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

**RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2020**

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 2020, 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 2020

	<u>NOTES</u>	<u>2020</u> RMB'000	<u>2019</u> RMB'000
Revenue	3	1,317,660	1,301,618
Cost of sales		<u>(1,155,876)</u>	<u>(1,165,687)</u>
Gross profit		161,784	135,931
Other income and gain	4	21,846	25,625
Net foreign exchange loss		(1,547)	(534)
Distribution costs		(55,665)	(56,222)
Administrative expenses		(57,267)	(47,440)
Finance costs	5	(13,638)	(14,555)
Share of profits of associates		<u>1,234</u>	<u>1,733</u>
Profit before tax		56,747	44,538
Income tax expense	6	<u>(3,972)</u>	<u>(8,961)</u>
Profit for the year	7	<u>52,775</u>	<u>35,577</u>
		RMB	RMB
Earnings per share			
Basic and diluted	9	<u>0.082</u>	<u>0.055</u>

* For identification purpose only

Consolidated statement of profit or loss and other comprehensive income
For the year ended 31 December 2020

	<u>2020</u> RMB'000	<u>2019</u> RMB'000
Profit for the year	52,775	35,577
Other comprehensive expense:		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of financial statements of foreign operation	<u>(1,622)</u>	<u>(154)</u>
Total comprehensive income for the year	<u>51,153</u>	<u>35,423</u>
Profit for the year attributable to:		
Owners of the Company	52,449	35,108
Non-controlling interests	<u>326</u>	<u>469</u>
	<u>52,775</u>	<u>35,577</u>
Total comprehensive income for the year attributable to:		
Owners of the Company	50,827	34,954
Non-controlling interests	<u>326</u>	<u>469</u>
	<u>51,153</u>	<u>35,423</u>

Consolidated statement of financial position
As at 31 December 2020

	<u>NOTES</u>	<u>2020</u> RMB'000	<u>2019</u> RMB'000
Non-current assets			
Property, plant and equipment		510,464	460,263
Right-of-use assets		111,080	45,299
Intangible assets		13,234	11,395
Goodwill		5,385	5,385
Deferred tax assets		1,690	2,362
Interests in associates		35,991	37,757
		<u>677,844</u>	<u>562,461</u>
Current assets			
Inventories		342,476	311,272
Trade and bills receivables, deposits and prepayments	10	527,927	541,379
Amount due from ultimate holding company		1,329	1,364
Amounts due from associates		660	-
Pledged bank deposits		-	454
Bank balances and cash		52,917	80,581
		<u>925,309</u>	<u>935,050</u>
Current liabilities			
Trade and other payables	11	557,029	487,938
Amounts due to associates		-	885
Income tax liabilities		9,537	17,914
Lease liabilities		4,551	2,025
Bank and other loans - due within one year		290,558	282,205
		<u>861,675</u>	<u>790,967</u>
Net current assets		<u>63,634</u>	<u>144,083</u>
Total assets less current liabilities		<u>741,478</u>	<u>706,544</u>
Non-current liabilities			
Lease liabilities		-	2,098
Deferred income		6,456	6,680
		<u>6,456</u>	<u>8,778</u>
		<u>735,022</u>	<u>697,766</u>
Capital and reserves			
Share capital		5,801	5,801
Reserves		723,026	683,682
		<u>728,827</u>	<u>689,483</u>
Non-controlling interests		6,195	8,283
		<u>735,022</u>	<u>697,766</u>

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 Amendments to References to the Conceptual Framework in Hong Kong Financial Reporting Standards (“HKFRSs”) and the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants which are effective for the Group’s financial year beginning 1 January 2020:

Amendments to HKFRS 3	Definition of a Business
Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

The application of the Amendments to References to the Conceptual Framework in HKFRSs and the amendments to HKFRSs in the current year has had no material effect on the Group’s financial performance and positions for the current and prior periods and/or on the disclosures set out in these consolidated financial statements.

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.

	<u>2020</u> RMB’000	<u>2019</u> RMB’000
Plastic components	1,108,796	1,190,508
Moulds	<u>208,864</u>	<u>111,110</u>
	<u>1,317,660</u>	<u>1,301,618</u>

Geographical information

During the years ended 31 December 2020 and 2019, the Group’s operations were located in the PRC.

During the year ended 31 December 2020, 99.78% (2019: 99.66%) of the Group’s revenue from external customers was generated in the PRC while as at 31 December 2020, 100% (2019: 100%) of the Group’s non-current assets was located in the PRC. Hence, no geographical information is presented.

