22, 26, 27, 33 and 39 to the financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

CONTRACTS BETWEEN THE GROUP AND A CONTROLLING SHAREHOLDER

The Group entered into the following agreements with Yusei Machinery Corporation ("Yusei Japan"), the Company's controlling shareholder.

1. MOULD SUPPLY AGREEMENT BETWEEN THE COMPANY AND YUSEI JAPAN

On 23 October 2008, a supply agreement (in Chinese) ("YJ Supply Agreement") was entered into between the Company and Yusei Japan pursuant to which Yusei Japan agreed, subject to the terms therein contained, to continue the supply of plastic injection moulds and ancillary fabrication parts to the Company and/or its subsidiaries at their request. The YJ Supply Agreement commenced on 23 October 2008 for a term until 31 December 2010. The Company shall have the right to terminate the YJ Supply Agreement by giving to Yusei Japan not less than three months' prior notice in writing.

2. MOULD SALES AGREEMENT BETWEEN THE COMPANY AND YUSEI JAPAN

On 23 October 2008, a mould sales agreement (in Chinese) ("YJ Sales Agreement") was entered into between the Company and Yusei Japan pursuant to which the Company and Yusei Japan agreed with each other that, subject to the terms therein contained, the Company and/or its subsidiaries will sell to Yusei Japan plastic injection moulds (including the design thereof) for the Japan market.

The YJ Sales Agreement commenced on 23 October 2008 for a term until 31 December 2010.

3. TECHNICAL SERVICE AGREEMENT

On 23 October 2008, a technical service agreement (in Chinese) ("TS Agreement") was entered into between Yusei China, Hangzhou Yusei and Yusei Japan pursuant to which Yusei Japan agreed to provide to each of Yusei China and Hangzhou Yusei technical assistance service in connection with the process of manufacturing plastic injection moulds and the production of the end plastic products. The technical service and assistance provided by Yusei Japan comprises:

1. Long-term technical service: Yusei Japan shall second 3 technical consultants to Yusei China and Hangzhou Yusei for providing technical advice and assistance to Yusei China and Hangzhou Yusei. The technical advice and assistance will be on mould manufacturing and production of plastic products conducted by Yusei China and Hangzhou Yusei respectively. Each of the technicians seconded to Yusei China and Hangzhou Yusei under this long-term service arrangement shall work in aggregate not less than 300 days per year in Yusei China or Hangzhou Yusei (as the case may be). Of the 3 technicians, 1 of them will be stationed in Yusei China as management consultant and technical consultant for mould manufacturing respectively while the other two will be stationed in Hangzhou Yusei as technical consultant for production.

2. Staff training: Yusei China and/or Hangzhou Yusei can arrange not more than 4 technical staff to be sent to Yusei Japan for technical training each year.

3. Technical assistance on mould design: Yusei Japan shall provide technical assistance to Yusei China and/or Hangzhou Yusei on the design of mould products upon written request from Yusei China and/or Hangzhou Yusei.

4. Short-term technical service: Yusei Japan shall at the written request of either Yusei China or Hangzhou Yusei send technician(s) to the relevant requesting party for providing technical assistance and advice to the relevant requesting party on specific projects on short term basis.

The TS Agreement commenced retrospectively from 1 January 2008 and shall expire on 31 December 2010. Each of Zhejiang Yusei and Hangzhou Yusei shall have the right to terminate the TS Agreement by giving to Yusei Japan not less than 3 months' prior notice in writing.

4. FACTORY LEASE AGREEMENT

On 23 October 2008, a factory lease agreement (the " Factory Lease Agreement") was entered into between the Company and Yusei Industrial for a rental of the property located at No. 335 Hongxing Road, Qiaonan Area, XiaoShan Economic and Technological Development Zone in Zhejiang Province, The PRC.

The Factory Lease Agreement commenced on 1 September 2008 and shall expire on 31 December 2009.

5. PRODUCT SALES AGREEMENT

On 23 October 2008, the Company entered into the Product sales agreement with Yusei Japan for a term expiring on 31 December 2010 for sales of the products or processed products by the Group to Yusei Japan.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES OF THE COMPANY

The Shares of the Company were listed on GEM of the Stock Exchange on 13 October 2005. The interests and/or short position of the Directors and chief executives of the Company in the Shares, underlying shares in respect of equity derivatives and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which was notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which they are taken or deemed to have under such provisions of the SFO); or which was required pursuant to section 352 of the SFO to be entered in the register referred to therein; or which was required pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the directors to be notified to the Company and the Stock Exchange are as follows:

		Capacity			Number of shares		
Name of Company	Name of Director	Personal Interests	Family Interests	Corporate Interests	Long Position	Short Position	Approximate Percentage of interests
Company	Mr. Katsutoshi Masuda ("Mr. Masuda") (Note 1)	–	–	105,600,000 shares	105,600,000 shares	–	66%
Company	Toshimitsu Masuda (Note 2)	–	–	105,600,000 shares	105,600,000 shares	–	66%
Company	Xu Yong	9,600,000 shares	–	–	9,600,000 shares	–	6%
Yusei Machinery Corporation ("Yusei Japan")	Mr. Masuda (Note 3)	21,960 shares	2,100 shares	25,760 shares	49,820 shares	–	51.5%
Yusei Japan	Toshimitsu Masuda (Note 4)	1,700 shares	–	25,760 shares	27,460 shares	–	27.5%
Yusei Japan	Keisuke Murakoshi	6,370 shares	–	–	–	–	6.4%
Yusei Japan	Akio Suzuki	12,110 shares	–	–	–	–	12.1%

Notes:

1. Mr. Masuda is deemed to be interested in 51.5% of the issued share capital in Yusei Japan pursuant to the SFO. Yusei Japan is interested in 66% in the issued share capital of the Company 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 SFO, Mr. Masuda is deemed to be interested in 105,600,000 Shares held by Yusei Japan.

2. Mr. Toshimitsu Masuda, (son of Mr. Masuda) holds 50% of the issued share capital of Conpri. Conpri is interested in 25.8% in the issued share capital of Yusei Japan which in turn is interested in 66% in the issued share capital of the Company. By virtue of SFO, Mr. Toshimitsu Masuda is deemed to be interested in 105,600,000 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 SFO, Mr. Masuda is deemed to be interested in 25,760 shares in Yusei Japan held by Conpri.

4. Mr. Toshimitsu Masuda, (son of Mr. Masuda) holds 50% of the issued share capital of Conpri. Conpri is interested in 25.8% of the issued share capital of Yusei Japan. By virtue of SFO, Mr. Toshimitsu Masuda is deemed to be interested in 25,760 shares in Yusei Japan held by Conpri.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

The Shares of the Company were listed on GEM of the Stock Exchange on 13 October 2005. So far as the Directors are aware, the following persons (other than the Directors or chief executive of the Company) had an interest and/or a short position in the shares or underlying shares in respect of equity derivatives of the Company that would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO (including interests and/or short positions which they are taken or deemed to have under such provisions of the SFO), or be recorded in the register of the Company or who are directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying right to vote in all circumstances at general meetings of any other member of the Group are as follows:

Name of Company	Number of shareholder	Capacity	Number of shares Long Position	Number of shares Short Position	Approximate percentage of interests
Company	Yusei Japan	Beneficial Owner	105,600,000 shares	–	66%
Company	Conpri (Note 1)	Corporate Interests	105,600,000 shares	–	66%
Company	Mrs. Echiko Masuda (Note 2)	Family Interests	105,600,000 shares	–	66%

Notes:

1. Conpri is interested in 25.8% in the issued share capital of Yusei Japan. By virtue of SFO, Conpri is deemed to be interested in 105,600,000 shares held by Yusei Japan.

2. Mrs. Echiko Masuda is the spouse of Mr. Masuda and is deemed to be interested in 105,600,000 Shares pursuant to the SFO.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

None of the Directors or their respective associates was granted by the Company or its subsidiary any right to acquire shares or debentures of the Company or any other body corporate, or had exercised any such right as at 31 December 2009.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME

The Company has adopted a share option scheme. A summary of the principle terms and conditions of the share option scheme are set out in the note 34 to the financial statements. Up to 31 December 2009, no option has been granted pursuant to the share option scheme.

CONNECTED TRANSACTIONS

During the year, the Group had the connected transactions, details of which are disclosed in note 39 to the consolidated financial statements. The continuing connected transactions had been entered into in accordance with the relevant agreements and pricing policies and have not exceeded the cap disclosed in the Company's announcement dated 23 October 2008.

The independent non-executive directors of the Company have reviewed the continuing connected transactions and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available with independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 20.38 of the GEM Listing Rules, the Board engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the Board.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the year ended 31 December 2009, the Company had adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company also had made specific enquiry of all directors and the Company was not aware of any non-compliance with he required standard of dealings and its code of conduct regarding securities transactions by directors.

AUDIT COMMITTEE

The Company has established an audit committee comprising of the three independent non-executive directors, namely Mr. Hisaki Takabayashi, Mr. Fan Xiaoping and Mr. Lo Ka Wai, with written terms of reference in compliance with Rules 5.28 to 5.29 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 providing 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 is the chairman of the audit committee.

The audit committee has reviewed the Group's audited consolidated financial statements for the year ended 31 December 2009, which was of an opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

REPORT OF THE DIRECTORS

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2009, neither the Company nor any of its subsidiary had purchased, sold or redeemed any of the Company's listed shares.

DIRECTORS' INTEREST IN A COMPLETING BUSINESS

Yusei Japan is beneficially owned as to 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.

Yusei Japan is owned as to approximately 25.8% by Conpri, as to approximately 21.9% by Mr. Masuda, as to approximately 12.1% by Mr. Akio Suzuki, as to approximately 6.4% by Mr. Keisuke Murakoshi, as to approximately 2.1% by Mrs. Echiko Masuda, as to approximately 1.7% by Mr. Toshimitsu Masuda, and as to 30% by Tokyo Small and Medium Business Investment & Consultation Co., Ltd. respectively. Conpri is a company incorporated in Japan with limited liability and is owned as to 50% by Mr. Toshimitsu Masuda, as to 30% by Mr. Masuda, and as to 20% by Mrs. Echiko Masuda. Mrs. Echiko Masuda and Mr. Toshimitsu Masuda are the spouse and son of Mr. Masuda, respectively. Mr. Katsutoshi Masuda, Mr. Akio Suzuki and Mr. Toshimitsu Masuda are the Company's non-executive directors and Mr. Keisuke Murakoshi was one of the Company's 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) 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 that are within 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 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 none of the directors of the Company had an interest in a business which competes or may compete with the business of the Group.

REPORT OF THE DIRECTORS

AUDITORS

SHINEWING (HK) CPA Limited ("SHINEWING") were appointed as auditors of the Company on 12 January 2007 in succession to Deloitte Touche Tohmatsu which resigned on 5 December 2006. The consolidated financial statements for the year have been audited by SHINEWING.

SHINEWING retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Katsutoshi Masuda
Chairman

PRC
31 March 2010

CORPORATE GOVERNANCE REPORT

DIRECTORS' SECURITIES TRANSACTIONS

- During the year ended 31 December 2009, the Company had adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company also had made specific enquiry of all directors and the Company was not aware of any non-compliance with he required standard of dealings and its code of conduct regarding securities transactions by directors.

BOARD OF DIRECTORS

- The Directors, with relevant and sufficient experience and qualification have exercised due care, fiduciary duties to the significant issues of the Company and its subsidiaries (the "Group").

- The Board of the Company is comprised of two executive directors, four non-executive directors and three independent non-executive directors.

