YUSEI HOLDINGS LIMITED
友成控股有限公司*
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 96)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

The board of directors of Yusei Holdings Limited (the "Company") announces the audited results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2019, together with the comparative figures for the corresponding period of last year, as follows:

Consolidated statement of profit or loss
For the year ended 31 December 2019

	NOTES	2019 RMB'000	2018 RMB'000
Revenue	3	1,301,618	1,274,993
Cost of sales		(1,165,687)	(1,091,608)
Gross profit		135,931	183,385
Other income and gain	4	25,625	35,515
Net foreign exchange (loss) gain		(534)	1,640
Distribution costs		(56,222)	(52,217)
Administrative expenses		(47,440)	(49,435)
Finance costs	5	(14,555)	(15,259)
Share of profits of associates		1,733	1,832
Profit before tax		44,538	105,461
Income tax expense	6	(8,961)	(14,040)
Profit for the year	7	35,577	91,421
		RMB	RMB (restated)
Earnings per share			
Basic and diluted (cents)	9	0.055	0.153

* *For identification purpose only*

Consolidated statement of profit or loss and other comprehensive income
For the year ended 31 December 2019

	2019 RMB'000	2018 RMB'000
Profit for the year	35,577	91,421
Other comprehensive (expense) income:		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of financial statements of foreign operation	(154)	602
Total comprehensive income for the year	35,423	92,023
Profit for the year attributable to:		
Owners of the Company	35,108	91,303
Non-controlling interests	469	118
	35,577	91,421
Total comprehensive income for the year attributable to:		
Owners of the Company	34,954	91,905
Non-controlling interests	469	118
	35,423	92,023

Consolidated statement of financial position
As at 31 December 2019

	NOTES	2019 RMB'000	2018 RMB'000
Non-current assets			
Property, plant and equipment		460,263	481,052
Right-of-use assets		45,299	-
Intangible assets		11,395	4,342
Land use rights		-	41,200
Goodwill		5,385	5,385
Deferred tax asset		2,362	2,265
Interests in associates		37,757	36,024
		562,461	570,268
Current assets			
Inventories		311,272	325,760
Trade and bills receivables, deposits and prepayments	10	541,379	473,639
Amount due from ultimate holding company		1,364	1,142
Pledged bank deposits		454	9,459
Bank balances and cash		80,581	105,616
		935,050	915,616
Current liabilities			
Trade and other payables	11	487,938	478,804
Amount due to ultimate holding company		-	287
Amounts due to associates		885	4,795
Income tax liabilities		17,914	19,310
Lease liabilities		2,025	-
Obligations under finance leases			
- due within one year		-	50,653
Bank and other loans - due within one year		282,205	255,733
		790,967	809,582
Net current assets		144,083	106,034
Total assets less current liabilities		706,544	676,302
Non-current liabilities			
Amount due to ultimate holding company		–	4,101
Lease liabilities		2,098	–
Deferred income		6,680	6,904
		8,778	11,005
		697,766	665,297
Capital and reserves			
Share capital		5,801	4,853
Reserves		683,682	658,031
		689,483	662,884
Non-controlling interests		8,283	2,413
		697,766	665,297

Notes:

1. CORPORATE INFORMATION

Yusei Holdings Limited (the "Company") is a public limited company incorporated in the Cayman Islands as an exempted company with limited liability on 4 April 2005. Its ultimate holding company is Yusei Machinery Corporation ("Yusei Japan") (incorporated in Japan). 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 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$"). The Group adopted RMB as its presentation currency as the directors of the Company consider that the major operations are in the PRC and it is appropriate to present the consolidated financial statements in RMB.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)")

In the current year, the Group has applied, for its first time, the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

HKFRS 16	Leases
Hong Kong (the International Financial Reporting Interpretations Committee) ("HK (IFRIC)") – Interpretation ("Int ") 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to Hong Kong Accounting Standard ("HKAS") 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle

The adoption of HKFRS 16 resulted in the changes in the Group's accounting policies and amounts recognised in the consolidated financial statements as summarises below.

