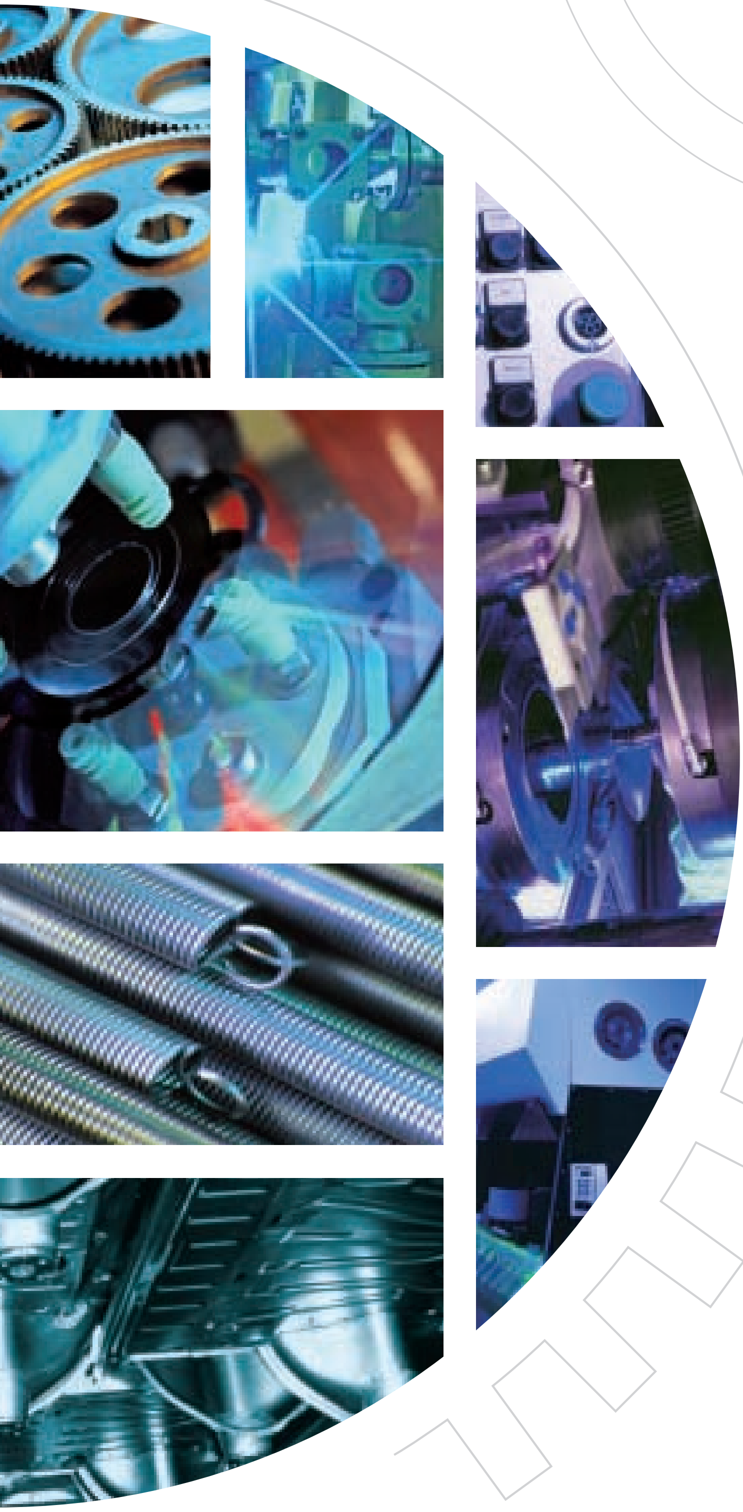
ANNUAL REPORT 2005



YUSEI

YUSEI HOLDINGS LIMITED

友成控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8319

* for identification only

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This report, for which the directors of Yusei Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Yusei Holdings Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

Contents

Registered office
Century Yard
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British West Indies

Head office and principal place of business in the PRC
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Zhejiang
311215
The PRC

Business address in Hong Kong
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Company secretary
Mr. Shum Shing Kei CPA

Qualified accountant
Mr. Shum Shing Kei CPA

Compliance Officer
Mr. Xu Yong

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

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

Authorised representatives
Mr. Xu Yong
Mr. Shum Shing Kei

Principal share registrar and transfer office
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Butterfield House, 68 Fort Street
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Grand Cayman
Cayman Islands

Hong Kong branch share registrar and transfer office
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Stock Code
8319

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The PRC

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20/F., HSBC Tower
101 Yin Cheng Dong Lu
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Shanghai
200120
The PRC

Management Discussion and Analysis

BUSINESS REVIEW

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

The Group's overall turnover for the year ended 31 December 2005 was approximately RMB256,923,000, representing an increase of 56% as compared to that of approximately RMB164,523,000 for the year ended 31 December 2004. The Group's customers are mainly the manufacturers of branded home electrical appliances, office equipment and plastic components with production facilities located in the PRC, including Shanghai Koito Automotive Lamp Company Limited, Canon (Suzhou) Inc., Shanghai Ricoh Facsimile Company Limited, Fuji Xerox of Shanghai Limited, Hangzhou Matsushita Home Appliance Company Limited, Hangzhou Toshiba.

To meet the customers' increasing demand, the Group had expanded its production capacity by constructing the phase II factory of Hangzhou Yusei ("Hangzhou Yusei Phase II factory") and acquiring advanced machineries and equipments. Construction of the Hangzhou Yusei Phase II factory was completed in June 2005 and trial operations have been commenced pending completion of inspection by the relevant authorities for compliance with the relevant requirements for full operation. In addition, the Group leased production premise in Mould City. The increased production capacity is beneficial to the Group's persistent growth in the coming years.

The Company's shares have been listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited with effect from 13 October 2005.

FINANCIAL REVIEW

Turnover

The Group's turnover for the year ended 31 December 2005 increased by 56% to approximately RMB256,923,000 as compared to that of approximately RMB164,523,000 for the year ended 31 December 2004.

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

Gross profit

The Group achieved a gross profit of approximately RMB51,230,000 for the year ended 31 December 2005, representing an increase of 29% as compared to that for the year ended 31 December 2004. The expansion of the Group's scale of operations and the trial run of new production facilities had increased the Group's production overhead costs and lowered the overall gross profits margin. Management believes that such impact on gross profit margin is short-term and will be diluted with the increasing production volume in the near future.

Distribution costs

Distribution costs for the year ended 31 December 2005 increased by approximately 45% to approximately RMB4,864,000 as compared to that of approximately RMB3,350,000 for the year ended 31 December 2004. Such increase was mainly in line with the increase in turnover.

Administrative expenses

Administrative expenses for the year ended 31 December 2005 increased by approximately 128% to approximately RMB30,539,000 as compared to that of approximately RMB13,390,000 for the year ended 31 December 2004. Such increase was attributable to (i) the increase in the number of staff employed as a result of the Group's expansion; (ii) the inclusion of fair value of estimated vesting shares of approximately RMB3,973,000 granted to a director, selected employees and technical consultants, pursuant to the share allotment scheme prior to listing for rewarding staff, in accordance with Hong Kong Financial Reporting Standard 2 and (iii) the inclusion of expensed listing fees of approximately RMB6,657,000 in accordance with Hong Kong Accounting Standard 32, both standards being effective for the financial year commencing from 1 January 2005.

Finance costs

Finance costs for the year ended 31 December 2005 increased by approximately 123% to approximately RMB4,324,000 as compared to that of approximately RMB1,942,000 for the year ended 31 December 2004. Such increase was attributable to the increase in the Group's average bank borrowings as a result of the Group's expansion.