- All independent non-executive directors complied with the guidelines on independence set out under Rule 5.09 of the Listing Rules and have not violated any provision thereunder throughout the year.

- The list of directors and their biographies are set out in pages 23 to 24.

- Interim and final board meetings of the Board are held on a regular basis. The Board is responsible for formulating and reviewing the business direction and strategy for the relevant auditing period and for supervising the operating and financial performance of the Group. Where necessary, the Board will also convene ad hoc meeting to discuss matters requiring a decision by the Board. The management is authorized to exercise discretion on daily operation matters.

- The Articles of the Company clearly stipulate that the general manager of the Company is responsible for implementing various strategies and overseeing the daily operations of the Company and is required to report to the Board on a regular basis.

- The Board will formulate the development strategies of the Company within its scope of authorization. The management is authorized and entrusted by the Board to implement the strategies and oversee the daily operations of the Group.

- There are two committees under the Board. The Audit Committee is responsible for supervising the financial conditions of the Company. The Remuneration Committee is responsible for formulating remuneration strategy of the Company and supervising its enforcement.

- During the Year, the Board held 5 meetings. Pursuant to the Articles of the Company, "meetings or extraordinary meetings of the Board may be convened by means of telephone or similar telecommunication facilities".

- Regular meetings of the Board of the Company were held during the Year. Extra meetings were also held to cater for important matters arising from time to time. Directors may attend such meetings in person or through other electronic means of communication.

- Notice of 14 days was given to each director prior to a board meeting.

- The company secretary assisted the chairman of the Board in preparing the meeting agenda. The directors are allowed to submit proposed agenda items to the secretary to the Board before the date appointed for the relevant meeting.

- Minutes of board meetings and meetings of committees are duly kept by the secretary to the Board and freely available for inspection by the directors. Such meeting minutes recorded opinions and suggestions raised by the directors in the meeting. The final versions of such minutes were sent to directors for signing and confirmation.

- Transactions in which directors are deemed to be involved in conflict of interests or deemed to be materially interested in will not be dealt with by written resolution. The relevant director will be allowed to attend the meeting but may not express any opinion and will be required to abstain from voting.

- The directors may seek independent professional advice on professional matters involved at the expense of the Company.

- Mr. Keisuke Murakoshi and Mr. Toshimitsu Masuda are the brother-in-law and the son of Mr. Katsutoshi Masuda, respectively.

Name of directors	**Attendance of individual directors in meetings of the Board in 2009**
Katsukoshi Masuda	5/5
Keisuke Murakoshi	5/5
Xu Yong	5/5
Akio Suzuki	5/5
Toshimitsu Masuda	5/5
Toshinobu Ito	5/5
Lo Ka Wai	5/5
Fan Xiao Ping	5/5
Hisaki Takabayahi	5/5

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

- The positions of chairman and general manager were served by different individuals.

- The chairman is responsible for overseeing operations of the Board and formulating the strategies and policies of the Company, while the general manager for managing the businesses of the Company.

- Mr. Katsutoshi Masuda served as the chairman of the Board of the Company, which is equivalent to the post of chairman, responsible for leading the Board and the procedures and operation of the Board.

- Mr. Keisuke Murakoshi served as the general manager of the Company, which is equivalent to the post of chief executive officer, responsible for the daily operations of the Company and other matters authorized by the Board. After resignation of Mr. Keisuke Murakoshi, Mr. Xu Yong acts as the general manager of the Company.

CORPORATE GOVERNANCE REPORT

NON-EXECUTIVE DIRECTORS

– Each of Non-executive Directors has entered into a letter of appointment with the Company for a term of three years commencing from 13 October 2005 which shall be continuing unless and until terminated by either party thereto giving to the other not less than three months written notice.

– Pursuant to the Articles of the Company, one-third of the directors shall retire from office by rotation and, being eligible, will offer themselves for re-election at the annual general meeting.

REMUNERATION OF DIRECTORS

– The Company has established Remuneration Committee comprising all independent non-executive directors.

– The Remuneration Committee is responsible for reviewing the remuneration policies for directors and senior management of the Company, and fixing the remuneration packages for directors and senior management, including benefits in kind, pension and compensation. The terms of reference of the Remuneration Committee include the specific duties set out under the Code.

NOMINATION OF DIRECTORS

– The Company has not set up any nomination committee. The Board is responsible for the recommendation, election and appointment of senior management personnel of the Company. At a Board meeting held on 27 March 2009, matters relating to the nomination of directors for re-election at the annual general meeting were discussed. The meeting was attended by Messrs Katsutoshi Masuda, Keisuke Murakoshi, Xu Yong, Akio Suzuki, Toshimitsu Masuda, Toshinobu Ito, Lo Ka Wai, Fan Xiaoping and Hisaki Takabayashi. The criteria for nomination of directors for re-election include the past performance of the respective directors and the suitability of the nominee as a director of a listed company.

AUDITORS' REMUNERATION

– SHINEWING (HK) CPA Limited ("SHINEWING") were appointed as the auditors of the Company pursuant to the shareholders' resolution passed in the Annual General Meeting held on 15 May 2009. Auditing fees in respect of annual audit service for the year ended 31 December 2009 amounted to RMB750,000. SHINEWING did not provide other non-audit services to the Company other than the agreed upon procedures in respect of the continued connected transactions of the Group.

– The consolidated financial statements for the years ended 31 December 2006, 2007, 2008 and 2009 were audited by SHINEWING whereas those for the year ended 31 December 2005 was audited by Messrs. Deloitte Touche Tohmatsu.

AUDIT COMMITTEE

- The Company has established an Audit Committee comprising all Independent Non-executive Directors, namely Messrs Lo Ka Wai (as chairman), Fan Xiaoping and Hisaki Takabayashi, with written terms of reference in compliance with Rules 5.28 to 5.29 of the GEM Listing Rules. The primary duties of the Audit Committee are (1) to review, in draft form, the Company's annual report and accounts, half-yearly and quarterly reports and providing advice and comments thereon to the Board; and (2) to review and supervise the Company's financial reporting and internal control procedures.

- The Audit Committee holds at least four meetings each year.

Name of directors	Attendance of individual directors in meetings of the committee in 2009
Lo Ka Wai	4/4
Fan Xiao Ping	4/4
Hisaki Takabayahi	4/4

ACCOUNTABILITY AND AUDIT

The Board acknowledges its responsibility for preparing the consolidated financial statements of the Group which give a true and fair view of the state of affairs of the Group on a going concern basis. In preparing the accounts for the year ended 31 December 2009, the directors have selected suitable accounting policies and applied them consistently and made judgements and estimates that are prudent and reasonable.

The statement of the auditors of the Company about their reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent auditor's report.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Mr. Katsutoshi MASUDA (增田勝年先生), aged 65, is the chairman and a non-executive Director of the Company. Mr. Masuda was appointed as the chairman of the Company on 2 June 2005 and as a Director on 21 April 2005. Mr. Masuda has over 35 years of experience in mould fabrication and manufacturing. Mr. Masuda founded Yusei Machinery Corporation ("Yusei Japan"), the Company's ultimate holding company in September 1969 and is currently also a director and shareholder of Yusei Japan and Conpri. Mr. Masuda is one of the founders of the Group in April 1992 and is responsible for the major strategy of the Group.

Mr. Keisuke MURAKOSHI (村越啟介先生), aged 68, is an executive Director of the company and its subsidiary, Zhejing Yusei. Mr. Murakoshi was appointed as a Director of the Company on 21 April 2005. Mr. Murakoshi joined the Group in April 1992 as a director. In August 1993, Mr. Murakoshi was appointed as the deputy general manager of Zhejiang Yusei and was promoted to the position of general manager in March 1995. Mr. Murakoshi has over 30 years of experience in mould fabrication and plastic components manufacturing. At present, Mr. Murakoshi is responsible for the overall management and business strategy of the Group and is not involved in the day-to-day operations and management of Yusei Japan. Mr. Murakoshi is the brother-in-law of Mr. Katsutoshi Masuda and a shareholder of Yusei Japan.

Mr. XU Yong (許勇先生), aged 47, is an executive Director and the deputy manager of Zhejiang Yusei. Mr. Xu was appointed as a Director of the Company on 21 April 2005. Mr. Xu has over 10 years of experience in mould fabrication. Mr. Xu completed an industrial business administration course in 浙江廣播電視大學(Zhejiang Broadcasting & Television University) in August 1986 and completed a Japanese language course in 杭州大學外語學院(Department of Foreign Language of University of Hangzhou) and 浙江省科學技術培訓中心(Science and Technology Training Centre of Zhejiang Province) in February 1993 and November 1993 respectively. In November 1994, Mr. Xu completed a production management and mechanical engineering internship program in Toneseiki Company Limited (日本利根精機株式會社). Mr. Xu joined Zhejiang Yusei as its deputy general manager in June 1995. Currently, Mr. Xu is responsible for the general management of the Group and the supervision of the overall production operation.

Mr. Akio SUZUKI (鈴木秋男先生), aged 63, was appointed a non-executive Director on 2 June 2005. Mr. Suzuki joined the Group in April 1992. Mr. Suzuki has over 30 years of experience in mould fabrication and joined Yusei Japan in September 1969 when he was employed as a mould production supervisor. Mr. Suzuki is also a shareholder and director of Yusei Japan.

Mr. Toshimitsu MASUDA (增田敏光先生), aged 41, son of Mr. Katsutoshi Masuda, was appointed as a non-executive Director on 2 June 2005. Mr. Toshimitsu Masuda graduated from the Industrial University in Japan in production mechanical engineering studies in March 1991. Mr. Toshimitsu Masuda joined Yusei Japan in 1997 as a director and is a shareholder of Yusei Japan. He is also a director and shareholder of Conpri. Mr. Toshimitsu Masuda joined the Group in May 1998.

Mr. Toshinobu ITO (伊藤利信先生), aged 59, was appointed as a non-executive Director on 2 June 2005. Mr. Ito is currently the Business Bureau Chief of 日本静岡縣－浙江省經濟交流促進機構静岡縣委員會(Shizuoka Prefecture-Zhejiang Economic Exchange Committee), the Managing Executive and Business Bureau Chief of 日本静岡日中友好協進會(Japan and China Friendship Council of Shizuoka Prefecture) and the Managing Executive and Business Bureau Chief of 日本静岡縣日中貿易協同組合(Shizuoka Prefecture Japan-China Trading Cooperation Company). Mr. Ito joined the Group in April 1992 as a director of Zhejiang Yusei.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. FAN Xiaoping (范曉屏先生), aged 51, was appointed as an independent non-executive Director on 2 September 2005. Mr. Fan graduated from 浙江大學(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.

Mr. LO Ka Wai (羅嘉偉先生), aged 40, 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.

Mr. Hisaki TAKABAYASHI (高林久記先生), aged 49, was appointed as an independent non-executive Director on 2 September 2005. Mr. Takabayashi graduated from 大東文化大學(Daitobonka University) with a bachelor degree in Chinese in March 1983. Mr. Takabayashi was the deputy representative of the Shanghai Office of 日本靜岡縣國際經濟振興會(Shizuoka International Economic Organisation) in 2002. At present, Mr. Takabayashi is the Business Bureau Supervisor of 日本靜岡縣日中友好協進會(Japan and China Friendship Council of Shizuoka Prefecture).

SENIOR MANAGEMENT

Mr. CHEN Gang (陳剛先生), aged 42, joined the Group in September 1992 and has worked in various positions in the Group including technician, mould fabrication technical division head and mould fabrication department head. In January 2003, Mr. Chen was appointed as the department head of the operation technology department and is responsible for the overall operation and technology enhancement for mould fabrication.