The application of other new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and position for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") (Continued)

Impacts on adoption of HKFRS 16 Leases

HKFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating lease and finance lease and requiring the recognition of right-of-use asset and a lease liability for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. The Group has applied HKFRS 16 retrospectively with the cumulative effect of initial application as an adjustment to the opening balance of equity, where appropriate, at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

On transition to HKFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which arrangements are, or contain, leases. It applied HKFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-4 *Determining whether an Arrangement contains a Lease* were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

<u>The Group as lessee</u>

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 (except for lease of low value assets and lease with remaining lease term of 12 months or less). These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5%.

The Group recognises right-of-use assets and measures them at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments and the Group applied this approach to all other leases.

The Group leases a number of items of machinery and equipment. These leases were classified as finance leases under HKAS 17. For these finance leases, the carrying amount of the right-of-use asset and the lease liability at 1 January 2019 were determined at the carrying amount of the lease asset and lease liability under HKAS 17 immediately before that date. Accordingly, the obligations under finance leases are now included within lease liabilities, and the carrying amount of the corresponding lease asset is identified as a right-of-use asset. There is no impact on the opening balance of equity.

<u>The Group as lessor</u>

The Group leases some of the properties. The accounting policies applicable to the Group as lessor remain substantially unchanged from those under HKAS 17.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") (Continued)

Impacts on adoption of HKFRS 16 Leases (Continued)

The following table summarises the impact of transition of HKFRS 16 at 1 January 2019. Line items that were not affected by the adjustments have not been included.

	Notes	Carrying amount previously reported at 31/12/2018 RMB'000	Impact on adoption of HKFRS 16 RMB'000	Carrying amount as restated at 1/1/2019 RMB'000
Property, plant and equipment	(b)	481,052	(56,684)	424,368
Right-of-use assets	(a),(b)	-	103,453	103,453
Land use rights	(a)	41,200	(41,200)	-
Trade and bills receivables, deposits and prepayments	(a)	473,639	(1,150)	472,489
Obligations under finance leases	(b)	50,653	(50,653)	-
Lease liabilities	(a),(b)	-	55,072	55,072

Notes:

(a) Land use rights of approximately RMB41,200,000 and land use rights included in trade and bills receivables, deposits and prepayments of approximately RMB1,150,000 which represent the upfront payments for leasehold lands in the PRC as at 31 December 2018 were reclassified to right-of-use assets.

(b) The obligations under finance leases of approximately RMB50,653,000 as at 31 December 2018 were reclassified to lease liabilities. The carrying amount of the related assets under finance leases amounting to approximately RMB56,684,000 were reclassified to right-of-use assets.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(s)") (Continued)

Impacts on adoption of HKFRS 16 Leases (Continued)

In the consolidated statement of cash flows, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. The total cash flows are unaffected.

Differences between operating lease commitments as at 31 December 2018, the date immediately preceding the date of initial application, discounted using the incremental borrowing rate, and the lease liabilities recognised as at 1 January 2019 are as follow:

	RMB'000
Operating lease commitment disclosed as at 31 December 2018	4,922
Less: Short-term leases and other leases with remaining lease term ended on or before 31 December 2019	(143)
	4,779
Discounted using the incremental borrowing rate at 1 January 2019	4,419
Add: Finance lease liabilities recognised under HKAS 17 as at 31 December 2018	50,653
Lease liabilities recognised as at 1 January 2019	55,072
Analysed as	
Current portion	52,076
Non-current portion	2,996
	55,072

Practical expedients applied

On the date of initial application of HKFRS 16, the Group has also used the following practical expedients permitted by the standard:

- reliance on assessments on whether leases are onerous by applying HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* immediately before the date of initial application as an alternative to performing an impairment review.

- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases.

- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

3. REVENUE AND SEGMENT INFORMATION

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

HKFRS 8 *Operating Segments* 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 ("CODM") (i.e. the chief executive) in order to allocate resources to segments and to assess their performance.