Profit attributable to equity holders of the Company

The profit attributable to equity holders of the Company decreased by approximately 34% from approximately RMB21,227,000 for the year ended 31 December 2004 to approximately RMB14,041,000 for the year ended 31 December 2005, which was mainly attributable to the (i) the inclusion of fair value of estimated vesting shares of approximately RMB3,973,000 granted to a director, selected employees and technical consultants, (ii) the inclusion of expensed listing fees of approximately RMB6,657,000 as explained above and (iii) the increase in PRC income tax the lapse of Hangzhou Yusei's tax holiday in 2005 resulting in the PRC income tax of approximately RMB4,072,000 for the year.

Should such expenses not be included, the profit attributable to equity holders of the Company would be approximately RMB24,671,000, representing a 16% increase from last year.

Financial resources and liquidity

As at 31 December 2005, the equity amounted to approximately RMB128,012,000. Current assets amount to approximately RMB123,809,000, of which approximately RMB21,879,000 were cash and bank deposits. The Group had non-current liabilities of RMB21,443,000 and its current liabilities amounted to approximately RMB134,599,000, comprising mainly its creditors and accrued charges and bank borrowings. The net asset value per share was RMB0.8 based on 160,000,000 shares in issue. The Group expresses its gearing ratio as a percentage of finance leases, borrowings and other payable over total assets. As at 31 December 2005, the Group had a gearing ratio of 28%.

Segment information

All the Group's operations are located and carried out in the PRC, and the sole principal activity of the Group is the manufacturing and trading of moulds and plastic components. Accordingly, no segment information by business and geographical is presented.

Empolyment and remuneration policy

As at 31 December 2005, the total number of the Group's staff was 823. The total staff costs (including directors' remuneration) amounted to approximately RMB24,198,000 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 2005, certain trade debtors, land use rights, and plant and equipment of the Group with an aggregate net book value of approximately RMB5,006,000, RMB4,088,000 and RMB39,160,000 were pledged as securities for bank borrowings.

Foreign currency risk

The Group carries on business in Renminbi, United States dollars and Yen and therefore the Group is exposed to foreign currency risk as the values of these currencies fluctuate in the international market. During the year, the Group had a net foreign exchange gain of approximately RMB4,488,000 which was mainly derived from the year end translation of Japanese Yen denominated borrowings as a result of its depreciation against Renminbi.

Capital commitments

As at 31 December 2005, the Group had a capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment amounting to approximately RMB1,888,000.

OUTLOOK

There has been an increase in the Group's turnover and gross profits for the year ended 31 December 2005 as compared with last year. 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 its overall competitiveness.

As regards the quality of the products, the Group had adopted the ERP system to facilitate the production flow and monitor the product quality. In addition, upon completion of the Phase II factory and the Mould City, the Group's production capacity and scale of the Company's products will be further raised to cope with the increasing demands for the Group's products. In response to 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 improve the sales network to capture opportunities in order to increase market share.

COMPARISON OF THE BUSINESS OBJECTIVES WITH THE ACTUAL BUSINESS PROGRESS

The Shares of the Company were listed on the GEM Board of the Stock Exchange on 13 October 2005. The business objectives as listed in the prospectus of the Company dated 30 September 2005 (the "Prospectus") were prepared to a latest practicable date at 26 September 2005.

Business objective	Implementation	Actual business progress
1. Capital expenditure (including capital investment in production facilities and capital investment in equipment)	– Hangzhou Yusei Phase II factory premises commence production	– Hangzhou Yusei phase II factory premises commence trial operation in September 2005
	– HYMTR factory premises commence production	– HYMTR factory premises commence trial operation in September 2005
	– Relocation of Zhejiang Yusei mould department to Mould City	– Zhejiang Yusei mould department was relocated to Mould City and commence trial operation in September 2005
	– Install new production machineries including 1 sets of CNC electrolysis machineries and 1 set of horizontal machining centers	– new production machineries including 1 sets of CNC electrolysis machineries and 1 set of horizontal machining centers were installed and are being operated
2. Enhance moulding business to become a one-stop service provider	– Conduct training programs for the research and development division	– Training courses were conducted for research and development division in respect of technical softwares including UG software and other software.
	– Introduction of management information system for mould fabrication for more advanced management	– management information system for mould fabrication designed by Createwell Corporation and CIM Co. Ltd were installed and are being operated
	– Provision of training in Japan for 1-2 high-quality technicians to enhance their competences in product development	– 4 high-quality technicians went to Japan for training at the end of 2005
	– Assignment of technicians to customers' office to assist in their product development and understand the customers' business need	– Product development staff were assigned to customers for understanding the development of the new automobile headlights

Business objective	Implementation	Actual business progress
3. Develop sales channel	– set up sales office in Zhejiang province	– the Group has achieved considerable growth in sales volume and sales amounts with existing sales channel and therefore, did not set up new sales office in Zhejiang province; in addition, staff were assigned to certain customers' office for product development and problem solving
	– participate in trade exhibition	– the Group has achieved considerable growth in sales volume and sales amounts with existing sales channel and therefore, did not participate in trade exhibitions during the year

USE OF PROCEEDS

The proceeds from the issue of new shares pursuant to a placing of the Company in October 2005 after deduction of related expense, amount to approximately HK$33,318,000.

As at 31 December 2005, the cost of implementation of business objectives of the Group the compared as follows:

	Actual *HK$'000*	Estimated *HK$'000*
Capital expenditure	5,000	5,250
Enhance moulding business to become a one-stop service provider	575	575
Develop sales channel	–	75
	5,575	5,900

The directors present their report and the audited financial statements of the Company for the period from 4 April 2005 (date of incorporation) to 31 December 2005 and the Group for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDENDS

The profit for the year ended 31 December 2005 and the state of affairs of the Group at that date are set out in the financial statements on pages 24 to 58.

The directors recommend the payment of a final dividend of RMB0.037 per share in respect of the year.

SUMMARY FINANCIAL INFORMATION

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

RESULTS

	2005 *RMB'000*	2004 *RMB'000*	2003 *RMB'000* (note)
Revenue	256,923	164,523	125,652
Cost of sales	(205,693)	(124,816)	(96,106)
Gross profit	51,230	39,707	29,546
Other income	6,610	1,441	638
Distribution costs	(4,864)	(3,350)	(2,364)
Administrative expenses	(30,539)	(13,390)	(10,319)
Finance costs	(4,324)	(1,942)	(1,724)
Other expenses	–	(298)	(2,932)
Profit before taxation	18,113	22,168	12,845
Income tax expense	(4,072)	(941)	(613)
Profit for the year	14,041	21,227	12,232
ASSETS AND LIABILITIES			
Total assets	284,054	204,975	138,406
Total liabilities	(156,042)	(131,186)	(92,453)
	128,012	73,789	45,953

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

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 27 to the financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in the consolidated statement of changes in equity.

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

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 91% of the total sales for the year and sales to the largest customer included therein amounted to 33%. Purchases from the Group's five largest suppliers accounted for 47% of the total purchases for the year and purchases from the largest suppliers included therein amounted to 18%.