Mr. QIU Peng Yong (邱鵬湧先生), aged 41, joined the mould fabrication department of the Group in September 1992 as the mould fabrication division head and was promoted to the department head in January 2003. Mr. Qiu is responsible for evaluation and approving mould design, as well as, quality assurance and compliance of the Group.

Mr. SHUM Shing Kei (沈成基先生), aged 38, is company secretary of the Company. He obtained a master degree in financial management from the University of London, the United Kingdom in December 1998. He is also an associate member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group in April 2005, he had over 11 years of experience in auditing and accounting and had worked for an international accounting firm and a listed company in Hong Kong.

INDEPENDENT AUDITOR'S REPORT

信永中和
ShineWing

SHINEWING (HK) CPA Limited
16/F., United Centre
95 Queensway, Hong Kong

TO THE SHAREHOLDERS OF
YUSEI HOLDINGS LIMITED
友成控股有限公司
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Yusei Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 27 to 86, which comprise the consolidated statement of financial position as at 31 December 2009, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards, and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Ip Yu Chak
Practising Certificate Number: P04798

Hong Kong
31 March 2010

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2009

	NOTES	2009 RMB'000	2008 RMB'000
Revenue	7	**554,484**	464,764
Cost of sales		**(460,973)**	(382,989)
Gross profit		**93,511**	81,775
Other income	8	**6,603**	3,005
Distribution costs		**(13,132)**	(8,443)
Net foreign exchange loss		**–**	(19,276)
Administrative expenses		**(44,527)**	(36,414)
Finance costs	9	**(16,928)**	(13,695)
Share of losses of associates	18	**(2,418)**	–
Profit before taxation		**23,109**	6,952
Income tax expense	10	**(3,547)**	(6,616)
Profit for the year	11	**19,562**	336
Earnings per share			
Basic and diluted	14	**RMB0.122**	RMB0.002

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	2009 RMB'000	2008 RMB'000
Profit for the year	**19,562**	336
Exchange differences arising on translating of foreign operations and other comprehensive income for the year	**(112)**	(692)
Total comprehensive income for the year	**19,450**	(356)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS at 31 December 2009

	NOTES	2009 RMB'000	2008 RMB'000
Non-current assets			
Property, plant and equipment	15	**298,509**	300,838
Intangible assets	16	**531**	1,090
Land use rights	17	**21,488**	11,369
Interests in associates	18	**25,288**	–
Long-term deposits paid	19	**–**	8,200
		345,816	321,497
Current assets			
Inventories	20	**108,051**	78,904
Debtors, deposits and prepayments	21	**194,751**	160,772
Amount due from ultimate holding company	26	**–**	754
Amount due from an associate/a related party	27	**11,032**	5,059
Amounts due from directors	22	**751**	786
Pledged bank deposits	23	**42,265**	34,400
Bank balances, deposits and cash	24	**102,737**	71,933
		459,587	352,608
Current liabilities			
Creditors and accrued charges	25	**242,408**	194,112
Amount due to ultimate holding company	26	**2,121**	–
Income tax liabilities		**2,906**	1,100
Obligations under finance leases			
– due within one year	28	**9,523**	12,509
Bank borrowings – due within one year	29	**194,363**	155,195
		451,321	362,916
Net current assets (liabilities)		**8,266**	(10,308)
Total assets less current liabilities		**354,082**	311,189

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS at 31 December 2009

	NOTES	2009 RMB'000	2008 RMB'000
Non-current liabilities			
Obligations under finance leases			
– due after one year	28	**20,207**	30,482
Deferred income – government grants	30	**1,113**	1,198
Bank borrowings – due after one year	29	**139,210**	115,766
Redeemable convertible note	31	**10,060**	–
		170,590	147,446
		183,492	163,743
Capital and reserves			
Share capital	32	**1,674**	1,674
Reserves		**181,818**	162,069
		183,492	163,743

The consolidated financial statements on pages 27 to 86 were approved and authorised for issue by the board of directors on 31 March 2010 and are signed on its behalf by:

Director　　　　Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year ended 31 December 2009

	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000	Reserve for shares issued with vesting conditions RMB'000	Redeemable convertible note reserve RMB'000	Translation reserve RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Retained profits RMB'000	Total RMB'000
	(note 32)		(note 35(vi))	(note 35(iv))	(note 35(v))		(note 35(ii))	(note 35(iii))		
1 January 2008	1,623	40,054	49,663	16,747	-	(626)	36	10,871	53,413	171,781
Profit for the year	-	-	-	-	-	-	-	-	336	336
Other comprehensive income for the year	-	-	-	-	-	(692)	-	-	-	(692)
Total comprehensive income for the year	-	-	-	-	-	(692)	-	-	336	(356)
Share issued with vesting conditions fulfilled during the year (note 32)	51	(51)	-	-	-	-	-	-	-	-
Fair value of estimated shares issued with vesting conditions charged to consolidated income statement (note 33)	-	-	-	1,318	-	-	-	-	-	1,318
2007 Final dividend paid	-	-	-	-	-	-	-	-	(9,000)	(9,000)
At 31 December 2008 and 1 January 2009	1,674	40,003	49,663	18,065	-	(1,318)	36	10,871	44,749	163,743
Profit for the year	-	-	-	-	-	-	-	-	19,562	19,562
Other comprehensive income for the year	-	-	-	-	-	(112)	-	-	-	(112)
Total comprehensive income for the year	-	-	-	-	-	(112)	-	-	19,562	19,450
Share of capital reserve of an associate	-	-	-	-	-	-	35	-	-	35
Recognition of equity component of redeemable convertible note (note 31)	-	-	-	-	6,803	-	-	-	-	6,803
Transfer to retained profits upon early redemption of redeemable convertible note (note 31)	-	-	-	-	(2,060)	-	-	-	2,060	-
Effect of early redemption of redeemable convertible note (note 31)	-	-	-	-	(1,739)	-	-	-	-	(1,739)
2008 Final dividend paid	-	-	-	-	-	-	-	-	(4,800)	(4,800)
At 31 December 2009	1,674	40,003	49,663	18,065	3,004	(1,430)	71	10,871	61,571	183,492

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

	2009 RMB'000	2008 RMB'000
OPERATING ACTIVITIES		
Profit before taxation	**23,109**	6,952
Adjustments for:		
Release of government grants	**(85)**	(85)
Bank interest income	**(1,095)**	(626)
Gain on sales of materials	**(672)**	(739)
Depreciation and amortisation	**34,308**	26,251
Recognition of the fair value of vested restricted shares	**–**	1,318
Reversal of impairment of trade debtors	**–**	(6)
Impairment of inventories	**3,675**	–
Finance costs	**16,928**	13,695
Share of losses of associates	**2,418**	–
Operating cash flows before movements in working capital	**78,586**	46,760
Increase in inventories	**(32,150)**	(30,638)
Increase in debtors, deposits and prepayments	**(33,746)**	(12,978)
Decrease (increase) in amount due from ultimate holding company	**754**	(754)
Increase in amount due from an associate/a related party	**(5,973)**	(5,059)
Increase in creditors and accrued charges	**46,881**	49,086
Increase (decrease) in amount due to ultimate holding company	**2,121**	(539)
Decrease in amount due to a related company	**–**	(100)
Cash generated from operations	**56,473**	45,778
Income taxes paid	**(1,741)**	(8,014)
NET CASH FROM OPERATING ACTIVITIES	**54,732**	37,764
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(30,535)**	(85,454)
Purchase of intangible assets	**(160)**	(592)
Purchase of land use rights	**(9,949)**	–
Increase in pledged bank deposits	**(7,865)**	(24,186)
Interest received	**1,095**	626
Advance to directors	**35**	22
Deposit paid for investment in an associate	**–**	(7,200)
Proceeds from sales of property, plant and equipment	**–**	3,741
Deposit paid for acquisition of a land use right	**–**	(1,000)
NET CASH USED IN INVESTING ACTIVITIES	**(47,379)**	(114,043)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

	2009 RMB'000	2008 RMB'000
FINANCING ACTIVITIES		
New bank borrowings raised	**263,165**	267,345
Repayment of bank borrowings	**(200,553)**	(152,736)
Interest paid	**(13,482)**	(13,017)
Repayment of obligations under finance leases	**(13,261)**	(7,866)
Redemption on redeemable convertible note	**(7,506)**	–
Dividend paid	**(4,800)**	(9,000)
NET CASH FROM FINANCING ACTIVITIES	**23,563**	84,726
NET INCREASE IN CASH AND CASH EQUIVALENTS	**30,916**	8,447
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**71,933**	64,178
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**(112)**	(692)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, representing bank balances, deposits and cash	**102,737**	71,933

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

1. CORPORATE INFORMATION

Yusei Holdings Limited (the "Company") was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 4 April 2005 and its shares have been listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 13 October 2005. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information to the annual report.

The directors consider the parent and ultimate holding company of the Company as at 31 December 2009 to be Yusei Machinery Corporation ("Yusei Japan"), a company incorporated in Japan.

The principal activities of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") are moulding fabrication, manufacturing and trading of moulds and plastic components.

The consolidated financial statements are presented in Renminbi ("RMB"). Other than those subsidiaries established in the People's Republic of China (the "PRC") whose functional currency is RMB, the functional currency of the Company is Hong Kong dollars ("HK$").

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised standards, amendments to standards and interpretations ("HK(IFRIC)-INTs") (hereinafter collectively referred to as "new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Hong Kong Accounting Standard ("HKAS") 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC)-INT 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC)-INT 13	Customer Loyalty Programmes
HK(IFRIC)-INT 15	Agreements for the Construction of Real Estate
HK(IFRIC)-INT 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC)-INT 18	Transfer of Assets from Customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(CONTINUED)*

Except as described below, the adoption of the new and revised HKFRSs had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

HKAS 1 (Revised 2007) Presentation of Financial Statements

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the consolidated financial statements.

Improving Disclosures about Financial Instruments
(Amendments to HKFRS 7 Financial Instruments: Disclosures)

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The amendments also expand and amend the disclosures required in relation to liquidity risk. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 24 (Revised)	Related Party Disclosures[5]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendment)	Classification of Rights Issues[4]
HKAS 39 (Amendment)	Eligible Hedge Items[1]
HKFRS 1 (Revised)	First-time Adoption of HKFRSs[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[6]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments[7]
HK(IFRIC)-Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[5]
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments[6]

1 Effective for annual periods beginning on or after 1 July 2009.
2 Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.
3 Effective for annual periods beginning on or after 1 January 2010.
4 Effective for annual periods beginning on or after 1 February 2010.
5 Effective for annual periods beginning on or after 1 January 2011.
6 Effective for annual periods beginning on or after 1 July 2010.
7 Effective for annual periods beginning on or after 1 January 2013.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(CONTINUED)*

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

HKFRS 9 *Financial Instruments* introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

In addition, as part of *Improvements to HKFRSs* issued in 2009, HKAS 17 *Leases* has been amended in relation to the classification of leasehold land. The amendments will be effective from 1 January 2010, with earlier application permitted. Before the amendments to HKAS 17, leases were required to classify leasehold land as operating leases and presented as prepaid lease payments in the consolidated statement of financial position. The amendments have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The application of the amendments to HKAS 17 might affect the classification and measurement of the Group's leasehold land.

The directors of the Company anticipated that the application of the other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Basis of consolidation *(continued)*

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

When a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivables and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Sales of goods

Revenue from the sale of goods is recognised when the goods are delivered and title has passed.