4. OTHER INCOME AND GAIN

	<u>2020</u> RMB'000	<u>2019</u> RMB'000
Sale of raw and scrap materials	133,635	134,832
Cost of raw and scrap materials	<u>(124,817)</u>	<u>(128,168)</u>
Gain on sales of raw and scrap materials	<u>8,818</u>	<u>6,664</u>
Quality inspection income	240	557
Bank Interest income	91	395
Rental income	-	18
Management services income	903	747
Government subsidies (Note)	8,746	14,454
Release of government grants for land	224	224
Reversal of impairment loss on trade receivables	1,920	200
Processing fee income	139	680
Others	<u>765</u>	<u>1,686</u>
	<u>21,846</u>	<u>25,625</u>

Note: During the year ended 31 December 2020, government subsidies of approximately RMB8,746,000 (2019: RMB14,454,000) have been recognised 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

	<u>2020</u> RMB'000	<u>2019</u> RMB'000
Interest on:		
Bank and other loans	13,409	12,421
Lease liabilities	<u>229</u>	<u>2,134</u>
	<u>13,638</u>	<u>14,555</u>

6. INCOME TAX EXPENSE

	<u>2020</u> RMB'000	<u>2019</u> RMB'000
Current income tax:		
PRC Enterprise Income Tax (the "EIT")	4,589	9,023
(Over) under - provision in prior years	<u>(1,289)</u>	<u>35</u>
	3,300	9,058
Deferred tax	<u>672</u>	<u>(97)</u>
	<u>3,972</u>	<u>8,961</u>

(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”), and 廣州友成機工有限公司 Guangzhou Yusei Machinery Co., Ltd.* (“Guangzhou Yusei”) (2019: Hangzhou Yusei, 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 2020 was 15% (2019: 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 2020 and is entitled to the concession rate of 15% from 2020 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 high technology qualification was expired on 6 December 2020.

* The English names are for identification purposes only.

7. PROFIT FOR THE YEAR

	<u>2020</u> RMB'000	<u>2019</u> RMB'000
Profit for the year has been arrived at after charging (crediting):		
Directors' and the chief executive's remuneration	3,081	3,074
Salaries, wages and other benefits	195,261	186,448
Retirement benefits scheme contributions	14,196	13,325
Other staff costs	209,457	199,773
Total staff costs	212,538	202,847
Depreciation of property, plant and equipment	92,062	79,950
Depreciation of right-of-use assets	4,653	8,754
Amortisation of intangible assets (included in administrative expenses)	2,161	574
Total depreciation and amortisation expenses	98,876	89,278
Auditor's remuneration	950	950
Loss on disposal of property, plant and equipment	193	408
Reversal of loss allowance on trade receivables	(1,920)	(200)
Allowance for inventories (included in cost of sales)	3,719	1,936
Reversal of allowance for inventories (included in cost of sales)	(127)	(447)
Research and development costs recognised as an expense	58,216	51,009
Cost of inventories recognised as an expense	1,152,284	1,164,198

8. DIVIDENDS

	<u>2020</u> RMB'000	<u>2019</u> RMB'000
Dividends recognised as distribution during the year:		
2019 Final – RMB1.30 cents (2018 final dividend RMB1.60 cents) per share	8,393	8,484

Subsequent to the end of the reporting period, a final dividend of RMB1.30 cents in respect of the year ended 31 December 2020 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:

	<u>2020</u> RMB'000	<u>2019</u> RMB'000
<u>Earnings</u>		
Earnings for the purpose of basic and diluted earnings per share	<u>52,449</u>	<u>35,108</u>
<u>Number of shares</u>		
	<u>2020</u> '000	<u>2019</u> '000
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	<u>636,550</u>	<u>636,550</u>

Diluted earnings per share is same as basic earnings per share for the years ended 31 December 2020 and 2019 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 (2020: nil) as if such bonus issue had occurred at the beginning of the earliest period presented.