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

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr. Keisuke Murakoshi	*(appointed on 21 April 2005)*
Mr. Xu Yong	*(appointed on 21 April 2005)*

Non-executive directors:

Mr. Katsutoshi Masuda	*(appointed on 21 April 2005)*
Mr. Akio Suzuki	*(appointed on 2 June 2005)*
Mr. Toshimitsu Masuda	*(appointed on 2 June 2005)*
Mr. Toshinobu Ito	*(appointed on 2 June 2005)*
Mr. Lo Ka Wai*	*(appointed on 2 September 2005)*
Mr. Fan Xiaoping*	*(appointed on 2 September 2005)*
Mr. Hisaki Takabayashi*	*(appointed on 2 September 2005)*

* *Independent non-executive directors*

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

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

DIRECTORS' AND SENIOR MANAGEMENT's BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 20 to 21 of the annual report.

DIRECTORS' SERVICE CONTRACTS

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

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

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

DIRECTORS' REMUNERATION

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

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in notes 22, 23, 25, 27, 29 and 36 to the financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

CONTRACTS BETWEEN THE GROUP AND A CONTROLLING SHAREHOLDER

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

1. **Agency Agreement**

   On 19 September 2005, Yusei Japan and the Company entered into the Agency Agreement. Pursuant to the Agency Agreement, Yusei Japan has agreed to appoint the Company and the Company has agreed to act as the sole and exclusive agent of Yusei Japan to sell, distribute, supply and/or provide the glass lens and reflector (the "Exempted Products") and any products which are not within the Group's Product Portfolio (the ''Special Products'') to customers in the Group's Exclusive Markets subject to the terms and conditions of the Agency Agreement.

2. **Mould supply agreement between the Company and Yusei Japan**

   On 19 September 2005, a supply agreement (in Chinese) (''YJ Supply Agreement'') was entered into between the Company and Yusei Japan pursuant to which Yusei Japan agreed, subject to the terms therein contained, to continue the supply of plastic injection moulds and ancillary fabrication parts to the Company and/or its subsidiaries at their request. The YJ Supply Agreement commenced on 19 September 2005 with a fixed term of 3 years. The Company shall have the right to terminate the YJ Supply Agreement by giving to Yusei Japan not less than three months' prior notice in writing.

3. **Mould sales agreement between the Company and Yusei Japan**

   On 19 September 2005, a mould sales agreement (in Chinese) (''YJ Sales Agreement'') was entered into between the Company and Yusei Japan pursuant to which the Company and Yusei Japan agreed with each other that, subject to the terms therein contained, the Company and/or its subsidiaries will sell to Yusei Japan plastic injection moulds (including the design thereof) for the Japan market.

   The YJ Sales Agreement commenced on 19 September 2005 with a fixed term of 3 years.

4. **Technical service agreement**

   On 19 September 2005, a technical service agreement (in Chinese) (''TS Agreement'') was entered into between Zhejiang Yusei, Hangzhou Yusei and Yusei Japan pursuant to which Yusei Japan agreed to provide to each of Zhejiang Yusei and Hangzhou Yusei technical assistance service in connection with the process of manufacturing plastic injection moulds and the production of the end plastic products. The technical service and assistance provided by Yusei Japan comprises:

   1. Long-term technical service: Yusei Japan shall second 3 technical consultants to Zhejiang Yusei and Hangzhou Yusei for providing technical advice and assistance to Zhejiang Yusei and Hangzhou Yusei. The technical advice and assistance will be on mould manufacturing and production of plastic products conducted by Zhejiang Yusei and Hangzhou Yusei respectively. Each of the technicians seconded to Zhejiang Yusei and Hangzhou Yusei under this long-term service arrangement shall work in aggregate not less than 300 days per year in Zhejiang Yusei or Hangzhou Yusei (as the case may be). Of the 3 technicians, 2 of them will be stationed in Zhejiang Yusei as management consultant and technical consultant for mould manufacturing respectively while the other one will be stationed in Hangzhou Yusei as technical consultant for production.

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

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

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

The TS Agreement commenced retrospectively from 1 April 2005 and shall expire on 31 December 2007. Each of Zhejiang Yusei and Hangzhou Yusei shall have the right to terminate the TS Agreement by giving to Yusei Japan not less than 3 months' prior notice in writing.

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

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

		Capacity			Number of shares		
Name of Company	Name of Director	Personal Interests	Family Interests	Corporate Interests	Long Position	Short Position	Approximate Percentage of interests
Company	Mr. Katsutoshi Masuda ("Mr. Masuda") (Note 1)	–	–	105,600,000 shares	105,600,000 shares	–	66%
Company	Toshimitsu Masuda (Note 2)	–	–	105,600,000 shares	105,600,000 shares	–	66%
Company	Xu Yong	9,600,000 shares	–	–	9,600,000 shares	–	6%
Yusei Machinery Corporation ("Yusei Japan")	Mr. Masuda (Note 3)	21,960 shares	2,100 shares	25,760 shares	49,820 shares	–	71.2%
Yusei Japan	Toshimitsu Masuda (Note 4)	1,700 shares	–	25,760 shares	27,460 shares	–	39.2%
Yusei Japan	Keisuke Murakoshi	6,370 shares	–	–	–	–	9.1%
Yusei Japan	Akio Suzuki	12,110 shares	–	–	–	–	17.3%

Notes:

1. Mr. Masuda is deemed to be interested in 71.2% of the issued share capital in Yusei Japan pursuant to the SFO. Yusei Japan is interested in 66% in the issued share capital of the Company and that Yusei Japan or its directors are accustomed or obliged to act in accordance with the directions or instructions of Mr.Masuda. By virtue of SFO, Mr. Masuda is deemed to be interested in 105,600,000 Shares held by Yusei Japan.

2. Mr. Toshimitsu Masuda, (son of Mr. Masuda) holds 50% of the issued share capital of Conpri. Conpri is interested in 36.8% in the issued share capital of Yusei Japan which in turn is interested in 66% in the issued share capital of the Company. By virtue of SFO, Mr. Toshimitsu Masuda is deemed to be interested in 105,600,000 Shares through his shareholding in Conpri.

3. Mr. Masuda holds 30% of the issued share capital of Conpri. Conpri or its directors are accustomed or obliged to act in accordance with the directions or instructions of Mr. Masuda. By virtue of SFO, Mr. Masuda is deemed to be interested in 25,760 shares in Yusei Japan held by Conpri.

4. Mr. Toshimitsu Masuda, (son of Mr. Masuda) holds 50% of the issued share capital of Conpri. Conpri is interested in 36.8% of the issued share capital of Yusei Japan. By virtue of SFO, Mr. Toshimitsu Masuda is deemed to be interested in 25,760 shares in Yusei Japan held by Conpri.

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

The Shares of the Company were listed on GEM of the Stock Exchange on 13 October 2005. So far as the Directors are aware, the following persons (other than the Directors or chief executive of the Company) had an interest and/or a short position in the shares or underlying shares in respect of equity derivatives of the Company that would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO (including interests and/or short positions which they are taken or deemed to have under such provisions of the SFO), or be recorded in the register of the Company or who are directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying right to vote in all circumstances at general meetings of any other member of the Group are as follows:

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

Notes:

1. Conpri is interested in 36.8% in the issued share capital of Yusei Japan. By virtue of SFO, Conpri is deemed to be interested in 105,600,000 shares held by Yusei Japan.

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

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

None of the Directors or their respective associates was granted by the Company or its subsidiary any right to acquire shares or debentures of the Company or any other body corporate, or had exercised any such right as at 31 December 2005.

SHARE OPTION SCHEME

The Company has adopted a share option scheme. A summary of the principle terms and conditions of the share option scheme are set out in the note 30 to the financial statements. Up to 31 December 2005, no option has been granted pursuant to the share option scheme.