The Group's operating activities are attributable to a single operating segment focusing on the moulding fabrication, manufacturing and trading of moulds and plastic components. This operating segment has been identified on the basis of internal management reports prepared in accordance with accounting policies which conform to HKFRSs, that are regularly reviewed by the CODM. The CODM monitors the revenue from moulding fabrication, manufacturing and trading of moulds and plastic components for the purpose of making decisions about resources allocation and performance assessment. However, no revenue analysis, operating results and other discrete financial information are available for the resource allocation and performance assessment. The CODM reviews the profit for the year of the Group as a whole for performance assessment. No analysis of segment assets or segment liabilities is presented as they are not regularly provided to the CODM.

The Group derives and recognises all of its revenue from the delivery of goods at a point in time in the following major product types.

	2019	2018
	RMB'000	RMB'000
Plastic components	1,190,508	1,139,093
Moulds	111,110	135,900
	1,301,618	1,274,993

Geographical information

During the years ended 31 December 2019 and 2018, the Group's operations were located in the PRC.

During the year ended 31 December 2019, 99.66% (2018: 99.72%) of the Group's revenue from external customers was generated in the PRC while as at 31 December 2019, 100% (2018: 100%) of the Group's non-current assets was located in the PRC. Hence, no geographical information is presented.

4. OTHER INCOME AND GAIN

	2019 RMB'000	2018 RMB'000
Sale of raw and scrap materials	134,832	112,145
Cost of raw and scrap materials	(128,168)	(101,202)
Gain on sales of raw and scrap materials	6,664	10,943
Quality inspection income	557	676
Bank Interest income	395	3,434
Rental income	18	38
Management services income	747	1,666
Government subsidies (Note)	14,454	9,134
Release of government grants for land / land use rights	224	224
Reversal of impairment loss on trade receivables	200	-
Processing fee income	680	722
Gain on deemed disposal of associate	-	7,130
Others	1,686	1,548
	25,625	35,515

Note: Government subsidies of approximately RMB14,454,000 (2018: RMB9,134,000) have been recognised during the year ended 31 December 2019 which were designated for the encouragement of business development and high technology development incentive. All conditions in respect of these grants had been fulfilled and such government grants were recognised in other income for the year.

5. FINANCE COSTS

	2019 RMB'000	2018 RMB'000
Interest on:		
Bank and other loans	12,421	12,992
Lease liabilities	2,134	-
Obligation under finance leases	-	1,447
Amount due to ultimate holding company	-	820
	14,555	15,259

6. INCOME TAX EXPENSE

	2019 RMB'000	2018 RMB'000
Current income tax:		
PRC Enterprise Income Tax (the "EIT")	9,023	15,618
Under (over) - provision in prior years	35	(311)
	9,058	15,307
Deferred tax	(97)	(1,267)
	8,961	14,040

(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 Company did not have any assessable profits subject to Hong Kong Profits Tax for both years and the Company's subsidiaries' income neither arises in, nor is derived from, Hong Kong during both years.

6. INCOME TAX EXPENSE (Continued)

(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 subsidiaries, 杭州友成機工有限公司 Hangzhou Yusei Machinery Co., Ltd.* ("Hangzhou Yusei"), 廣州友成機工有限公司 Guangzhou Yusei Machinery Co., Ltd.* ("Guangzhou Yusei") and 蘇州友成機工有限公司 Suzhou Yusei Machinery Co., Ltd.* ("Suzhou Yusei") for the years ended 31 December 2019 and 2018 was 15%.

On 9 December 2016, Guangzhou Yusei was approved by Science and Technology Department of Guangdong Province as high technology enterprise and therefore is subject to EIT at a concession rate of 15% for three years, with effective from 9 December 2016. Guangzhou Yusei has further obtained the renewal of its high technology qualification on 2 December 2019 and is entitled to the concession rate of 15% from 2019 to 2022.