Interest income

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production of goods or for administrative purposes (other than construction in progress) are stated at cost less any subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment (other than construction in progress) over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Construction in progress includes properties in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Leasing *(continued)*

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases and amortised over the lease term on a straight-line basis.

Land use rights

Land use rights are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated on a straight-line basis over the respective lease terms.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Government grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefits scheme contribution

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in to profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Intangible asset

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are mainly loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including debtors and deposits; amounts due from ultimate holding company, an associate/a related party and directors; pledged bank deposits and bank balances, deposits and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(continued)*

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade debtors, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of debtors and amounts due from ultimate holding company, an associate/a related company and directors, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a debtor, or amounts due from ultimate holding company, an associate/a related company and directors is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(continued)*

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities including creditors and accrued charges; amount due to ultimate holding company; obligations under finance leases and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Redeemable convertible note

Redeemable convertible note issued by the Group that contain liability, conversion option and early redemption option (which is not closely related to the host liability component) are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument. At the date of issue, both the liability and early redemption option components are measured at fair value. The difference between the gross proceed of the issue of the redeemable convertible note and the fair values assigned to the liability and early redemption option components respectively, representing the conversion option for the holder to convert the notes into equity, is included in equity (redeemable convertible note reserve).

In subsequent periods, the liability component of the redeemable convertible note is carried at amortised cost using the effective interest method. The early redemption option is measured at fair value with changes in fair value recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(continued)*

Redeemable convertible note (continued)

The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in redeemable convertible note reserve until the embedded conversion option is exercised (in which case the balance stated in redeemable convertible note reserve will be transferred to share premium. Where the conversion option remains unexercised at the expiry date, the balance stated in redeemable convertible note reserve will be released to the retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Upon redemption of the redeemable convertible note, the redemption consideration will be allocated to the liability component and equity component using the same allocation basis as when the redeemable convertible note was originally issued.

Differences between the fair value and the carrying amount of the liability component will be recognised in the consolidated income statement. The difference between the redemption consideration and the fair value of the liability component will be included in equity (redeemable convertible note reserve) and released to retained profits.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Equity-settled share-based payment transactions

Shares issued to directors, selected employees and technical consultants of the Company with vesting conditions

The fair value of services received determined by reference to the fair value of shares granted at the grant date with vesting conditions is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (reserve for shares issued with vesting conditions).

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Financial instruments *(continued)*

Equity settled shared-based payment transactions (continued)

Shares issued to directors, selected employees and technical consultants of the Company with vesting conditions (continued)

At the end of each reporting period, the Group revises its estimates of the number of unvested and allotted shares that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss, with a corresponding adjustment to reserve for shares issued with vesting conditions.

At the time when the vesting conditions of these shares are fulfilled, the amount previously recognised in reserve for shares issued with vesting conditions will be transferred to share capital for the par value of the shares issued and the remaining balances to share premium.

When the unvested and allotted shares are forfeited, the amount previously recognised in reserve for shares issued with vesting conditions will be transferred to retained profits.

Share options granted by the Company

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period or recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share option reserve).

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss, with a corresponding adjustment to share option reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

Impairment losses on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated useful lives of property, plant and equipment

The directors of the Company determine the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. The directors of the Company will increase the depreciation charges where useful lives are less than previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Estimated impairment of property, plant and equipment and land use rights

The Group tests annually whether property, plant and equipment and land use rights have suffered any impairment in accordance with the accounting policy stated in note 3. The recoverable amounts have been determined based on value-in-use calculations. These calculations require the use of estimates such as the future revenue and discount rates.

Estimated impairment of interests in associates

Determining whether the interests in associates is impaired requires an estimation of the future cash flows expected to arise and the expected dividend yield from the associates in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(CONTINUED)*

Impairment of inventories

The directors of the Company review an aging analysis at the end of each reporting period, and makes impairment for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The directors of the Company estimate the net realisable value for such raw materials, work-in-progress and finished goods based primarily on the latest invoice prices and current market conditions. The directors of the Company also carry out an inventory review on a product-by-product basis at the end of each reporting period and makes impairment for obsolete items. During the year ended 31 December 2009, impairment of inventories of approximately RMB3,675,000 (2008: nil) was recognised in the consolidated financial statements.

Estimate impairment loss of debtors

The policy for making impairment loss on debtors of the Group is based on the evaluation of collectability of debtors and on judgement of the directors of the Company. A considerable amount of judgement is required in assessing the ultimate realisation of these debtors, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment loss may be required.

Fair value of redeemable convertible note

The fair value of the redeemable convertible note is valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates which involve assumptions on the Company's credit spread, discount rate and expected credit rating. Should these assumptions change, there would be material changes to the valuation.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes the bank borrowings and redeemable convertible note as disclosed in notes 29 and 31 respectively, cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves. The management of the Group reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as raise of new borrowings or repayment of existing borrowings.

6. FINANCIAL INSTRUMENTS

A. Categories of financial instruments

	2009 RMB'000	2008 RMB'000
Financial assets		
Loan and receivables		
– debtors, deposits and prepayments	**187,565**	153,159
– amount due from ultimate holding company	**–**	754
– amount due from an associate/a related party	**11,032**	5,059
– amounts due from directors	**751**	786
– pledged bank deposits	**42,265**	34,400
– bank balances, deposits and cash	**102,737**	71,933
	344,350	266,091
Financial liabilities		
Other financial liabilities measured at amortised cost		
– creditors and accrued charges	**228,728**	179,797
– amount due to ultimate holding company	**2,121**	–
– obligations under finance leases	**29,730**	42,991
– bank borrowings	**333,573**	270,961
– redeemable convertible note	**10,060**	–
	604,212	493,749

B. Financial risk, management objectives and policies

The Group's major financial instruments include bank borrowings; redeemable convertible note; debtors and deposits; creditors and accrued charges; obligations under finance leases; balances with ultimate holding company, an associate/a related party and directors; pledged bank deposits and bank balances, deposits and cash. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

6. FINANCIAL INSTRUMENTS *(CONTINUED)*

B. Financial risk, management objectives and policies *(continued)*

Market risk

(i) Currency risk

The Group's exposure to currency risk is attributable to the debtors, deposits; bank balances, deposits and cash; creditors and accrued charges; obligations under finance leases, bank borrowings and redeemable convertible note of the Group which are denominated in foreign currencies of United State dollars ("US$") and Japanese Yen ("JPY"). The functional currencies of the relevant group entities are RMB and HK$. The Group currently does not have a foreign currency hedging policy in respect of foreign currency exposure. However, the directors of the Company monitor the related foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

Sensitivity analysis

The Group is mainly exposed to US$ and JPY. The following table details the Group's sensitivity to a 5% (2008: 5%) increase and decrease in RMB against US$ and JPY, with all other variables held constant. 5% (2008: 5%) is the sensitivity rate used when the reporting foreign currency risk internally to key management personnel and represents directors' assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes US$ and JPY denominated monetary assets and liabilities and adjusts their translation based on their carrying amounts at the end of each reporting period. A positive number below indicates a decrease in the post-tax profit where RMB strengthen 5% (2008: 5%) against US$ and JPY. For a 5% (2008: 5%) weakening of RMB against US$ and JPY, there would be an equal and opposite impact on the post-tax profit.

	2009 Decrease (increase) in profit RMB'000	2008 Decrease (increase) in profit RMB'000
US$	**1,441**	809
JPY	**(7,684)**	(7,774)

6. FINANCIAL INSTRUMENTS *(CONTINUED)*

B. Financial risk, management objectives and policies *(continued)*

Market risk *(continued)*

(i) Currency risk (continued)

Monetary assets and liabilities in the consolidated statement of financial position are mainly the following amounts denominated in currencies other than the functional currency of the Group to which they relate:

2009	**US$ '000**	**JPY '000**
Monetary assets:		
Debtors, deposits and prepayments	**6,496**	**29,707**
Bank balances, deposits and cash	**2,009**	**119,338**
	8,505	**149,045**
Monetary liabilities:		
Creditors and accrued charges	**3,284**	**262,167**
Obligations under finance leases	**–**	**402,952**
Bank borrowings	**1,000**	**1,566,891**
Redeemable convertible note	**1,474**	**–**
	5,758	**2,232,010**

2008	US$ '000	JPY '000
Monetary assets:		
Debtors, deposits and prepayments	4,001	32,356
Bank balances, deposits and cash	2,947	21,546
	6,948	53,902
Monetary liabilities:		
Creditors and accrued charges	3,582	10,256
Obligations under finance leases	–	568,293
Bank borrowings	1,000	1,530,656
	4,582	2,109,205

6. FINANCIAL INSTRUMENTS *(CONTINUED)*

B. Financial risk, management objectives and policies *(continued)*

Market risk *(continued)*

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate pledged bank deposits, obligations under finance leases and bank borrowings (see notes 23, 28 and 29 respectively for details). The Group historically has not used any financial instruments to hedge potential fluctuations in interest rates.

The Group is also exposed to cash flow interest-rate risk in relation to floating-rate bank borrowings (see note 29 for details). It is the Group's policy to keep its borrowing at floating-rate of interests so as to minimise the fair value interest rate risk. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Toyko Interbank Offer Rate ("TIBOR") arising from the Group's JPY denominated bank borrowings.

Sensitivity analysis

At 31 December 2009, it is estimated that a general increase or decrease of five percentage point (2008: five percentage point) in interest rates, with all other variables held constant, would decrease or increase the Group's post-tax profit for the year ended 31 December 2009 by approximately RMB187,000 (2008: RMB244,000).

The above sensitivity analysis has been determined assuming that a change in interest rates had occurred at the end of reporting period and had been applied to the exposure to interest rate risk for bank borrowings in existence at that date. The five percentage point (2008: five percentage point) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents directors' assessment of the reasonably possible change in interest rates.

Credit risk

Credit risk refers to the risk that debtors will default on their obligations to repay the amounts owing to the Group, resulting in a loss to the Group. The maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as the end of reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position.

The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

In order to minimise the credit risk, the directors of the Company have delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The Group's exposure and the credit ratings of its counterparties are continuously monitored and controlled by credit limits. The Group's current credit practices include assessment and valuation of customer's credit reliability and periodic review of their financial status to determine credit limits to be granted.

6. FINANCIAL INSTRUMENTS *(CONTINUED)*

B. Financial risk, management objectives and policies *(continued)*

Credit risk *(continued)*

As at 31 December 2009, the Group has certain concentration of credit risk as 61% (2008: 58%) of the Group's total balance of debtors was due from the Group's largest five customers.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 99.8% (31 December 2008: 99.6%) of the total debtors as at 31 December 2009.

The credit risk on liquid fund is limited because the counterparties are bank with high credit ratings assigned by international credit-rating agencies.