CONNECTED TRANSACTIONS

During the year, the Group had the connected transactions, details of which are disclosed in note 36 to the financial statements.

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

SUFFICIENCY OF PUBLIC FLOAT

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

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the year ended 31 December 2005, the Company had adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company also had made specific enquiry of all directors and the Company was not aware of any non-compliance with he required standard of dealings and its code of conduct regarding securities transactions by directors.

AUDIT COMMITTEE

The Company has established an audit committee comprising of the three independent non-executive directors, namely Mr. Hisaki Takabayashi, Mr. Fan Xiaoping and Mr. Lo Ka Wai, with written terms of reference in compliance with Rules 5.28 to 5.30 of the GEM Listing Rules. The primary duties of the audit committee are (i) to review, in draft form, the Company's annual report and accounts, half-yearly report and quarterly reports and 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 2005, which was of an opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2005, neither the Company nor any of its subsidiary had purchased, sold or redeemed any of the Company's listed shares.

DIRECTORS' INTEREST IN A COMPLETING BUSINESS

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

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

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

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

(1) not either on his/her/its own account or for any other person, firm or company, and (if applicable) shall procure that its subsidiaries (other than the Company and any member of the Group) or companies controlled by each of the Covenantors shall not either on its own behalf or as agent for any person, firm or company and either directly or indirectly (whether as a shareholder, partner, consultant or otherwise and whether for profit, reward or otherwise) at any time solicit, interfere with or endeavour to entice away from any member of the Group any person, firm, company or organisation who to its knowledge is from time to time or has at any time been a customer or supplier or a business partner of any member of the Group;

(2) not either alone or jointly with any other person, firm or company, carry on (including but not limited to making investments, setting up distribution channels and/or liaison offices and creating business alliances), participate, be engaged, concerned or interested in or in any way assist in or provide support (whether financial, technical or otherwise) to any business similar to or which competes (either directly or indirectly) or is likely to compete with the business of the design, development and fabrication of precision plastic injection moulds or the manufacturing of plastic components in the Group's Exclusive Markets or the provision of certain assembling and further processing of plastic components for customers (the ''Business'') from time to time carried out by any member of the Group (provision of assistance and support to the Group excepted) including the entering into of any contracts, agreements or other arrangements in relation to any of the above;

(3) not directly or indirectly sell, distribute, supply or otherwise provide products that are within the Group's Product Portfolio to any purchaser or potential purchaser of any products within the Group's Product Portfolio in the Group's Exclusive Markets (the ''Customers'') and upon receipt of any enquiry from Customers for products which are within the Group's Product Portfolio, to refer to the Company or any member of the Group all such business opportunities received by the Covenantors and provide sufficient information to enable the Company or any member of Group to reach an informed view and assessment on such business opportunities;

(4) not directly or indirectly sell, distribute, supply or otherwise provide any products that are within the Group's Product Portfolio where the relevant Covenantor(s) know(s), or is reasonably regarded as should have known, that such products are destined to be re-sold, re-distributed or re-supplied for the purpose of commercial exploitation in the Group's Exclusive Markets;

(5) upon receipt of any order or enquiry from customers outside the Group's Exclusive Markets for products which are within the Group's Product Portfolio and where the relevant Covenantor(s) know(s), or is reasonably regarded as should have known, that such products are destined to be re-sold, re-distributed or re-supplied for the purpose of commercial exploitation in the Group's Exclusive Markets, the relevant Covenantor shall inform the Group in writing of such order or enquiry and refer such customer to contract directly with the Group for the order of the relevant product;

(6) not do or say anything which may be harmful to the reputation of any member of the Group or which may lead any person to reduce their level of business with any member of the Group or seek to improve their terms of trade with any member of the Group; and

(7) not solicit or entice or endeavour to solicit or entice any of the employees of or consultants to the Group to terminate their employment or appointment with any member of the Group.

Save as disclosed above none of the directors of the Company had an interest in a business which competes or may compete with the business of the Group.

COMPLIANCE ADVISOR'S INTEREST

Pursuant to the compliance advisor's agreement dated 30 September 2005 entered into between the Company and Quam Capital Limited ("Quam Capital"), Quam Capital has been appointed as the compliance advisor of the Company for the period commencing from the Listing Date and ending on the date on which the Company complies with Rules 18.03 of the GEM Listing Rules in respect of the Company's financial results for the second full financial year commencing after the Listing Date in accordance with the GEM Listing Rules subject to the terms and conditions of the compliance advisor's agreement.

As notified by Quam Capital, none of Quam Capital, its directors, employees or associates had any interests in the securities of the Company or any member of the Group or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group as at 31 December 2005.

AUDITORS

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

ON BEHALF OF THE BOARD

Katsutoshi Masuda
Chairman

PRC
29 March 2006

The Board has adopted the Corporate Governance Code, ensuring greater transparency and quality of disclosure as well as more effective risk control.

THE BOARD

The Board comprises nine directors, including two Executive Directors, four Non-executive Directors and the remaining three Independent Non-Executive Directors. ndependent Non-Executive Directors ensure the Board accounts for the interests of all shareholders and that all issues are considered in an objective manner. The Company has received confirmation from each Independent Non-Executive Director about his independence under the Rules Governing the Listing of Securities on Growth Enterprise Market of the Stock Exchange of Hong Kong Limited and continues to consider each of them to be independent.

The Board conducts four regular Board meetings a year and additional meetings are held as and when required to discuss significant events and important issues. The Group ensures that appropriate and sufficient information is provided to Bard member in a timely manner to keep them abreast of the Group's latest developments thereby assisting them in discharging their duties.

AUDIT COMMITTEE

The Audit Committee was established to assist the Board in safeguarding the Company's assets by providing an independent review of the effectiveness of the financial reporting process and the internal control and risk management systems of the Company. The committee also oversees the audit process and performs other duties as assigned by the Board. All the members of our Audit Committee are Independent Non-Executive Directors. The committee met once per quarter at least.

REMUNERATION COMMITTEE

The responsibility of the Remuneration Committee is to formulate transparent procedures for developing remuneration policies and packages for key executives. The Remuneration Committee comprises three Independent Non-Executive Directors. Terms of reference of the Remuneration Committee have been adopted by the Board.

CODE OF BEST PRACTICE

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the year ended 31 December 2005, in compliance with the Code of Best Practice as set out in Appendix 15 to the Listing Rules that was in force prior to 1 January 2005 and remains applicable for the financial year ended 31 December 2005.

Biographical Details of Directors and Senior Management

DIRECTORS AND SENIOR MANAGEMENT

Directors

Mr. Katsutoshi MASUDA (增田勝年先生), aged 61, is the chairman and a non-executive Director of the Company. Mr. Masuda was appointed as the chairman of the Company on 2 June 2005 and as a Director on 21 April 2005. Mr. Masuda has over 35 years of experience in mould fabrication and manufacturing. Mr. Masuda founded Yusei Machinery Corporation ("Yusei Japan"), the Company's ultimate holding compny in September 1969 and is currently also a director and shareholder of Yusei Japan and Conpri. Mr. Masuda is one of the founders of the Group in April 1992 and is responsible for the major strategy of the Group.