On 30 November 2018, Hangzhou Yusei was approved by Science and Technology Department of Zhejiang Province as high technology enterprise and therefore is subject to EIT at a concession rate of 15% for three years, with effective from 30 November 2018.

On 5 August 2014, Suzhou Yusei was approved by Science and Technology Department of Suzhou Province as high technology enterprise and therefore is subject to EIT at a concession rate of 15% for three years, with effective from 1 January 2014. Suzhou Yusei has further obtained the renewal of its high technology qualification on 7 December 2017 and is entitled to the concession rate of 15% from 2017 to 2020.

* The English names are for identification purposes only.

7. PROFIT FOR THE YEAR

	2019 RMB'000	2018 RMB'000
Profit for the year has been arrived at after charging (crediting):		
Directors' and the chief executive's remuneration	3,074	3,025
Salaries, wages and other benefits	186,448	209,118
Retirement benefits scheme contributions	13,325	18,222
Other staff costs	199,773	227,340
Total staff costs	202,847	230,365
Depreciation of property, plant and equipment	79,950	76,109
Depreciation of right-of-use assets	8,754	-
Amortisation of intangible assets (included in administrative expenses)	574	196
Amortisation of land use rights (included in administrative expenses)	-	967
Total depreciation and amortisation expenses	89,278	77,272
Auditor's remuneration	950	950
Loss on disposal of property, plant and equipment	408	-
Loss allowance on trade receivables (included in administrative expenses)	-	2,448
Reversal of loss allowance on trade receivables (included in other income)	(200)	-
Allowance for inventories (included in cost of sales)	1,936	2,277
Reversal of allowance for inventories (included in cost of sales)	(447)	(3,151)
Research and development costs recognised as an expense	51,009	50,333
Operating lease charges on leased premises	-	9,345
Cost of inventories recognised as an expense	1,164,198	1,092,482

8. DIVIDENDS

	2019 RMB'000	2018 RMB'000
Dividends recognised as distribution during the year:		
2018 Final – RMB1.60 cents (2017 final dividend RMB1.98 cents) per share	8,484	8,016

Subsequent to the end of the reporting period, a final dividend of RMB1.3 cents in respect of the year ended 31 December 2019 per share has been proposed by the directors of the Company and is subject to approval by the shareholders of the Company in the forthcoming annual general meeting.

9. 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:

	2019 RMB’000	2018 RMB’000
Earnings		
Earnings for the purpose of basic and diluted earnings per share	35,108	91,303

	2019 ’000	2018 ’000 (restated)
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	636,550	597,691

Diluted earnings per share is same as basic earnings per share for the years ended 31 December 2019 and 2018 as there is no potential ordinary shares outstanding.

The weighted average number of ordinary shares for the year ended 31 December 2019 has been adjusted for the new bonus shares issued on 31 May 2019 (2018 (restated): the weighted average number of ordinary shares for the year ended 31 December 2018 has been adjusted for the new bonus issued on 31 May 2019 and 23 June 2018) as if such bonus issue had occurred at the beginning of the earliest period presented.

10. TRADE AND BILLS RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2019 RMB’000	2018 RMB’000
Trade receivables	443,988	407,831
Less: impairment loss recognised	(8,240)	(8,440)
	435,748	399,391
Bills receivables	44,571	23,025
Advance to suppliers	28,398	17,116
Prepayments	16,343	20,337
Other receivables and deposits	16,319	13,770
	541,379	473,639

Note:

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 be extended to the range from 90 days to 270 days. The Group does not hold any collateral over these balances.