Liquidity risk

The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflow from operations to meet its debt obligations and to obtain continuing financial supports from its bankers. At 31 December 2009, maximum banking facilities (including borrowings and bills payables) in an aggregate amount of approximately RMB424.1 million (2008: approximately RMB363.5 million) were available from the Group's principal bankers, of which approximately RMB394.6 million (2008: RMB337.0 million) has been utilised. The Group ensures to the compliance of those covenants of the existing banking facilities.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

6. FINANCIAL INSTRUMENTS *(CONTINUED)*

B. Financial risk, management objectives and policies *(continued)*

Liquidity risk *(continued)*

As at 31 December 2009

	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within one year or on demand RMB'000	More than one year less than two years RMB'000	More than two years less than five years RMB'000
Creditors and accrued charges	**228,728**	**228,728**	**228,728**	**-**	**-**
Amount due to ultimate holding company	**2,121**	**2,121**	**2,121**	**-**	**-**
Obligations under finance leases	**29,730**	**31,596**	**10,419**	**12,272**	**8,905**
Bank borrowings	**333,573**	**347,442**	**202,445**	**76,927**	**68,070**
Redeemable convertible note	**10,060**	**12,965**	**-**	**-**	**12,965**
	604,212	**622,852**	**443,713**	**89,199**	**89,940**

As at 31 December 2008

	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within one year or on demand RMB'000	More than one year less than two years RMB'000	More than two years less than five years RMB'000
Creditors and accrued charges	179,797	179,797	179,797	–	–
Obligations under finance leases	42,991	46,259	13,864	10,683	21,712
Bank borrowings	270,961	282,516	161,813	41,832	78,871
	493,749	508,572	355,474	52,515	100,583

6. FINANCIAL INSTRUMENTS *(CONTINUED)*

C. Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments; and

- the directors of the Company consider that the fair value of other financial assets and financial liabilities recorded at amortised cost in the consolidated statement of financial position approximate to the corresponding carrying amounts due to their short-term maturities.

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Level 2 based on the degree to which the fair value is observable.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

	31 December 2009 Level 2 RMB'000	31 December 2008 Level 2 RMB'000
Financial liabilities at amortised cost		
Redeemable convertible note	10,060	–

Significant assumptions used in determining fair value of financial assets and liabilities

Convertible note

The fair value of the liability component of convertible note is determined assuming redemption on 13 July 2012 and using a 10.38% interest rate based on a quoted swap rate of 8.76% for a loan with similar maturity and holding the credit risk margin constant.

7. REVENUE AND SEGMENT INFORMATION

Revenue represents the net amounts received and receivable for goods sold, less discount, and net of value-added tax during the year.

The Group has adopted HKFRS 8 *Operating Segments* with effect from 1 January 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor standard (HKAS 14, *Segment Reporting*) required an entity to identify two sets of segments (business and geographical) using a risk and return approach. In the past, the Group's primary reporting format was business segments. The application of HKRFS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14. Nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss.

For the two years ended 31 December 2009 and 2008, the sole principal activity of the Group is moulding fabrication, manufacturing and trading of moulds and plastic components. All the Group's operations are located and carried out in the PRC. In the opinion of the directors, the Group operated in a single operating segment. Accordingly, no segmental analysis has been presented.

Information about major customers

Revenues from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2009	2008
	RMB'000	RMB'000
Customer A	**170,055**	111,001
Customer B	**94,602**	77,021
Customer C	**72,491**	106,909

All revenue generated from the major customers relate to the sale of moulds and plastic components.

8. OTHER INCOME

	2009 RMB'000	2008 RMB'000
Gain on sales of materials	**672**	739
Bank interest income	**1,095**	626
Net exchange gain	**4,007**	–
Government grants (note 30)	**185**	398
Reversal of impairment of trade debtors	**–**	6
Rental income received from customers	**119**	632
Others	**525**	604
	6,603	3,005

9. FINANCE COSTS

	2009 RMB'000	2008 RMB'000
Interest on:		
Bank borrowings wholly repayable within five years	**13,500**	12,828
Bank borrowings not wholly repayable within five years	**187**	962
Finance leases	**1,210**	1,017
Effective interest expense on redeemable convertible note (note 31)	**796**	–
Less: Interest expenses capitalised into construction in progress	**(128)**	(1,112)
Total interest	**15,565**	13,695
Debt extinguishment loss (note 31)	**1,363**	–
	16,928	13,695

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 4.07% (2008: 5.21%) per annum to expenditure on qualifying assets.

10. INCOME TAX EXPENSE

	2009 **RMB'000**	2008 RMB'000
PRC Enterprise Income Tax (the "EIT")		
Current year	**4,999**	6,224
(Over) under-provision in prior years	**(1,452)**	392
	3,547	6,616

(i) Overseas income tax

The Company is incorporated in the Cayman Islands and is exempted from taxation in the Cayman Islands.

(ii) Hong Kong Profits Tax

No provision for Hong Kong Profits Tax had been made as the Group did not generate any assessable profits in Hong Kong during both years.

(iii) PRC EIT

Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

The applicable tax rate of the Company's subsidiary, 杭州友成機工有限公司 Hangzhou Yusei Machinery Co., Ltd.* ("Hangzhou Yusei") for 2008 was 25%. On 30 December 2009, Hangzhou Yusei was approved by Science and Technology Department of Zhejiang Province as high technology enterprise and therefore is subject to EIT at the rate of 15% for three years, with effective from 1 January 2009.

In addition, as the Company's another subsidiary, 浙江友成塑料模具有限公司 Zhejiang Yusei Plastics & Mould Co., Ltd.* ("Zhejiang Yusei"), is operating and registered in the State Level New and High Technology Development Zone. Pursuant to the notice dated 20 March 2008 issued by the PRC tax authorities, the applicable tax rate of Zhejiang Yusei for 2008, 2009, 2010 and 2011 is 18%, 20%, 22% and 24% respectively. Zhejiang Yusei is subjected to PRC EIT rate of 25% commencing from 1 January 2012.

Pursuant to the approvals obtained from the relevant PRC tax authorities, 友成(中國)模具有限公司 Yusei (China) Mould Co., Ltd.* ("Yusei China") is entitled to a tax concession period in which it is fully exempted from PRC EIT for two years commencing from 1 January 2008, followed by a reduced income tax rate of 11%, 12% and 12.5% from 2010 to 2012.

The applicable tax rate of 蘇州友成機工有限公司 Suzhou Yusei Machinery Co., Ltd.* ("Suzhou Yusei") and 廣州友成機工有限公司 Guangzhou Yusei Machinery Co., Ltd.* ("Guangzhou Yusei") is 25% for the two years ended 31 December 2009 and 2008.

* The English names are for identification purposes only.

10. INCOME TAX EXPENSE *(CONTINUED)*

(iii) PRC EIT *(continued)*

杭州友成模具技術研究有限公司 Hangzhou Yusei Mould Technology Research Co., Ltd.* ("Hangzhou Yusei Moulding") is not subject to PRC EIT as it has not commenced business up to 31 December 2009.

The charge for the year can be reconciled to the profit before taxation per consolidated income statement, based on the income tax rate of most of the Group's profit under assessment, as follows:

	2009 RMB'000	2008 RMB'000
Profit before taxation	**23,109**	6,952
Tax at the income tax rate at 25% (2008: 25%)	**5,777**	1,738
Tax effect of share of losses of associates	**604**	–
Tax effect of expenses not deductible for tax purpose	**3,291**	4,966
Tax effect of income not taxable for tax purpose	**(447)**	(95)
Tax effect of tax losses not recognised	**422**	1,088
Utilisation of tax losses previously not recognised	**(537)**	–
Tax effect of tax concession period	**(3,145)**	–
Effect of different tax rates	**(966)**	(1,473)
(Over) under-provision in prior years	**(1,452)**	392
Tax charge for the year	**3,547**	6,616

At 31 December 2009, the Group has estimated unused tax losses of approximately RMB4,778,000 (2008: RMB4,366,000). No deferred tax asset has been recognised in the consolidated financial statements due to the unpredictability of future profit streams.

Included in unrecognised tax losses are losses of approximately RMB2,173,000 (2008: RMB4,320,000) that will expire at various date up to and including 2013. Other losses may be carried forward indefinitely.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately RMB45,581,000 (31 December 2008: RMB21,256,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

* The English name is for identification purposes only.

11. PROFIT FOR THE YEAR

	2009 RMB'000	2008 RMB'000
Profit for the year has been arrived at after charging:		
Directors' remuneration (note 12)	**3,015**	3,898
Salaries, wages and other benefits	**57,777**	49,263
Recognition of the fair value of vested restricted shares	**–**	418
Retirement benefits scheme contributions	**2,388**	2,691
Other staff costs	**60,165**	52,372
Total staff costs	**63,180**	56,270
Depreciation of owned property, plant and equipment	**28,280**	21,426
Depreciation of property, plant and equipment under finance leases	**4,712**	3,534
Amortisation of intangible asset (included in administrative expenses)	**719**	829
Amortisation of land use rights (included in administrative expenses)	**597**	462
Total depreciation and amortisation expenses	**34,308**	26,251
Operating lease charges on leased premises	**1,988**	1,177
Impairment of inventories (included in cost of sales)	**3,675**	–
Auditors' remuneration	**750**	680

12. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

The emoluments of directors are analysed as follows:

2009

Name of director	Fees RMB'000	Basic salaries and allowances RMB'000	Recognition of the fair value of vested restricted shares RMB'000 (note 34)	Retirement benefits scheme contributions RMB'000	Total RMB'000
Xu Yong	485	120	–	13	618
Keisuke Murakoshi (note)	867	360	–	–	1,227
Lo Ka Wai	106	–	–	–	106
Katsutoshi Masuda	880	–	–	–	880
Toshimitsu Masuda	44	–	–	–	44
Akio Suzuki	44	–	–	–	44
Toshinobu Ito	44	–	–	–	44
Fan Xiaoping	26	–	–	–	26
Hisaki Takabayashi	26	–	–	–	26
	2,522	480	–	13	3,015

Note: Resigned on 1 January 2010.

2008

Name of director	Fees RMB'000	Basic salaries and allowances RMB'000	Recognition of the fair value of vested restricted shares RMB'000 (note 34)	Retirement benefits scheme contributions RMB'000	Total RMB'000
Xu Yong	481	120	900	4	1,505
Keisuke Murakoshi	859	360	–	–	1,219
Lo Ka Wai	106	–	–	–	106
Katsutoshi Masuda	882	–	–	–	882
Toshimitsu Masuda	44	–	–	–	44
Akio Suzuki	44	–	–	–	44
Toshinobu Ito	44	–	–	–	44
Fan Xiaoping	27	–	–	–	27
Hisaki Takabayashi	27	–	–	–	27
	2,514	480	900	4	3,898

12. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS *(CONTINUED)*

Of the five highest paid individuals in the Group during the year ended 31 December 2009, two (2008: two) were directors of the Company and details of their remunerations are set out above. The remunerations of the remaining three (2008: three) individuals were as follows:

	2009	2008
	RMB'000	RMB'000
Basic salaries and allowances	**3,500**	3,500
Retirement benefits scheme contributions	**–**	–
	3,500	3,500

The remunerations of these individuals were within the following bands:

	Number of employees	
	2009	2008
HK$1,000,001 (equivalent to approximately RMB880,481) to HK$1,500,000 (equivalent to approximately RMB1,320,720)	**3**	3

During the two years ended 31 December 2009 and 2008, no remuneration were paid by the Group to the five highest paid individuals and directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors and the employees has waived any remuneration during the two years ended 31 December 2009 and 2008.

13. DIVIDEND

No dividend was paid or proposed for the year ended 31 December 2009, nor has any dividend been proposed since the end of the reporting period.

The directors recommend a bonus issue of shares to the shareholders whose names appear on the register of members of the Company as at 14 May 2010 on the basis of one bonus share for every ten shares held by them. Such bonus issue of shares are to be approved by the shareholders in the Company's annual general meeting on 15 May 2010. These consolidated financial statements do not reflect the bonus issue of shares.

The final dividend for the year ended 31 December 2008 of HK$0.034 per share (equivalent to RMB0.03 per share), amounting to RMB4,800,000 in aggregate, was approved in the Company's annual general meeting held on 15 May 2009 and paid to the shareholders of the Company during the year ended 31 December 2009.