Mr. Keisuke MURAKOSHI (村越敵介先生), aged 64, is an executive Director of the company and its subsidiary, Zhejing Yusei. Mr. Murakoshi was appointed as a Director of the Company on 21 April 2005. Mr. Murakoshi joined the Group in April 1992 as a director. In August 1993, Mr. Murakoshi was appointed as the deputy general manager of Zhejiang Yusei and was promoted to the position of general manager in March 1995. Mr. Murakoshi has over 30 years of experience in mould fabrication and plastic components manufacturing. At present, Mr. Murakoshi is responsible for the overall management and business strategy of the Group and is not involved in the day-to-day operations and management of Yusei Japan. Mr. Murakoshi is the brother-in-law of Mr. Katsutoshi Masuda and a shareholder of Yusei Japan.

Mr. XU Yong (許勇先生), aged 43, is an executive Director and the deputy manager of Zhejiang Yusei. Mr. Xu was appointed as a Director of the Company on 21 April 2005. Mr. Xu has over 10 years of experience in mould fabrication. Mr. Xu completed an industrial business administration course in 浙江廣播電視大學(Zhejiang Broadcasting & Television University) in August 1986 and completed a Japanese language course in 杭州大學外語學院(Department of Foreign Language of University of Hangzhou) and 浙江省科學技術培訓中心(Science and Technology Training Centre of Zhejiang Province) in February 1993 and November 1993 respectively. In November 1994, Mr. Xu completed a production management and mechanical engineering internship program in Toneseiki Company Limited (日本利根精機株式會社). Mr. Xu joined Zhejiang Yusei as its deputy general manager in June 1995. Currently, Mr. Xu is responsible for the general management of the Group and the supervision of the overall production operation.

Mr. Akio SUZUKI (鈴木秋男先生), aged 59, was appointed a non-executive Director on 2 June 2005. Mr. Suzuki joined the Group in April 1992. Mr. Suzuki has over 30 years of experience in mould fabrication and joined Yusei Japan in September 1969 when he was employed as a mould production supervisor. Mr. Suzuki is also a shareholder and director of Yusei Japan.

Mr. Toshimitsu MASUDA (增田敏光先生), aged 37, son of Mr. Katsutoshi Masuda, was appointed as a non-executive Director on 2 June 2005. Mr. Toshimitsu Masuda graduated from the Industrial University in Japan in production mechanical engineering studies in March 1991. Mr. Toshimitsu Masuda joined Yusei Japan in 1997 as a director and is a shareholder of Yusei Japan. He is also a director and shareholder of Conpri. Mr. Toshimitsu Masuda joined the Group in May 1998.

Mr. Toshinobu ITO (伊藤利信先生), aged 55, was appointed as a non-executive Director on 2 June 2005. Mr. Ito is currently the Business Bureau Chief of 日本靜岡縣－浙江省經濟交流促進機構靜岡縣委員會(Shizuoka Prefecture-Zhejiang Economic Exchange Committee), the Managing Executive and Business Bureau Chief of 日本靜岡日中友好協進會(Japan and China Friendship Council of Shizuoka Prefecture) and the Managing Executive and Business Bureau Chief of 日本靜岡縣日中貿易協同組合(Shizuoka Prefecture Japan-China Trading Cooperation Company). Mr. Ito joined the Group in April 1992 as a director of Zhejiang Yusei.

Independent non-executive Director

Mr. FAN Xiaoping (范曉屏先生), aged 49, was appointed as an independent non-executive Director on 2 September 2005. Mr. Fan graduated from 浙江大學(University of Zhejiang) with a bachelor degree in physics in July 1982 and completed a master program in administration science and engineering in July 1988. Mr. Fan is currently a professor in the business administration department in the University of Zhejiang.

Mr. LO Ka Wai (羅嘉偉先生), aged 36, was appointed as an independent non-executive Director on 2 September 2005. Mr. Lo graduated from the University of Wollongong, Australia in 1992 with a bachelor degree in commerce (with merit). Mr. Lo is a qualified accountant and is also a member of the Hong Kong Institute of Certified Public Accountants and CPA Australia. Mr. Lo is the secretary of Joint Victory Holdings Limited, a private company, and is an independent non-executive director of CIG-WH International (Holdings) Limited, a company listed on the Main Board of the Stock Exchange.

Mr. Hisaki TAKABAYASHI (高林久記先生), aged 45, was appointed as an independent non-executive Director on 2 September 2005. Mr. Takabayashi graduated from 大東文化大學(Daitobonka University) with a bachelor degree in Chinese in March 1983. Mr. Takabayashi was the deputy representative of the Shanghai Office of 日本靜岡縣國際經濟振興會(Shizuoka International Economic Organisation) in 2002. At present, Mr. Takabayashi is the Business Bureau Supervisor of 日本靜岡縣日中友好協進會(Japan and China Friendship Council of Shizuoka Prefecture).

Senior management

Mr. CHEN Gang (陳剛先生), aged 38, joined the Group in September 1992 and has worked in various positions in the Group including technician, mould fabrication technical division head and mould fabrication department head. In January 2003, Mr. Chen was appointed as the department head of the operation technology department and is responsible for the overall operation and technology enhancement for mould fabrication.

Mr. QIU Peng Yong (邱鵬湧先生), aged 37, joined the mould fabrication department of the Group in September 1992 as the mould fabrication division head and was promoted to the department head in January 2003. Mr. Qiu is responsible for evaluation and approving mould design, as well as, quality assurance and compliance of the Group.

Mr. SHUM Shing Kei (沈成基先生), aged 34, is the qualified accountant and company secretary of the Company. He obtained a master degree in financial management from the University of London, the United Kingdom in December 1998. He is also an associate member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group in April 2005, he had over 11 years of experience in auditing and accounting and had worked for an international accounting firm and a listed company in Hong Kong. He is currently the qualified accountant and company secretary of the Company on a full-time basis.

Technician consultant

Mr. Fukuichi MURAKOSHI (村越福一先生), aged 59, has been the technical consultant to the plastic components department of the Group since February 1997.

Mr. Katsuji MATSUSHITA (松下勝治先生), aged 61, has been a consultant to the business administration department of the Group since June 2003.

Mr. Yoshio TANAKA (田中義雄先生), aged 56, has been the technical consultant to the mould fabrication department since April 1995. Apart from supervision of the operation and technical enhancement for the mould fabrication department, Mr. Tanaka also serves as the technical consultant to the metallic plating and painting department since March 2005.

Notice of Annual General Meeting

NOTICE IS HEREBY given that the Annual General Meeting of Yusei Holdings Limited (the "Company") will be held at New Century Grand Hotel, Hangzhou, No. 818, Middle Shi Xin Road, Xiaoshan, Hangzhou, China on Friday, 21 April 2006 at 4:00 p.m. for the purpose of considering and, if thought fit, inter alia, passing the following resolution as an ordinary/special resolution of the Company:

1. To receive and consider the audited consolidated financial Statements and the reports of the Directors and Auditors for the year ended 31 December 2005.

2. To re-elect retiring Directors pursuant to the Company's Memorandum and Articles of Association and to authorise the board of directors to fix their remuneration.

3. To re-appoint the auditors of the Company and authorise the Directors to fix their remuneration.

4. To approve the payment of final dividend.

On behalf of the Board
Katsutoshi Masuda
Chairman

PRC, 30 March 2006

Notes:

i. Any member of the Company entitled to attend and vote at a meeting of the Company or a meeting of the holder of any class of shares in the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him. On a poll, votes may be given either personally or by proxy. A proxy need not be a member of the Company. A member may appoint more than one proxy to attend on the same occasion.

ii. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal, or under the hand of an officer or attorney duly authorised.

iii. To be valid, a form of proxy together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority shall be deposited to the Company's Branch Registrars in Hong Kong, Hong Kong Registrars Limited of 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong and in any event not less than forty-eight hours before the time appointed for the holding of the meeting or adjourned meeting (as the case may be).

iv. Delivery of an instrument appointing a proxy shall not preclude a member form attending and voting in person at the meeting and in such event, the instrument appointing a proxy shall be deemed to be revoked.

v. The biographical details of Mr. Akio Suzuki, Mr. Toshimitsu Masuda and Mr. Toshinobu Ito, the Directors who offer themselves for re-election are provided in the section headed "Biographical Details in respect of Directors and Senior Management " in the Annual Report.

vi. The translation into Chinese language of this notice is for reference only. In case of any inconsistency, the English version shall prevail.

vii. Attendants should bear their own travelling, accommodation and other expenses.