10. TRADE AND BILLS RECEIVABLES, DEPOSITS AND PREPAYMENTS

	<u>2020</u> RMB'000	<u>2019</u> RMB'000
Trade receivables	415,440	443,988
Less: impairment loss recognised	<u>(6,320)</u>	<u>(8,240)</u>
	409,120	435,748
Bills receivables	50,538	44,571
Advance to suppliers	23,681	28,398
Prepayments	19,395	16,343
Other receivables and deposits	<u>25,193</u>	<u>16,319</u>
	<u>527,927</u>	<u>541,379</u>

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:

	<u>2020</u> RMB'000	<u>2019</u> RMB'000
Within 30 days	159,368	192,613
31 to 60 days	114,106	100,620
62 to 90 days	83,554	77,387
91 to 180 days	32,657	46,704
181 to 365 days	12,918	12,341
Over 365 days	6,517	6,083
	<u>409,120</u>	<u>435,748</u>

11. TRADE AND OTHER PAYABLES

	<u>2020</u> RMB'000	<u>2019</u> RMB'000
Trade payables and bills payables	378,669	311,138
Value added tax payables	5,924	13,016
Contract liabilities	29,466	55,517
Other payables	54,635	37,128
Accrued staff costs	45,189	42,473
Accrued charges	43,146	28,666
	<u>557,029</u>	<u>487,938</u>

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

	<u>2020</u> RMB'000	<u>2019</u> RMB'000
Within 30 days	226,671	142,509
31 to 60 days	73,122	81,463
61 to 90 days	40,595	46,789
91 to 180 days	28,012	33,992
181 to 365 days	3,607	3,420
Over 365 days	6,662	2,965
	<u>378,669</u>	<u>311,138</u>

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 2020, 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.

Since the global outbreak of the coronavirus disease ("COVID-19") at the beginning of 2020, the Group has faced many challenges in its business. Certain customers of the Group reduced their product orders due to unfavorable market conditions caused by COVID-19, resulting in a decrease in the Group's revenue in the first half of 2020 and a decline in the overall financial performance of the Group. However, the Group's operation and business has been improved in the second half of 2020 as the COVID-19 was under control in the PRC. As a result, the Group's revenue and its profit attributable to shareholders of the Company for the year ended 31 December 2020 was approximately RMB1,317,660,000 and RMB52,449,000, respectively, whereas those for the year ended 31 December 2019 of approximately RMB1,301,618,000 and RMB35,108,000, respectively.

In 2020, the Group has successfully passed the accreditation assessment of Tesla Inc. ("Tesla"), and it becomes an approved secondary supplier of Tesla in the PRC qualified for supplying parts and components in relation to lighting, internal decoration and safety devices for Tesla's electric vehicle production bases located in the PRC and Germany (the "New Tesla Business"). The New Tesla Business brought additional annual revenue of approximately RMB12,000,000 to the Group for the year ended 31 December 2020. The Board believes that the New Tesla Business will not only broaden the Group's customer base and revenue sources, but also strengthen the Group's leading position in the high-end moulds market and enhance the Group's core competitiveness.

For the year ended 31 December 2020, the Group incurred research and development expenses of approximately RMB58,216,000. The Group will continue 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 considers 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 2020 increased by 1.2% to approximately RMB1,317,660,000 as compared to that of approximately RMB1,301,618,000 for the year ended 31 December 2019 which was mainly benefited from the steady growth in the demand on the Group's products as the influence of COVID-19 on the Group's business was diminishing during the second half of the year.

Gross profit

The Group achieved a gross profit of approximately RMB161,784,000 for the year ended 31 December 2020, representing an increase of approximately 19.0% as compared to that of approximately RMB135,931,000 for the year ended 31 December 2019.

Increase in gross profit was mainly due to decrease in unit costs of sales during the year.

The Group's gross profit margin was increased to approximately 12.3% for the year ended 31 December 2020 from approximately 10.4% for the year ended 31 December 2019.

Distribution costs

Distribution costs for the year ended 31 December 2020 decreased by approximately 1.0% to approximately RMB55,665,000 as compared to that of approximately RMB56,222,000 for the year ended 31 December 2019. Such decrease was mainly due to decrease 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 2020 increased approximately by 20.7% to RMB57,267,000 as compared to that of approximately RMB47,440,000 for the year ended 31 December 2019. Such increase was mainly attributable to (i) the legal and professional fee in relation to the acquisition of the pieces of land in Changchun and Hangzhou, the PRC during the year; (ii) the additional administrative expenses incurred as a result of increase in production capacity in Hubei Yusei and Hangzhou Yusei; and (iii) the additional staff costs or allowance incurred for COVID-19.

Finance costs

Finance costs for the year ended 31 December 2020 decreased approximately by 6.3% to RMB13,638,000 as compared to that of approximately RMB14,555,000 for the year ended 31 December 2019.