10. TRADE AND BILLS RECEIVABLES, DEPOSITS AND PREPAYMENTS (Continued)

The ageing analysis of trade receivables, net of impairment loss recognised presented based on the invoice date, which is approximated to revenue recognition date, net of impairment loss recognised is as follows:

	2019 RMB'000	2018 RMB'000
Within 30 days	192,613	190,173
31 to 60 days	100,620	85,748
62 to 90 days	77,387	62,981
91 to 180 days	46,704	52,417
181 to 365 days	12,341	6,055
Over 365 days	6,083	2,017
Trade receivables	435,748	399,391

11. TRADE AND OTHER PAYABLES

	2019 RMB'000	2018 RMB'000
Trade payables and bills payables	311,138	302,213
Value added tax payables	13,016	9,079
Contract liabilities	55,517	58,316
Other payables	37,128	41,520
Accrued staff costs	42,473	41,271
Accrued charges	28,666	26,405
	487,938	478,804

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

	2019 RMB'000	2018 RMB'000
Within 30 days	142,509	194,550
31 to 60 days	81,463	53,166
61 to 90 days	46,789	32,198
91 to 180 days	33,992	16,029
181 to 365 days	3,420	3,543
Over 365 days	2,965	2,727
	311,138	302,213

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.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

During the year ended 31 December 2019, the Group is principally engaged in the design, development and fabrication of precision plastic injection moulds, and the manufacture of plastic components in the Peoples' Republic of China (the "PRC"). The Group also provides services for certain assembling and further processing of plastic components for its customers. The Group's customers are mainly the manufacturers of branded auto parts and components, office equipment and plastic components in the PRC.

The Group is facing great challenges from the global economy which was affected by the unstable factors in relation to the international political unrest and economic instability most of the time during the current year. With the transformation and upgrading of business model of the Chinese enterprises, some of the Group's customers in manufacturing office equipment industry have transferred their production lines to Southeast Asian countries where the labour costs are lower. Having perceived this trend in prior year, the Group had focused its main business on the automotive industry. With the overall decline in sales in the PRC's auto industry in 2019, the auto manufacturers reduced the production quantity which had an impact on the Group's production and sales of the moulding and of auto parts and components.

In 2019, the Group continues to carry out research and development of moulding as the core, actively consolidate the technological advantages, and continue to strengthen the automated production, and improve the production processes so as to improve production efficiency. In addition, to enhance the cost advantage, the Group consider constructing production plants near to the main customers for providing fast and efficient services to the main customers. Meanwhile, in order to maintain the competitive advantage in the market segment, the Group continues to invest in purchasing more advanced equipment. In addition, we continue to put effort to develop the existing business and to explore new business.

Financial review

Revenue

The Group's revenue for the year ended 31 December 2019 increased by 2.1% to approximately RMB1,301,618,000 as compared to that of approximately RMB1,274,993,000 for the year ended 31 December 2018 which was mainly benefited from the steady growth in the demand on the Group's products during the year.

Gross profit

The Group achieved a gross profit of approximately RMB135,931,000 for the year ended 31 December 2019, representing a decrease of approximately 25.9% as compared to that of approximately RMB183,385,000 for the year ended 31 December 2018.

Decrease in gross profit was mainly due to (i) increase in costs of materials for production; (ii) increase in direct labour costs and (iii) increase in the research and development cost (which were accounted for as cost of sales) as the Group increased effort to carry out research and development of moulding technology during the year.

Distribution costs

Distribution costs for the year ended 31 December 2019 increased by approximately 7.7% to approximately RMB56,222,000 as compared to that of approximately RMB52,217,000 for the year ended 31 December 2018. Such increase was mainly due to (i) increase in sales and (ii) increase in costs of packing materials consumed.

Net foreign exchange gain/loss

Net foreign exchange gain/loss mainly represented the loss arising from foreign currency translation of sales and purchases denominated in Japanese Yen ("JPY"), Euro Dollars and United State dollars ("US$") into RMB.

Administrative expenses

Administrative expenses for the year ended 31 December 2019 decreased approximately by 4.0% to RMB47,440,000 as compared to that of approximately RMB49,435,000 for the year ended 31 December 2018. Such decrease was mainly attributable to the Group's strengthened the controls over the expenses so as to enhance operating efficiency during the year.

Finance costs

Finance costs for the year ended 31 December 2019 decreased approximately by 4.6% to RMB14,555,000 as compared to that of approximately RMB15,259,000 for the year ended 31 December 2018.