Deloitte.
德勤

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

We have audited the consolidated financial statements of Yusei Holdings Limited and its subsidiaries (the "Group") from pages 24 to 58 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for the preparation of consolidated financial statements which give a true and fair view. In preparing consolidated financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the consolidated financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
29 March 2006

Consolidated Income Statement

For the year ended 31 December 2005

	NOTES	2005 RMB'000	2004 RMB'000
Revenue	5	**256,923**	164,523
Cost of sales		**(205,693)**	(124,816)
Gross profit		**51,230**	39,707
Other income	6	**6,610**	1,441
Distribution costs		**(4,864)**	(3,350)
Administrative expenses		**(30,539)**	(13,390)
Finance costs	7	**(4,324)**	(1,942)
Other expenses		**–**	(298)
Profit before taxation		**18,113**	22,168
Income tax expense	8	**(4,072)**	(941)
Profit for the year	9	**14,041**	21,227
Dividends (paid)	11	**5,000**	3,730
		RMB	RMB
Earnings per share	12		
– Basic		**0.12**	0.19

Consolidated Balance Sheet

At 31 December 2005

	NOTES	2005 RMB'000	2004 RMB'000
Non-current assets			
Property, plant and equipment	13	**154,736**	121,129
Intangible asset	14	**1,633**	1,285
Land use rights	15	**3,876**	4,088
		160,245	126,502
Current assets			
Inventories	16	**41,245**	25,230
Debtors, deposits and prepayments	17	**59,934**	40,681
Amount due from ultimate holding company	18	**–**	22
Amount due from a director	19	**751**	1,597
Bank balances, deposits and cash	20	**21,879**	10,943
		123,809	78,473
Current liabilities			
Creditors and accrued charges	21	**72,792**	41,752
Amounts due to related parties	22	**–**	17,933
Amount due to ultimate holding company	23	**1,745**	4,967
Tax liabilities		**1,806**	390
Obligations under finance leases	24	**4,412**	2,345
Bank borrowings	25	**52,806**	35,900
Other payables	26	**1,038**	3,850
		134,599	107,137
Net current liabilities		**(10,790)**	(28,664)
		149,455	97,838
Capital and reserves			
Share capital	27	**1,524**	–
Paid-in capital	28	**–**	50,032
Reserves	31	**126,488**	23,757
		128,012	73,789
Non-current liabilities			
Obligations under finance leases	24	**15,743**	9,910
Bank borrowings	25	**5,700**	12,300
Other payables	26	**–**	1,839
		21,443	24,049
		149,455	97,838

The financial statements on pages 24 to 58 were approved and authorised for issue by the Board of Directors on 29 March 2006 and are signed on its behalf by:

Katsutoshi Masuda
DIRECTOR

Keisuke Murakoshi
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2005

	Share capital RMB'000 *(note 27)*	Share premium RMB'000	Paid-in capital RMB'000 *(note 28)*	Special reserve RMB'000 *(note 31)*	Reserve for shares issued with vesting conditions RMB'000 *(note 31)*	Translation reserve RMB'000	Capital reserve RMB'000 *(note 31)*	Statutory surplus reserve RMB'000 *(note 31)*	Retained profits RMB'000	Total RMB'000
At 1 January 2004	–	–	33,893	–	–	–	36	1,101	10,923	45,953
Profit for the year and total recognised income for the year	–	–	–	–	–	–	–	–	21,227	21,227
Increase in capital	–	–	16,139	–	–	–	–	–	(5,800)	10,339
Dividends paid before listings of the Company's shares	–	–	–	–	–	–	–	–	(3,730)	(3,730)
Transfer	–	–	–	–	–	–	–	750	(750)	–
At 31 December 2004	–	–	50,032	–	–	–	36	1,851	21,870	73,789
Exchange differences arising on conversion of foreign operatons and net expenses directly recognised in equity	–	–	–	–	–	(99)	–	–	–	(99)
Profit for the year	–	–	–	–	–	–	–	–	14,041	14,041
Total recognised income and expense for the year	–	–	–	–	–	(99)	–	–	14,041	13,942
Issue of new shares *(note 27)*										
– on acquisition of subsidiaries	369	–	–	(369)	–	–	–	–	–	–
– on placements of new shares	364	45,255	–	–	–	–	–	–	–	45,619
– on capitalisation of contributed surplus	791	(791)	–	–	–	–	–	–	–	–
– shares issued with vesting conditions	150	(150)	–	–	–	–	–	–	–	–
Unvested shares issued with vesting conditions	(150)	150	–	–	–	–	–	–	–	–
Share issue expenses	–	(4,311)	–	–	–	–	–	–	–	(4,311)
Transfer on restructuring	–	–	(50,032)	50,032	–	–	–	–	–	–
Fair value of estimated shares issued with vesting conditions charged to income statement	–	–	–	–	3,973	–	–	–	–	3,973
Dividend paid before listing of the Company's shares	–	–	–	–	–	–	–	–	(5,000)	(5,000)
Transfer	–	–	–	–	–	–	–	2,404	(2,404)	–
At 31 December 2005	1,524	40,153	–	49,663	3,973	(99)	36	4,255	28,507	128,012

Consolidated Cash Flow Statement

For the year ended 31 December 2005

	2005 RMB'000	2004 RMB'000
Operating activities		
Profit before taxation	18,113	22,168
Adjustments for:		
Interest income	(79)	(56)
Depreciation and amortisation	12,364	10,382
Doubtful debts written back	–	(83)
(Gain) loss on disposal of property, plant and equipment	(2)	177
Listing expenses written off	6,657	–
Recognition of the fair value of vested shares issued with vesting conditions	3,973	–
Allowance for inventories	180	–
Exchange difference	(2,556)	–
Interest paid	4,324	1,942
Operating cash flows before movements in working capital	42,974	34,530
Increase in inventories	(16,195)	(13,232)
Increase in debtors, deposits and prepayments	(19,253)	(8,933)
Decrease (increase) in amount due from ultimate holding company	22	(1)
Decrease in amount due from a director	846	69
Increase in creditors and accrued charges	31,040	8,597
Decrease in amount due to ultimate holding company	(3,222)	(32)
Cash generated from operations	36,212	20,998
Interest paid	(4,324)	(1,942)
Income tax paid	(2,656)	(486)
Net cash from operating activities	29,232	18,570
Investing activities		
Purchase of property, plant and equipment	(37,882)	(40,582)
Proceeds on disposal of property, plant and equipment	704	1,030
Interest received	79	56
Acquisition of intangible assets	(786)	(800)
Decrease in pledged bank deposit	–	900
Net cash used in investing activities	(37,885)	(39,396)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2005

	2005 RMB'000	2004 RMB'000
Financing activities		
Issue of shares	45,619	–
Listing expenses paid	(10,968)	–
Capital injected from shareholders	–	10,339
(Decrease) increase in amounts due to related parties	(17,933)	5,033
Decrease in amount due to ultimate holding company	–	(4,644)
New bank borrowings raised	85,053	67,500
Repayment of obligations under finance leases	(2,435)	(112)
Repayment of bank borrowings	(74,747)	(51,210)
Dividend paid to ultimate holding company before listing of the Company's shares	(5,000)	(3,730)
Net cash from financing activities	19,589	23,176
Increase in cash and cash equivalents	10,936	2,350
Cash and cash equivalents at beginning of the year	10,943	8,593
Cash and cash equivalents at end of the year, representing		
Bank balances, deposits and cash	21,879	10,943

1. GROUP RESTRUCTURING AND BASIS OF PRESENTATION OF FINANCIAL INFORMATION

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

Under a group reorganisation scheme to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Stock Exchange, the Company became the holding company of the Group on 6 June 2005. Details of the reorganisation were set out in the prospectus issued by the Company, dated 30 September 2005.