The final dividend for the year ended 31 December 2007 of HK$0.0627 per share (equivalent to RMB0.05625 per share), amounting to RMB9,000,000 in aggregate, was approved in the Company's annual general meeting held on 9 May 2008 and paid to the shareholders of the Company during the year ended 31 December 2008.

14. EARNINGS PER SHARE

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

	2009 RMB'000	2008 RMB'000
Earnings for the purpose of basic earnings per share	**19,562**	336
Effect of dilutive potential ordinary shares:		
Interest on convertible loan note (net of tax)	**1,803**	–
Earnings for the purpose of diluted earnings per share	**21,365**	336

	2009	2008
Weighted average number of ordinary shares for the purposes of basic earnings per share	**160,000,000**	156,177,096
Effect of redeemable convertible note (note 31)	**5,057,671**	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**165,057,671**	156,177,096

Diluted earnings per share is same as basic earnings per share for the year ended 31 December 2009 as the effect of the exercise of the Company's outstanding redeemable convertible note was anti-dilutive.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery and equipment	Motor vehicles	Office equipment	Moulds	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST							
At 1 January 2008	62,809	222,756	4,327	6,718	429	1,421	298,460
Additions	48	77,757	1,126	1,701	–	46,378	127,010
Transfer	21,244	8,142	–	–	–	(29,386)	–
Disposals	–	(4,231)	–	(2)	–	–	(4,233)
At 31 December 2008 and 1 January 2009	84,101	304,424	5,453	8,417	429	18,413	421,237
Additions	2,937	11,698	243	651	8,697	6,437	30,663
Transfer	24,466	263	–	121	–	(24,850)	–
At 31 December 2009	111,504	316,385	5,696	9,189	9,126	–	451,900
DEPRECIATION							
At 1 January 2008	12,465	77,106	2,569	3,380	411	–	95,931
Provided for the year	2,946	20,330	583	1,083	18	–	24,960
Eliminated on disposals	–	(492)	–	–	–	–	(492)
At 31 December 2008 and 1 January 2009	15,411	96,944	3,152	4,463	429	–	120,399
Provided for the year	5,720	24,950	632	1,140	550	–	32,992
At 31 December 2009	21,131	121,894	3,784	5,603	979	–	153,391
CARRYING VALUES							
At 31 December 2009	90,373	194,491	1,912	3,586	8,147	–	298,509
At 31 December 2008	68,690	207,480	2,301	3,954	–	18,413	300,838

The above items of property, plant and equipment are depreciated on a straight-line basis as follows:

Buildings	20 years
Machinery and equipment	5 to 20 years
Motor vehicles	5 years
Office equipment	5 years
Moulds	5 years

15. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

The buildings of the Group are situated in the PRC.

As at 31 December 2008, the construction in progress of the Group represents buildings and machinery under construction which are situated in the PRC. All buildings and machinery under construction were completed and transferred to property, plant and equipment during the year ended 31 December 2009.

Analysis of carrying values of machinery and equipment held under finance leases is:

	2009	2008
	RMB'000	RMB'000
Machinery and equipment	**52,446**	57,158

16. INTANGIBLE ASSETS

	Software
	RMB'000
COST	
At 1 January 2008	3,423
Additions	592
At 31 December 2008 and 1 January 2009	4,015
Additions	160
At 31 December 2009	4,175
AMORTISATION	
At 1 January 2008	2,096
Provided for the year	829
At 31 December 2008 and 1 January 2009	2,925
Provided for the year	719
At 31 December 2009	3,644
CARRYING VALUES	
At 31 December 2009	531
At 31 December 2008	1,090

The amount represents software which is amortised on a straight-line basis over two to five years.

17. LAND USE RIGHTS

	2009 RMB'000	2008 RMB'000
COST		
At beginning of the year	**14,076**	14,076
Additions	**10,949**	–
At end of the year	**25,025**	14,076
AMORTISATION		
At beginning of the year	**2,245**	1,783
Charge for the year	**597**	462
At end of the year	**2,842**	2,245
CARRYING VALUES		
At end of the year	**22,183**	11,831
Analysed for reporting purposes as:		
Current assets (included in debtors, deposits and prepayments)	**695**	462
Non-current assets	**21,488**	11,369
	22,183	11,831

Land use rights represent medium-term leasehold land in the PRC and are amortised over the respective lease terms.

18. INTERESTS IN ASSOCIATES

	2009 RMB'000	2008 RMB'000
Cost of investment in associates – unlisted	27,671	–
Share of post-acquisition losses and reserves	(2,383)	–
Interests in associates	25,288	–

As at 31 December 2009, the Group had interests in the following associates:

Name of entity	Form of entity	Place of incorporation/ Principal place of operation	Class of shares held	Proportion of nominal value of issued capital held by the Group	Proportion of voting power held	Principal activities
杭州友成實業有限公司 Hangzhou Yusei Industrial Company Limited* ("Yusei Industrial") (note a)	Incorporated	PRC	Registered capital	30%	30%	Moulding fabrication
吉林東光友成機工有限公司 Jilin Dong Guang Yusei Manufacturing Co., Ltd.* ("Jilin Yusei") (note b)	Incorporated	PRC	Registered capital	40%	40%	Manufacturing and trading of plastic components

Notes:

(a) On 15 December 2008, the Company entered into an agreement with Yusei Japan pursuant to which the Company agreed to acquire from Yusei Japan 30% equity interests in Yusei Industrial for a consideration of US$3,000,000 (equivalent to approximately RMB20,471,000), which will be satisfied by way of an issue of a 3-year non-interest bearing redeemable convertible note as disclosed in note 31. Immediately prior to the acquisition, Yusei Industrial was owned as to 70% by a brother of the Company's director, Mr. Xu Yong and as to 30% by Yusei Japan. The acquisition was approved by the Company's shareholders at an extraordinary general meeting held on 19 January 2009 and completed on 13 July 2009. The discount on acquisition of Yusei Industrial of approximately RMB17,000 is included in share of losses of associates.

(b) On 15 November 2008, Zhejiang Yusei entered into an agreement with independent third parties to establish Jilin Yusei in Jilin in the PRC with total registered capital of RMB18,000,000, of which Zhejiang Yusei was required to contribute RMB7,200,000, representing 40% equity interests in Jilin Yusei, to the registered capital of Jilin Yusei. Jilin Yusei was established on 6 January 2009.

* The English names are for identification purposes only.

18. INTERESTS IN ASSOCIATES *(CONTINUED)*

The summarised unaudited financial information in respect of the Group's associates for the year ended 31 December 2009 is set out below:

	RMB'000
Current assets	120,535
Non-current assets	94,386
Total assets	214,921
Current liabilities	133,109
Non-current liabilities	1,867
Total liabilities	134,976
Net assets	79,945
Group's share of net assets of associates	25,288

	RMB'000
Revenue	57,512
Cost of sales	(57,638)
Gross loss	(126)
Other expenses	(6,341)
Loss before taxation	(6,467)
Income tax expense	–
Loss for the year	(6,467)
Recognition of capital reserve during the year	87
Group's share of losses and reserve of associates for the year	2,383

19. LONG-TERM DEPOSITS PAID

	2009 RMB'000	2008 RMB'000
Deposits paid for:		
Investment in an associate (note a)	–	7,200
Acquisition of a land use right (note b)	–	1,000
	–	8,200

Notes:

(a) The deposit for investment of RMB7,200,000 as at 31 December 2008 represented the deposit paid for the capital contribution to the registered capital of Jilin Yusei. Details of which are set out in note 18.

(b) On 4 November 2008, Guangzhou Yusei entered into an agreement with 廣東省增城市國土資源和房屋管理局 Zengcheng Land Resources and Housing Authority* ("Zengcheng LRHA") to acquire a land use right of a piece of land located in Zengcheng, Guangdong Province, the PRC, at a consideration of RMB10,630,000, of which RMB1,000,000 deposit was paid in 2008. The acquisition of the land use right was completed during the year ended 31 December 2009.

20. INVENTORIES

	2009 RMB'000	2008 RMB'000
Raw materials	**26,683**	21,098
Work-in-progress	**10,660**	19,183
Finished goods	**70,708**	38,623
	108,051	78,904

* The English name is for identification purposes only.

21. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group allows a general credit period of 30 to 90 days to its customers. For customers who purchased moulds from the Group and have established good relationships with the Group, the credit period may extend to the range from 90 days to 270 days.

The aging analysis of trade debtors and bills receivables based on the invoice date net of impairment loss recognised is as follows:

	2009	2008
	RMB'000	RMB'000
1 – 30 days	**119,328**	99,095
31 – 60 days	**40,079**	29,547
61 – 90 days	**13,845**	5,841
91 – 180 days	**4,211**	3,850
Over 180 days	**3,916**	832
Trade debtors and bills receivables	**181,379**	139,165
Other debtors, deposits and prepayments	**13,372**	21,607
	194,751	160,772

Impairment losses in respect of trade debtors are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors balance directly. The movement in the provision for impairment of trade debtors is as follows:

	2009	2008
	RMB'000	RMB'000
Balance at beginning of the year	**1,618**	1,624
Reversal of impairment loss	**–**	(6)
Balance at end of the year	**1,618**	1,618

At the end of each reporting period, the Group's trade debtors were individually determined to be impaired. The individually impaired receivables are recognised based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. Consequently, specific impairment provision was recognised. The Group does not hold any collateral over these balances.

21. DEBTORS, DEPOSITS AND PREPAYMENTS *(CONTINUED)*

Receivables of approximately RMB176,131,000 (2008: RMB134,405,000) were neither past due nor impaired and related to a wide range of customers for whom there was no history of default. The Group does not hold any collateral over these balances.

Receivables of approximately RMB5,248,000 (2008: RMB4,760,000) that were past due but not impaired were all aged within one year and related to a number of customers that have a good track record with the Group. Based on past experience, the management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

Debtors, deposits and prepayments in the consolidated statement of financial position are mainly the following amounts denominated in currencies other than the functional currency of the Group to which they relate:

	2009	2008
	'000	'000
US$	**6,496**	4,001
JPY	**29,707**	32,356
HK$	**12**	6,939

22. AMOUNTS DUE FROM DIRECTORS

Name of director	**2009 RMB'000**	**Maximum amount outstanding during 2009 RMB'000**	2008 RMB'000	Maximum amount outstanding during 2008 RMB'000
Toshinobu Ito	**18**	**18**	18	18
Keisuke Murakoshi	**733**	**768**	768	808
	751	**786**	786	826

The amounts are unsecured, interest-free and repayable on demand.

23. PLEDGED BANK DEPOSITS

At 31 December 2009, bank deposits amounting to approximately RMB40,465,000 (2008: RMB33,000,000) have been pledged to secure banking facilities granted to the Group. The bank deposits of approximately RMB3,165,000 (2008: nil) and RMB37,300,000 (2008: RMB33,000,000) have been pledged for short-term bank borrowings and short-term bills payables respectively and therefore classified as current assets, of which will be released upon the settlement of relevant bank borrowings and bills payables. In additions, an amount of RMB1,800,000 bank deposit has been pledged to the PRC customs authorities (2008: RMB1,400,000).

The pledged bank deposits carry fixed interest rates ranging from 0.36% to 1.98% per annum (2008: 0.36% to 1.98% per annum).

24. BANK BALANCES, DEPOSITS AND CASH

At 31 December 2009, bank balances, deposits and cash of approximately RMB79,354,000 (2008: RMB47,390,000) were denominated in RMB, which is not freely convertible currency in the international market and its exchange rate is determined by the Government of the PRC. The bank balances and deposits held by the Group are with maturity of three months or less and carry interest at prevailing market rate for both years.