Profit attributable to owners of the Company

The profit attributable to owners of the Company decreased by approximately 61.5% from approximately RMB91,303,000 for the year ended 31 December 2019 to approximately RMB35,108,000 for the year ended 31 December 2018.

Financial resources and liquidity

As at 31 December 2019, the equity amounted to approximately RMB697,766,000 (2018: RMB665,297,000). Current assets amounted to approximately RMB935,050,000 (2018: RMB915,616,000), of which bank balances and cash and pledged bank deposits totaling approximately RMB81,035,000 (2018: RMB115,075,000). The Group had non-current assets of approximately RMB562,461,000 (2018: RMB570,268,000) and its current liabilities amounted to approximately RMB790,967,000 (2018: RMB809,582,000), comprising mainly its creditors and accrued charges and bank borrowings. The net asset value per share was RMB1.10 (2018 (restated): RMB1.11). The Group expresses its gearing ratio as a percentage of lease liabilities and borrowings (2018: finance leases, amount due to ultimate holding company and borrowings) over total assets. As at 31 December 2019, the Group had a gearing ratio of 19.1% (2018: 20.9%).

Bonus shares issue

As set out in the Company's circular dated 29 April 2019, the Directors proposed a bonus issue of shares on the basis of one bonus share for every five existing shares held by Shareholders whose names appeared on the register of members of the Company on 11 June 2019. The relevant resolution was approved by the shareholders in the annual general meeting of the Company held on 31 May 2019. The share certificates for the bonus shares were dispatched to Shareholders on 12 July 2019.

Subscription of new shares under general mandate

On 8 August 2018, the Company entered into the Subscription Agreements with the Subscribers. Pursuant to the Subscription Agreements, the Company has conditionally agreed to allot and issue, and the Subscribers have conditionally agreed to subscribe for a total of 14,698,000 Subscription Shares ("First Subscriptions"). The Subscription Shares would be issued at the Subscription Price of HK$1.435 per Subscription Share. Such issue of shares was completed on 12 October 2018. The aggregate gross proceeds of the Subscriptions were approximately HK$21,091,630 and the aggregate net proceeds of the Subscriptions, after deduction of expenses, were approximately HK$20,891,630, representing a net issue price of approximately HK$1.421 per Subscription Share.

	Planned use of net proceeds of the First Subscriptions (HK$ 'million)	**Actual use of net proceeds of the First Subscriptions up to 31 December 2019 (HK$ 'million)**	**Description**
First Subscriptions:			
- Construction of a new factory in Hubei Province, the PRC and purchase of factory machineries (including CNC Gantry 5 axes high speed machinery centre and injection moulding machines)	19.0	10.2	Up to 31 December 2019, the net proceeds of the First Subscriptions of approximately HK$10.2 million was utilised for construction of factory and purchase of machinery centre and injection moulding machines. In addition, it expects to fully apply the remaining net proceeds of the First Subscription for factory construction and purchase of factory machineries by 30 June 2020 in response to the Group's business development.
- General working capital	1.9	1.9	Up to 31 December 2019, the net proceeds of the First Subscriptions of approximately HK$1.9 million was utilised for general working capital.
Total	20.9	12.1	

On 19 November 2018, the Company entered into seven Subscription Agreements with the Subscribers. Pursuant to the Subscription Agreements, the Company has conditionally agreed to allot and issue, and the Subscribers have conditionally agreed to subscribe for, a total of 30,000,000 Subscription Shares ("Second Subsciptions"). The Subscription Shares would be issued at the Subscription Price of HK$2.005 per Subscription Share. Such issue of shares was completed on 31 December 2018. The aggregate gross proceeds of the Subscriptions were HK$60,150,000 and the aggregate net proceeds of the Subscriptions, after deduction of expenses, were approximately HK$59,950,000, representing a net issue price of approximately HK$1.998 per Subscription Share.