The principal step of the reorganisation was that the shares of the Company were issued and allotted to Yusei Machinery Corporation, the ultimate holding company of the Group, in exchange for the whole amount of the paid-in capital in 浙江友成塑料模具有限公司Zhejiang Yusei Plastics & Mould Co., Ltd. ("Zhejiang Yusei"), 杭州友成機工有限公司Hangzhou Yusei Machinery Co., Ltd. ("Hangzhou Yusei") and 杭州友成模具技術研究有限公司Hangzhou Yusei Mould Technology Research Co., Ltd. ("Hangzhou Yusei Moulding"). The English names for these subsidiaries are for identification purposes only.

The Group resulting from the above mentioned reorganisation is regarded as a continuing entity. Accordingly, the financial statements of the Group have been prepared in accordance with merger accounting in respect of business combination under common control pursuant to Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") as if the current group structure had been in existence throughout the two years ended 31 December 2005.

The principal activities of the Group are moulding fabrication, manufacturing and trading of plastic components.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not early applied the following Hong Kong Financial Reporting Standards ("HKFRS(s)"), Hong Kong Accounting Standards ("HKAS(s)") and Interpretation (collectively the "new HKFRSs") that have been issued by the Hong Kong Institute of Certified Public Accountants but are not yet effective in the financial statements for the year ended 31 December 2005.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures[2]
HKAS 21 (Amendment)	Net Investment in a Foreign Operation[2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions[2]
HKAS 39 (Amendment)	The Fair Value Option[2]
HKAS 39 and HKFRS 4 (Amendments)	Financial Guarantee Contracts[2]
HKFRS 6	Exploration for and Evaluation of Mineral Resources[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC)-Int 4	Determining whether an Arrangement Contains a Lease[2]
HK(IFRIC)-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds[2]
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment[3]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

1 Effective for annual periods beginning on of after 1 January 2007
2 Effective for annual periods beginning on of after 1 January 2006
3 Effective for annual periods beginning on of after 1 December 2005
4 Effective for annual periods beginning on of after 1 March 2006

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

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

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less accumulated depreciation and any identified impairment losses.

Construction in progress represents property, plant and equipment under construction and is stated at cost less any identified impairment loss. Completed items are transferred from construction in progress to proper categories of property, plant and equipment when they are ready for their intended use.

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

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

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

Finance leases

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Finance leases *(Continued)*

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

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Financial instruments

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

Financial assets

The Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of loans and receivables are set out below.

Trade receivables, amount due from ultimate holding company and amount due from a director

Trade receivables, amount due from ultimate holding company and amount due from a director do not carry any interest and are stated at amortised cost at each subsequent balance sheet date as reduced by appropriate allowances for estimated irrecoverable amounts.

Bank balances, deposits and cash

Bank balances, deposits and cash readily convertible to a known amount of cash and subject to an insignificant risk of changes in value are stated at their nominal value.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis to the profit and loss account using effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables and amount due to ultimate holding company

Trade payables and amount due to ultimate holding company are not interest bearing and are stated at amortised cost at each subsequent balance sheet date.

Equity instruments

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

Impairment of tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately in the income statement.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets

Software acquired are stated at cost less accumulated amortisation and accumulated impairment loss. Amortisation is calculated on a straight-line basis over their estimate useful lives.

Software aquired is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Land use rights

Land use rights are stated at cost less accumulated amortisation and accumulated impairment loss. Amortisation is calculated on a straight-line basis over their estimate useful lives.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable and deductible.

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

The financial statements are presented in Renminbi ("RMB") since that is the currency majority of the Group's transactions are denominated.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financials statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. RMB) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Retirement benefits scheme contribution

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as an expense as they fall due.

Government grant

Government grants are recognised as income over the periods necessary to match them with the related costs, if any. Grants related to expense items are recognised in the same period as those expenses are charged in the income statement and are deducted in reporting the related expense as "other income".

Equity-settled share-based payment transactions

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Equity-settled share-based payment transactions *(Continued)*

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

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

Share options granted by the Company

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

During the year, the Group has recognised the fair value of the vested restricted shares amounting of RMB3,973,000 based on the assumption that the vesting conditions will be fulfilled by all director and selected employees holding the restricted shares. Any restricted shares subsequently forfeited by the director and selected employees may affect the amount recognised during this year and will be adjusted in the period when the forfeiture occurred as a change in accounting estimate.

5. REVENUE SEGMENT INFOMRATION

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

All the Group's operations are located and carried out in the People's Republic of China (the "PRC"), and the sole principle activity of the Group is the manufacturing and trade of moulds and plastic equipments. Accordingly, no segment information by business and geographical is presented.

6. OTHER INCOME

	2005 RMB'000	2004 RMB'000
Gain on sales of materials	491	1,153
Bank interest income	79	56
Exchange difference	4,488	–
Government grant relating to the listing of the Company shares (note)	1,300	–
Others	252	232
	6,610	1,441

Note: Pursuant to Xiao Fa Gai 2005 No. 94, an amount of RMB1.3 million was paid by the Xiaoshan District of Hangzhou City Government to as an incentive for the Company's successful listing on the GEM of the Stock Exchange on 13 October 2005.

7. FINANCE COSTS

	2005 RMB'000	2004 RMB'000
Interest on:		
– bank borrowings wholly repayable within five years	3,679	1,880
– amounts due to related companies	–	33
Finance lease charges	645	29
	4,324	1,942

8. INCOME TAX EXPENSE

	2005 RMB'000	2004 RMB'000
PRC enterprise income tax		
Current year	4,072	625
Underprovision in prior years	–	316
	4,072	941

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

The Group is subject to the Income Tax Law of the PRC and unless otherwise approved, the normal applicable tax rate is 33%.

Pursuant to the approvals obtained from the relevant PRC tax authorities, the applicable tax rate for Hangzhou Yusei is 26.4% and Hangzhou Yusei is entitled to a tax concession period in which it is fully exempted from PRC income tax for two years commencing from its first profit-making year, followed by a 50% reduction in the PRC income tax for three years. The first profit-making year of Hangzhou Yusei is 2003 and the effective tax rate for 31 December 2003 and 2004 is zero. The effective tax rate for Hangzhou Yusei is 13.2% for the year ended 31 December 2005.

In addition, as Zhejiang Yusei is recognised as a New and High Technology Enterprise and is operating and registered in the State Level New and High Technology Development Zone, it is entitled to a reduced income tax rate of 10.75% from 2003 to 2005.

Hangzhou Yusei Moulding is not subject to PRC income tax as it has not commenced business up to 31 December 2005.