Bank balances, deposits and cash in the consolidated statement of financial position are mainly the following amounts denominated in currencies other than the functional currency of the Group to which they relate:

	2009	2008
	'000	'000
US$	**2,009**	2,947
JPY	**119,338**	21,546
HK$	**939**	956
EURO	**–**	5

25. CREDITORS AND ACCRUED CHARGES

The age analysis of trade creditors based on the invoice date at the end of the reporting period is as follows:

	2009	2008
	RMB'000	RMB'000
1 – 30 days	**76,165**	46,629
31 – 60 days	**28,727**	27,131
61 – 90 days	**28,496**	11,035
91 – 180 days	**7,461**	2,982
Over 180 days	**1,385**	2,431
Trade creditors	**142,234**	90,208
Bills payables	**61,000**	66,000
Other creditors and accrued charges	**39,174**	37,904
	242,408	194,112

The average credit period on purchase of goods is 30 to 120 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

The Group's bank deposits of approximately RMB37,300,000 (2008: RMB33,000,000) were pledged to the banks to secure the bills payables as at 31 December 2009.

Included in creditors and accrued charges in the consolidated statement of financial position are mainly the following amounts denominated in currencies other than the functional currency of the Group to which they relate:

	2009	2008
	'000	'000
US$	**3,284**	3,582
JPY	**262,167**	10,256

26. AMOUNT DUE FROM (TO) ULTIMATE HOLDING COMPANY

Amount due to ultimate holding company:

Name of company	2009 RMB'000	2008 RMB'000
Yusei Japan	2,121	–

Amount due from ultimate holding company:

Name of company	2009 RMB'000	Maximum amount outstanding during 2009 RMB'000	2008 RMB'000	Maximum amount outstanding during 2008 RMB'000
Yusei Japan	–	754	754	754

The above amounts are unsecured, interest-free and repayable on demand.

27. AMOUNT DUE FROM AN ASSOCIATE/A RELATED PARTY

Amount due from an associate/a related party:

Name	2009 RMB'000	Maximum amount outstanding during 2009 RMB'000	2008 RMB'000	Maximum amount outstanding during 2008 RMB'000
Yusei Industrial	11,032	11,032	5,059	5,059

During the years ended 31 December 2009 and 2008, Mr. Xu Yue, a brother of the Company's director, Mr. Xu Yong, has 70% beneficial interests in Yusei Industrial. Upon the acquisition of 30% equity interests in Yusei Industrial on 13 July 2009 as set out in note 18, Yusei Industrial became an associate of the Company.

The amount due is unsecured, interest-free and repayable on demand.

28. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amounts payable under finance leases:				
Within one year	**10,419**	13,864	**9,523**	12,509
More than one year, but not exceeding two years	**12,272**	10,683	**11,562**	9,764
More than two years, but not exceeding five years	**8,905**	21,712	**8,645**	20,718
	31,596	46,259	**29,730**	42,991
Less: Future finance charges	**(1,866)**	(3,268)	**N/A**	N/A
Present value of lease obligations	**29,730**	42,991	**29,730**	42,991
Less: Amounts due within one year shown under current liabilities			**(9,523)**	(12,509)
Amounts due after one year			**20,207**	30,482

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

It is the Group's policy to lease certain of its machinery and equipment under finance leases. The average lease term is 5 years. For the year ended 31 December 2009, the average effective borrowing rate was 3.84% per annum (2008: 3.84% per annum). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All finance leases obligations are denominated in Japanese Yen as follows:

	2009	2008
	'000	'000
JPY	**402,952**	568,293

29. BANK BORROWINGS

	2009 RMB'000	2008 RMB'000
Secured (note a)	**86,400**	43,140
Unsecured (note b)	**247,173**	227,821
	333,573	270,961
The maturity profile of the above loans is as follows:		
On demand or within one year	**194,363**	155,195
More than one year but not exceeding two years	**73,857**	40,121
More than two years but not more than five years	**54,875**	36,714
More than five years	**10,478**	38,931
	333,573	270,961
Less: Amounts due within one year shown under current liabilities	**(194,363)**	(155,195)
	139,210	115,766

(a) As at 31 December 2009, the amounts are secured by certain pledge bank deposits, land use rights and property, plant and equipment of the Group with an aggregate net carrying values of approximately RMB3,165,000 (2008: nil), RMB9,351,000 (2008: RMB3,452,000) and RMB79,724,000 (2008: RMB38,437,000), respectively. All the secured bank borrowings were arranged at fixed interests rates ranging from 2.60% to 7.84% (2008: 5.04% to 7.84%) per annum.

(b) For the year ended 31 December 2009, all the unsecured bank borrowings were arranged at floating interests rates ranging from 2.35% to 8.22% (2008: 2.07% to 8.22%) per annum.

(c) During the year ended 31 December 2009, the Group advanced new borrowings of approximately RMB263,165,000 (2008: RMB267,345,000) to finance its capital expenditure and for expansion of production capacity of the Group.

Included in bank borrowings in the consolidated statement of financial position are mainly the following amounts denominated in currencies other than the functional currency of the Group to which they relate:

	2009 '000	2008 '000
US$	**1,000**	1,000
JPY	**1,566,891**	1,530,656

30. GOVERNMENT GRANTS

During the year ended 31 December 2007, the Group received government grants of approximately RMB1,297,000, which were designated for the purchase of land use rights. Such government grants are presented as deferred income and are released to income over the useful lives of the related land use rights. During the year, government grants released to consolidated income statement as income amounted to approximately RMB85,000 (2008: approximately RMB85,000).

During the year ended 31 December 2009, the Group received another government grants of RMB100,000 (2008: RMB313,000) which were designated for the research project of the Group. During the year, all conditions in respect of such government grants had been fulfilled and such government grants were recognised in other income accordingly.

31. REDEEMABLE CONVERTIBLE NOTE

For the purpose of the acquisition of Yusei Industrial as set out in note 18, on 13 July 2009, the Company issued a 3-year zero coupon redeemable convertible note denominated in US$ of US$3,000,000 (equivalent to approximately RMB20,471,000) to Yusei Japan (the "RC Note"). The RC Note will mature on the third anniversary of the date of issue of the RC Note, 13 July 2012 (the "Maturity Date"). If the RC Note is not converted or early redeemed, it will be redeemed at par on 13 July 2012.

Yusei Japan is entitled to convert the whole or part of the principal amount of the RC Note into ordinary share capital of the Company on any business day and from time to time, after the issue date up to and including the Maturity Date, at an initial conversion price of HK$2 per share, subject to anti-dilutive adjustment and fixed exchange rate of US$1 to HK$7.75.

The Company is entitled at any time to redeem the RC Note at any time prior to the Maturity Date. On 25 November 2009, the Company early redeemed part of the RC Note of US$1,100,000 (equivalent to approximately RMB7,506,000). The early redemption gave rise to a debt extinguishment loss of approximately US$200,000 (equivalent to approximately RMB1,363,000). On 22 January 2010, the Company early redeemed the remaining part of the RC Note of US$1,900,000 (equivalent to approximately RMB12,965,000). The early redemption gave rise to a debt extinguishment loss of approximately US$417,000 (equivalent to approximately RMB2,844,000).

The RC Note contains the following components that are required to be separately accounted for:

(i) Liability component for the RC Note represents the present value of the contractually determined stream of future cash flows discounted at the rate of interest at the date of issue with reference to the market rate for instruments of comparable credit status taking into account the credit risk of the Company as well as the amount of the RC Note, but without the conversion option. The effective interest rate of the liability component is 10.38%.

(ii) Embedded derivative comprises of the fair value of redemption option represents the Company's option to early redeem all or part of the RC Note. The amount payable for any early redemption shall be the relevant amount of the principal amount of the RC Note so redeemed. In the opinion of an independent qualified professional valuers not connected with the Group, the fair value of the embedded redemption option was nil.

31. REDEEMABLE CONVERTIBLE NOTE *(CONTINUED)*

(iii) The equity component represents the difference between the gross proceeds of the issue of the RC Note and the fair values assigned to the liability and early redemption option components respectively.

The movements of the liability component of the RC Note during the year are set out below:

	Liability component	
	US$'000	RMB'000
At date of issue	2,003	13,668
Effective interest charged (note 9)	116	796
Early redemption	(645)	(4,404)
At 31 December 2009	1,474	10,060

32. SHARE CAPITAL OF THE COMPANY

	Number of shares	Amount
	'000	HK$'000
Ordinary shares of HK$0.01 each		
Authorised		
At 1 January 2008, 31 December 2008 and 31 December 2009	1,500,000	15,000

32. SHARE CAPITAL OF THE COMPANY *(CONTINUED)*

	Number of shares '000	Amount HK$'000	Shown in the consolidated financial statements as RMB'000
Issued and fully paid			
At 1 January 2006, 31 December 2006, 31 December 2007, 31 December 2008 and 31 December 2009	160,000	1,600	1,674
Less: Unvested shares issued with vesting conditions (note)	(14,400)	(144)	(150)
Adjusted share capital for presentation purpose at 1 January 2006	145,600	1,456	1,524
Add: Shares issued with vesting conditions fulfilled during the year (note)	9,504	95	99
Adjusted share capital for presentation purpose at 31 December 2006 and 31 December 2007	155,104	1,551	1,623
Add: Shares issued with vesting conditions fulfilled during the year (note)	4,896	49	51
Adjusted share capital for presentation purpose at 31 December 2008 and 2009	160,000	1,600	1,674

Note:

On 12 October 2005, the Company capitalised the sum of HK$144,000 (equivalent to RMB150,000) from the share premium account of the Company to pay up in full at par for the allotment and issue of 14,400,000 shares of HK$0.01 each to Mr. Xu Yong, the employees elected and certain technical consultants. In substance, resulting of the restriction of the terms of issue of these shares (see note 33), these shares can only be regarded as share capital for accounting purpose only when the vesting conditions are fulfilled. Accordingly, the unvested amount of the share capital is adjusted for presentation purpose. During the years ended 31 December 2006, 2007 and 2008, 9,504,000 shares, nil and 4,896,000 shares respectively were regarded as additions to share capital for accounting purpose as the vesting conditions of these shares had been fulfilled. Such new shares rank pari passu in all respects with the existing shares.

There was no unvested ordinary share as at 31 December 2009 (2008: nil share).

33. SHARES ISSUED WITH VESTING CONDITIONS

In recognition of the respective contribution of Mr. Xu Yong, the director of the Company, and certain selected employees and technical consultants to the Group, on 19 September 2005, the Company conditionally approved the allotment of 14,400,000 shares to these persons by the capitalisation, at par, of the share premium account arising from the placement of the shares as set out in note 32. The allotment was made on 12 October 2005. Details of the allotment are as follows:

	Number of shares '000
Mr. Xu Yong	9,600
Selected employees	4,464
Technical consultants	336
	14,400

The directors consider the fair value of these shares at the date of allotment is HK$1.25 per share by reference to the placement price of the same amount to independent third parties on 12 October 2005.