Subscription of new shares under general mandate (continued)

	Planned use of net proceeds of the Second Subscriptions (HK$ 'million)	Actual use of net proceeds of the Second Subscriptions up to 31 December 2019 (HK$ 'million)	Description
Second Subscriptions:			
- Construction of a new factory in Tianjin, the PRC	30.0	-	Up to 31 December 2019, none of the net proceeds of the Second Subscriptions was utilised and it was deposited into the banks. The Group is still negotiating to acquire a piece of land in Tianjin, the PRC, on which a new factory will be built. Up to the date of this announcement, no agreement has been reached.
- Repayment of bank borrowings of the Group	30.0	30.0	During the year ended 31 December 2019, the Group repaid its bank borrowings of approximately HK$30.0 million upon maturity with the net proceeds.
Total	60.0	30.0	

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 2019, the total number of the Group's staff was approximately 2,200 (2018: 2,500). The total staff costs (including directors' remuneration) amounted to approximately RMB202,847,000 (2018: RMB230,365,000) 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 2019, the Group's bank loans are secured by right-of-use assets (2018: land use rights) and property, plant and equipment of the Group with an aggregate net carrying values of approximately RMB15,629,000 (2018: RMB16,210,000) and RMB109,400,000 (2018: RMB117,208,000), respectively.

As at 31 December 2019, the Group's other loans are secured under sales and leaseback agreements by the Group's property, plant and equipment with net carrying value of RMB48,532,000 (2018: nil).

As at 31 December 2019, bank deposits amounting to approximately RMB454,000 (2018: RMB9,459,000) have been pledged for short-term bills payables. The pledged deposits were classified as current assets as the deposits will be released upon the settlement of relevant bills payables or upon the end of contract.

Foreign currency risk

The Group carries on business in RMB, 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 trade and bills receivables, deposits and other receivables; bank balances and cash; trade and other payables 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.

Material acquisitions and disposal

Save as those disclosed above, the Group did not make any significant investments or material acquisitions and disposals of subsidiaries during the year ended 31 December 2019.

Contingent liabilities

As at 31 December 2019, the Group did not have any significant contingent liabilities.

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; (iii) active participation in production process of the suppliers to ensure the product quality and the mutual communication to improve the suppliers' production efficiency; and (iv) the Group constructs the factories of automation with automation machineries based on our own needs. It enhances the production efficiency and reduces the labour costs. 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.

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.

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.

In order to keep up with the development of auto industry and to further meet customer demand, the Group set up a wholly-owned subsidiary in Mexico and will install the production lines for production and sales of production and sales of the moulding and of auto parts and components in American market. In response to the development pace of its customers, the Group will acquire land for construction of factories when appropriate.

Events after the reporting period

The outbreak of the 2019 Novel Coronavirus ("COVID-19") in PRC and the subsequent quarantine measures imposed by the PRC government has had an impact on the Group's operation in China. The Group had to suspend its manufacturing activities since late January 2020 due to mandatory government quarantine measures in an effort to contain the spread of the epidemic. The Group has resumed its manufacturing activities since early February 2020.

The directors of the Company are monitoring the financial impact that COVID-19 will have on the Group's consolidated financial statements as at the date that these consolidated financial statements are authorised for issue.

Principal risks and uncertainties

Below are principal risks and uncertainties that may have a material and adverse effect on the Group's business, financial conditions and results of operations and the Group's risk management measures:

1. The Group may not be able to maintain its historical growth rates or profit margins, and its results of operations may fluctuate.

   Building on its existing client base, the Group will continue to seek new customers. In addition, the Group leverages on the expertise and experience of its senior management to deliver efficient operation and management, so as to reduce the risk of instability.

2. The Group's business depends on its ability to retain key personnel.

   The Group maintains good relationship with its senior management and provides its staff with sufficient professional trainings. Staff remuneration and benefits are in line with the prevailing market rates and subject to regular review by the Group.

3. Labour shortages and increase in labour costs may have an adverse effect on the Group's business operations.

   The Group will step up efforts to recruit appropriate employees through various channels. The Group is committed to cultivating employees with great potential to become more productive senior staff.