Profit attributable to owners of the Company

The profit attributable to owners of the Company increased by approximately 49.4% from approximately RMB35,108,000 for the year ended 31 December 2019 to approximately RMB52,449,000 for the year ended 31 December 2020.

Financial resources and liquidity

As at 31 December 2020, the equity amounted to approximately RMB735,022,000 (2019: RMB697,766,000). Current assets amounted to approximately RMB925,309,000 (2019: RMB935,050,000), of which bank balances and cash totaling approximately RMB52,917,000 (2019: Bank balance and cash and pledged bank deposits totaling RMB81,035,000). The Group had non-current assets of approximately RMB677,844,000 (2019: RMB562,461,000) and its current liabilities amounted to approximately RMB861,675,000 (2019: RMB790,967,000), comprising mainly its creditors and accrued charges, and bank and other borrowings. The net asset value per share was RMB1.15 (2019: RMB1.10). The Group expresses its gearing ratio as a percentage of lease liabilities and borrowings over total assets. As at 31 December 2020, the Group had a gearing ratio of 18.4% (2019: 19.1%).

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 2020 (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	19.0	Up to 31 December 2020, the net proceeds of the First Subscriptions of approximately HK\$19.0 million was utilised for construction of factory and purchase of factory machineries including machinery centre and injection moulding machines.
- General working capital	1.9	1.9	Up to 31 December 2020, the net proceeds of the First Subscriptions of approximately HK\$1.9 million was utilised for general working capital.
Total	20.9	20.9	

Subscription of new shares under general mandate (continued)

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 Subscriptions”). 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.

	Planned use of net proceeds of the Second Subscriptions (HK\$ 'million)	Actual use of net proceeds of the Second Subscriptions up to 31 December 2020 (HK\$ 'million)	Description
<u>Second Subscriptions:</u>			
- Construction of a new factory in Changchun, the PRC (note)	30.0	30.0	Up to 31 December 2020, the Group applied the net proceeds of the Second Subscription of HK\$30.0 million to pay for acquisition of a piece of land in Changchun, the PRC, on which a new factory will be built.
- Repayment of bank borrowings of the Group	30.0	30.0	Up to 31 December 2020, the Group repaid its bank borrowings of approximately HK\$30.0 million upon maturity with the net proceeds of the Second Subscription.
Total	60.0	60.0	

Note: As disclosed in the Company’s announcement dated 18 August 2020, the Unutilized Net Proceeds of approximately HK\$30.0 million originally assigned “for construction of a new factory in Tianjin, the PRC” was reallocated to “for construction of a new factory in Changchun, the PRC” so as to meet the Group’s operational needs.

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 2020, the total number of the Group's staff was approximately 2,700 (2019: 2,200). The total staff costs (including directors' remuneration) amounted to approximately RMB212,538,000 (2019: RMB202,847,000) 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 2020, the Group's bank loans are secured by right-of-use assets and property, plant and equipment of the Group with net carrying values of approximately RMB15,048,000 (2019: RMB15,629,000) and RMB102,225,000 (2019: RMB109,400,000), respectively.

As at 31 December 2020, 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 RMB25,948,000 (2019: RMB48,532,000).

As at 31 December 2019, bank deposits amounting to approximately RMB454,000 (2020: nil) 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 2020.

Contingent liabilities

As at 31 December 2020, 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 photocopiers 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.

Meanwhile, the Group continues to strengthen intelligent construction in order to improve the operating efficiency of the enterprise. The Group introduced high-level software talents and self-developed ERP, MES and other information systems, with combination of upgrades and transformation on automation, to achieve digitalization and visualization of processes across product development, production process, inventory warehousing and delivery. It greatly improved production efficiency and ensured quality stability.

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.

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 RMB1.30 cents per share in respect of the year ended 31 December 2020.

Upon approval from the forthcoming annual general meeting to be held on 10 June 2021 (the "AGM"), the final dividends, which are payable to shareholders whose names appear on the register of members of the Company on 21 June 2021, will be paid on or about 30 July 2021.

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 4 June 2021 to 10 June 2021 (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 3 June 2021.

For the purpose of ascertaining shareholders' entitlement to the proposed final dividends, the register of members of the Company will be closed from 16 June 2021 to 21 June 2021, 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 15 June 2021.

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 2020.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the year ended 31 December 2020, 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 2020, 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 2020, 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.

As at 31 December 2020, 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 2021

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.