Under the terms of the letter of allotment issued to Mr. Xu Yong, Mr. Xu Yong has undertaken to the Company that he will comply with the following non-disposal undertakings:

Period since 12 October 2005	Percentage of allotted shares is allowed to be disposed of by Mr. Xu Yong
Within the first 12 months	0%
From the 13th month to expiry of the 36th month	not more than 66%
After expiry of the 36th month	the balance of around 34%

If the employment of Mr. Xu Yong is terminated during the undertaking period whether on his resignation or on any one or more of the grounds of misconduct or wilful neglect of his duties or such other grounds as described in his service contract, his entitlement of the allotted shares will be as follows:

Termination	Percentage of allotted shares entitled by Mr. Xu Yong
Within the first 12 months since 12 October 2005	0%
From the 13th month to expiry of the 36th month since 12 October 2005	not more than 66%

33. SHARES ISSUED WITH VESTING CONDITIONS *(CONTINUED)*

Under the terms of the letter of allotment issued to each of the selected employees and technical consultants, each of the selected employees and technical consultants has undertaken to the Company that he/she will comply with the following non-disposal undertakings:

Period since 12 October 2005	**Percentage of allotted shares is allowed to be disposed of by selected employees and technical consultants**
Within the first 12 months	0%
From the 13th month to expiry of the 36th month	not more than 66%
After expiry of the 36th month	the balance of around 34%

If the employment of the respective employee is terminated during the undertaking period whether on his/her resignation or on any one or more of the grounds of misconduct or wilful neglect of his/her duties or such other grounds as described in his/her service contract, his/her entitlement of the allotted shares will be as follows:

Termination	**Percentage of allotted shares entitled by selected employees**
Within the first 12 months since 12 October 2005	0%
From the 13th month to expiry of the 36th month since 12 October 2005	not more than 66%

The remaining balance of the unvested and allotted shares will be forfeited by Mr. Xu Yong and the selected employee and such forfeited shares will be sold by the Company with his/her lawful attorney and on his/her behalf and the proceeds from such sale will be paid to the Company as compensation. The aforesaid forfeiture on termination of employment does not apply to the technical consultants.

All the allotted shares to Mr. Xu Yong, the selected employees and technical consultants are kept under escrow agent acceptable to the Company.

The directors based on the terms of the allotted shares and estimated that RMB1,318,000 (equivalent to HK$1,494,000) was charged as staff cost to the consolidated income statement for the year ended 31 December 2008 (2009: Nil) and credited to the reserve for shares issued with vesting condition. The fair value of the vested shares is attributable to:

	2009 RMB'000	2008 RMB'000
Mr. Xu Yong	-	900
Selected employees and technical consultants	-	418
	-	1,318

34. SHARE OPTIONS

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 19 September 2005 for the primary purpose of providing incentives or rewards to and recognising the contribution of the full-time employees of the Company and/or its subsidiaries, directors (whether executive, non-executive or independent non-executive) of the Company and/or its subsidiaries, and any consultants or advisers (whether professional or otherwise and whether on an employment or contractual or honorary basis or otherwise and whether paid or unpaid) to the Group (collectively the "Eligible Persons") and providing more flexibility to the Group, and will expire on 18 September 2015. Under the Scheme, the directors of the Company may grant options to Eligible Persons.

No options had been granted since the adoption of the Scheme. The total number of shares in respect of which since the adoption of options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company at the date of listing on GEM of the Stock Exchange, i.e., 16,000,000, unless approval from the Company's shareholders is obtained.

The overall limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes must not exceed 30% of the issued share capital of the Company from time to time.

The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within 5 days from the date of grant, upon payment of HK$1.00. Options may be exercised in whole or in part in accordance with the terms of the Scheme at any time during a period to be notified by the directors of the Company to each grantee provided that the period within which the shares may be taken up under the option must not be more than 10 years from the date of grant of the option.

The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

35. RESERVES

(i) Basis of appropriations to reserves

The transfers to statutory surplus reserve are based on the profit after tax in the financial statements prepared under the PRC accounting standards.

(ii) Capital reserve

The amount represents the excess capital contribution by the ultimate holding company to the subsidiary in prior years.

35. RESERVES *(CONTINUED)*

(iii) Statutory surplus reserve

The Articles of Association of the subsidiaries requires the appropriation of 10% of its profit after taxation determined under the PRC accounting standards each year to the statutory surplus reserve until the balance reaches 50% of the registered share capital. According to the provision of the Company's Articles of Association, under normal circumstances, the statutory surplus reserve shall only be used for making up losses, capitalisation into share capital and expansion of the Company's production and operation. For the capitalisation of statutory surplus reserve into share capital, the remaining amount of such reserve shall not be less than 25% of the registered share capital.

(iv) Reserve for shares issued with vesting conditions

The reserve for shares issued with vesting conditions represents the accumulated fair value at the date of allotment of the relevant shares subsequently vested.

(v) Redeemable convertible note reserve

The convertible note reserve represents the value of the equity component of the RC Note issued by the Company recognised in accordance with the accounting policy adopted for the RC Note in note 3.

(vi) Special reserve

The special reserve of the Group represents the difference between the nominal value of the registered capital of the acquired subsidiaries and the nominal value of the shares of the Company issued for the acquisition at the time of the group reorganisation on 6 June 2005.

36. OPERATING LEASE COMMITMENT

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating lease which fall due as follows:

	2009 **RMB'000**	2008 RMB'000
Within one year	**1,997**	1,916
In the second to fifth years inclusive	**1,281**	1,981
	3,278	3,897

Operating lease payments represent rentals payable by the Group for its leased factory and office premises. Leases are negotiated with terms ranging from two to five years and rentals are fixed for an average of two to five years.

37. CAPITAL COMMITMENT

	2009 RMB'000	2008 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
– acquisition of property, plant and equipment	**213**	7,580
– acquisition of a land use right	**–**	9,630
	213	17,210

38. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by employees.

As stipulated by the rules and regulations in the PRC, the Group contributes to the retirement funds scheme managed by local social security bureau in the PRC. The Company contributes a certain percentage of the basic salaries of its employees to the retirement plan to fund the benefits.

The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions. During the year ended 31 December 2009, the total retirement benefits scheme contributions charged to the consolidated income statement amounted to approximately RMB2,401,000 (2008: RMB2,695,000).

39. RELATED PARTY TRANSACTIONS

(a) Details of the balances with related parties are set out in the consolidated statement of financial position and notes 22, 26 and 27 respectively.

(b) During the year ended 31 December 2009, the Group had the following material transactions with its related companies:

Name of related party	Nature of transactions	2009 RMB'000	2008 RMB'000
Yusei Japan	Purchase of raw materials	**585**	1,005
	Sales of raw materials	**–**	785
	Sales of finished goods	**1,110**	1,839
	Sub-contracting fee paid	**–**	482
	Technical fee paid	**3,500**	3,500
Yusei Industrial	Rental fee paid	**1,260**	400
	Sales of finished goods	**8,496**	2,658

(c) On 13 July 2009, the Company acquired 30% equity interests in Yusei Industrial for a consideration of US$3,000,000 (equivalent to approximately RMB20,471,000) from Yusei Japan, which was satisfied by way of an issue of a 3-year non-interest bearing redeemable convertible note as disclosed in note 31.

(d) In additions to above, the remuneration of directors and other members of key management during the year was as follows:

	2009 RMB'000	2008 RMB'000
Short-term benefits	**3,940**	3,834
Recognition of the fair value of vested restricted shares	**–**	990
	3,940	4,824

The remuneration of directors and key executives disclosed above are based on the service contracts entered into between the Group and the respective individuals. The remuneration of directors and key executives for subsequent renewal of these service contracts will be determined by the remuneration committee having regard to the performance of individuals and market trends.

40. SUBSIDIARIES

Particulars of the subsidiaries of the Company as at 31 December 2009 established and operating in the PRC are as follows:

Name of subsidiary	Fully paid registered capital	Class of share	Attributable interests directly held by the Company	Principal activities
Zhejiang Yusei	US$3,000,000	Registered capital	100%	Moulding fabrication, manufacturing and trading of plastic components
Hangzhou Yusei	US$8,000,000	Registered capital	100%	Moulding fabrication, manufacturing and trading of plastic components
Hangzhou Yusei Moulding	US$500,000	Registered capital	100%	Moulding fabrication
Yusei China (note a)	US$15,300,000	Registered capital	100%	Moulding fabrication
Suzhou Yusei (note b)	US$3,500,000	Registered capital	100%	Moulding fabrication, manufacturing and trading of plastic components
Guangzhou Yusei (note c)	US$1,000,000	Registered capital	100%	Moulding fabrication, manufacturing and trading of plastic components.

Notes:

(a) Yusei China was established under the laws of the PRC with limited liability on 13 February 2007 with an operating period of 50 years. Up to 31 December 2008, the registered capital of Yusei China was US$10,000,000 (equivalent to RMB69,981,000) and wholly owned by the Company. Pursuant to a verification report dated 31 May 2007, the initial registered capital of US$2,000,000 (equivalent to RMB15,301,000), representing 20% of the total registered capital, has been fully paid up by the Company as of 31 May 2007. Pursuant to a verification report dated 27 October 2008, the remaining balance of US$8,000,000 (equivalent to RMB54,680,000), representing 80% of the total registered capital, has been fully paid up by the Company as of 23 October 2008.

On 24 November 2009, the registered capital of Yusei China was increased to US$15,300,000 (equivalent to RMB106,167,000) by the Company. Pursuant to a verification report dated 25 November 2009, the amount of US$5,300,000 (equivalent to RMB36,186,000) has been fully paid up by the Company as of 24 November 2009.

40. SUBSIDIARIES *(CONTINUED)*

Notes: *(continued)*

(b) Suzhou Yusei was established under the laws of the PRC with limited liability on 24 August 2007 with an operating period of 50 years. The registered capital of Suzhou Yusei was US$10,000,000 (equivalent to RMB75,395,000) and wholly owned by the Company. Pursuant to a verification report dated 7 November 2007, the initial registered capital of US$2,000,000 (equivalent to RMB15,079,000), representing 20% of the total registered capital, has been fully paid up by the Company as of 10 September 2007. The remaining balance of the unpaid registered capital should be contributed by the Company within two years from the date of establishment of Suzhou Yusei. Pursuant to a verification report dated 23 October 2008, US$1,500,000 (equivalent to RMB10,246,000), representing 15% of the total registered capital, has been fully paid up by the Company as of 21 October 2008.

(c) Guangzhou Yusei was established under the laws of the PRC with limited liability on 4 May 2008 with an operating period of 30 years. The registered capital of Guangzhou Yusei was US$1,000,000 (equivalent to RMB6,859,000), and wholly owned by the Company. Pursuant to a verification report dated 15 July 2008, the initial registered capital of US$1,000,000 (equivalent to RMB6,859,000), representing 100% of the total registered capital, has been fully paid up by the Company as of 30 June 2008.

None of the subsidiaries had any debt securities outstanding as at the end of the year or at any time during the year.

41. MAJOR NON-CASH TRANSACTIONS

(a) As set out in note 32, on 13 July 2009, the Company issued the RC Note to Yusei Japan at par value of US$3,000,000 (equivalent to approximately RMB20,471,000) as full settlement of the consideration payable for the acquisition of Yusei Industrial.

(b) During the year ended 31 December 2009, Jilin Yusei was established by Zhejiang Yusei as set out in note 18. The capital contribution to the registered capital of Jilin Yusei was fully settled by deposit for investment of RMB7,200,000 paid during the year ended 31 December 2008.

(c) The consideration for additions to land use rights of approximately RMB10,949,000 during the year ended 31 December 2009 as set out in note 17 was partly settled by deposit of RMB1,000,000 paid during the year ended 31 December 2008.

(d) During the year ended 31 December 2009, no additions to property, plant and equipment as set out in note 15 (2008: RMB40,444,000) was financed by an inception of obligations under finance leases.

42. SUBSEQUENT EVENT

On 22 January 2010, the Company early redeemed the remaining outstanding principal of the RC Note of US$1,900,000 (equivalent to approximately RMB12,965,000). The early redemption gave rise to a debt extinguishment loss of approximately US$417,000 (equivalent to approximately RMB2,844,000).