In addition, the Group's activities are exposed to a variety of financial risks including foreign currency risk, interest rate risk, credit risk and liquidity risk. Details of the financial risks are set out in the Company's annual report.

PROPOSED DIVIDENDS

The Directors recommended the payment of a final dividend of RMB1.3 cents per share in respect of the year ended 31 December 2019.

Upon approval from the forthcoming annual general meeting to be held on 5 June 2020 (the "AGM"), the final dividends, which are payable to shareholders whose names appear on the register of members of the Company on 17 June 2020, will be paid on or about 31 July 2020.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of ascertaining shareholders' right to attend and vote at the AGM of the Company, the registers of members of the Company will be closed from 2 June 2020 to 5 June 2020 (both days inclusive) during which period no transfer of shares will be effected. In order for a shareholder to be eligible to attend and vote at the AGM, all instrument of transfer must be lodged with Computershare Hong Kong Investor Services Limited, the Company's Hong Kong branch share registrar and transfer office, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on 1 June 2020.

For the purpose of ascertaining shareholders' entitlement to the proposed final dividends, the register of members of the Company will be closed from 11 June 2020 to 17 June 2020, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividends (subject to shareholders' approval at the AGM), all instrument of transfer must be lodged with Computershare Hong Kong Investor Services Limited, the Company's Hong Kong branch share registrar and transfer office, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on 10 June 2020.

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 2019.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the year ended 31 December 2019, 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 Appendix 10 to the Listing Rules. The Company also had made specific enquiry of all directors and the Company was not aware of any non-compliance with the 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 3.21 to 3.22 of the 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 (if prepared) 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 2019, which was of an opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been made.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2019, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares.

DIRECTORS' INTEREST IN A COMPETING BUSINESS

Yusei Japan is beneficially owned as to 36.65% 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 24.0% by Mr. Masuda, as to approximately 1.7% by Mr. Toshimitsu Masuda, as to 30% by Tokyo Small and Medium Business Investment & Consultation Co., Ltd., and as to 0.5% by certain staff of Yusei Japan, respectively, and as to approximately 18.0% held by Yusei Japan itself as a result of share repurchase, which according to the confirmation of a practicing Japanese law firm, need not be extinguished from the issued share capital of Yusei Japan under Japanese laws. Conpri is a company incorporated in Japan with limited liability and is owned as to 50% by Mr. Toshimitsu Masuda, and as to 50% by Mr. Masuda. Mr. Toshimitsu Masuda is the son of Mr. Masuda. Mr. Katsutoshi Masuda and Mr. Toshimitsu Masuda are the Company's non-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.

Saved 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.

CORPORATE GOVERNANCE

The Directors confirmed that, throughout the year, the Company was in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules, save for the deviation from the code provision A.1.8 of the Code. The Board and the senior management of the Group have earnestly appraised the requirements of the Code and reviewed the practices of the Group to ensure full compliance with the Code.

Under the code provision A.1.8, the Group should arrange appropriate insurance cover in respect of legal action against its directors. However, as the Group's business are relatively unitary, the Directors can easily comprehend these businesses. At the same time, the Directors are equipped with the adequate spirit and expertise in making corporate decisions. Furthermore, the Directors consider that the management has placed emphasis on control cover corporate risks from time to time, and has strictly complied with the Listing Rules and the relevant regulations. Therefore, it is not necessary to purchase insurance for the Directors and Chief Executive.

By order of the Board
Yusei Holdings Limited
Katsutoshi Masuda
Chairman

PRC, 31 March 2020

As at the date of this announcement, the executive directors are Mr. Manabu Shimabayashi and Mr. Xu Yong; the non-executive directors are Mr. Katsutoshi Masuda and Mr. Toshimitsu Masuda, the independent non-executive directors are Mr. Lo Ka Wai, Mr. Fan Xiaoping and Mr. Hisaki Takabayashi.