No provision for deferred taxation has been recognised in the financial statements as the amount involved is insignificant.

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

	2005 RMB'000	2004 RMB'000
Profit before taxation	18,113	22,168
Tax at the income tax rate at 26.40% (2004: 10.75%)	4,782	2,383
Tax effect of expenses not deductible for tax purpose	3,060	10
Underprovision of income tax in respect of prior year	–	316
Tax effect of tax concession period	(4,734)	(4,603)
Effect of different tax rates	964	2,729
Others	–	106
Tax charge for the year	4,072	941

9. PROFIT FOR THE YEAR

	2005 RMB'000	2004 RMB'000
Profit for the year has been arrived at after charging (crediting):		
Directors' remuneration (note 10)	3,385	762
Other staff costs	17,977	12,849
Recognition of the fair value of vested restricted shares	1,560	–
Retirement benefits scheme contribution	1,276	944
	20,813	13,793
Total staff cost	24,198	14,555
Amortisation of intangible assets included in administrative expenses	438	300
Amortisation of land use rights included in administrative expenses	212	212
Depreciation of property, plant and equipment	11,714	9,870
	12,364	10,382
Allowance for inventories	180	–
Auditors' remuneration	859	17
Doubtful debts written back	–	(83)
Exchange (gain) loss	(4,488)	35
(Gain) loss on disposal of property, plant and equipment	(2)	177
Listing expenses written off	6,657	–

10. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

The emoluments of directors are analysed as follows:

2005

Name of director	Fees RMB'000	Basic salaries and allowances RMB'000	Discretionary bonus RMB'000	Fair value of shares issued with vesting conditions RMB'000 (note 29)	Retirement benefits scheme contribution RMB'000	Total RMB'000
Xu Yong	–	246	–	2,413	16	2,675
Keisuke Murakoshi	–	585	–	–	–	585
Lo Ka Wai	31	–	–	–	–	31
Katsutoshi Masuda	39	–	–	–	–	39
Toshimitsu Masuda	13	–	–	–	–	13
Akio Suzuki	13	–	–	–	–	13
Toshinobu Ito	13	–	–	–	–	13
Fan Xiaopin	8	–	–	–	–	8
Hisaki Takabayashi	8	–	–	–	–	8
	125	831	–	2,413	16	3,385

2004

Name of director	Fees RMB'000	Basic salaries and allowances RMB'000	Discretionary bonus RMB'000	Fair value of shares issued with vesting conditions RMB'000 (note 29)	Retirement benefits scheme contribution RMB'000	Total RMB'000
Xu Yong	–	36	360	–	6	402
Keisuke Murakoshi	–	360	–	–	–	360
Lo Ka Wai	–	–	–	–	–	–
Katsutoshi Masuda	–	–	–	–	–	–
Toshimitsu Masuda	–	–	–	–	–	–
Akio Suzuki	–	–	–	–	–	–
Toshinobu Ito	–	–	–	–	–	–
Fan Xiaopin	–	–	–	–	–	–
Hisaki Takabayashi	–	–	–	–	–	–
	–	396	360	–	6	762

10. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

Of the five highest paid individuals in the Group during the year ended 31 December 2005, two (2004: two) were directors of the Company and details of their emoluments are set out above. The emoluments of the remaining three (2004: three) individuals were as follows:

	2005 RMB'000	2004 RMB'000
Basic salaries and allowances	1,260	720
Share-based payments	437	–
	1,697	720

The emoluments of each individual above were within HK$1,000,000.

During the year ended 31 December 2005, no emoluments were paid by the Group to the five highest paid individuals, including directors and employees, as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors and the employees has waived any emoluments during the year ended 31 December 2005.

11. DIVIDEND

No dividend was declared by the Company since its incorporation.

The final dividend of RMB0.037 per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

During the year ended 31 December 2004, the following companies had declared dividends, to its then shareholders, prior to the restructuring as set out in note 1, as follows:

	2005 RMB'000	2004 RMB'000
Zhejiang Yusei, declared and paid	–	3,730
Hangzhou Yusei, declared	–	5,000

The dividend of Hangzhou Yusei for the year ended 31 December 2004 was declared by the directors on 10 April 2005 and paid to the ultimate holding company, Yusei Japan Corporation, during the year.

12. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	2005 RMB'000	2004 RMB'000
Earnings for the purposes of basic earnings per share	14,041	21,227

	2005	2004
Weighted average number of ordinary shares for the purposes of basic earnings per share	118,271,232	110,600,000

The earnings per share for both year is computed assuming the 110,600,000 shares in issue prior to the placement of 35,000,000 new shares on 12 October 2005 as set out in note 27(f) and the granting of 14,400,000 shares with vesting conditions on 12 October 2005 as set out in note 29 were issued at 1 January 2004.

No diluted earnings per share have been presented as the Group did not have any dilutive potential ordinary shares outstanding during both years.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Moulds RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
At 1 January 2004	28,799	81,947	3,186	3,274	3,276	1,947	122,429
Additions	270	14,026	170	364	–	38,963	53,793
Transfer	759	11,389	–	–	–	(12,148)	–
Disposals	–	(2,237)	(756)	(356)	–	–	(3,349)
At 31 December 2004	29,828	105,125	2,600	3,282	3,276	28,762	172,873
DEPRECIATION							
At 1 January 2004	3,505	34,825	1,745	1,423	2,518	–	44,016
Provided for the year	1,482	6,496	372	997	523	–	9,870
Elimination on disposals	–	(1,030)	(756)	(356)	–	–	(2,142)
At 31 December 2004	4,987	40,291	1,361	2,064	3,041	–	51,744
NET BOOK VALUE							
At 31 December 2004	24,841	64,834	1,239	1,218	235	28,762	121,129
COST							
At 1 January 2005	29,828	105,125	2,600	3,282	3,276	28,762	172,873
Additions	7,178	12,909	1,046	635	–	24,255	46,023
Transfer	23,439	29,565	–	13	–	(53,017)	–
Disposals	(629)	(105)	–	–	(2,847)	–	(3,581)
At 31 December 2005	59,816	147,494	3,646	3,930	429	–	215,315
DEPRECIATION							
At 1 January 2005	4,987	40,291	1,361	2,064	3,041	–	51,744
Provided for the year	985	10,073	272	303	81	–	11,714
Elimination on disposals	(12)	(20)	–	–	(2,847)	–	(2,879)
At 31 December 2005	5,960	50,344	1,633	2,367	275	–	60,579
NET BOOK VALUE							
At 31 December 2005	53,856	97,150	2,013	1,563	154	–	154,736

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The property, plant and equipment is depreciated at straight-line basis as follows:

Buildings	20 years
Machinery and equipment	10 years
Motor Vehicles	5 years
Office equipment	5 years
Moulds	5 years

Analysis of net book values of machinery and equipment including those under construction in progress held under finance leases is:

	2005 RMB'000	2004 RMB'000
Machinery and equipment	**24,050**	2,479
Construction in progress	**–**	9,888
	24,050	12,367

14. INTANGIBLE ASSET

	2005 RMB'000	2004 RMB'000
COST		
At beginning of the year	**1,814**	1,814
Additions	**786**	–
At end of the year	**2,600**	1,814
AMORTISATION		
At beginning of the year	**529**	229
Charge for the year	**438**	300
At end of the year	**967**	529
NET BOOK VALUES		
At end of the year	**1,633**	1,285

Software is amortised on a straight-line basis over 5 years.

15. LAND USE RIGHTS

	2005 RMB'000	2004 RMB'000
Analysed for reporting purposes as:		
Current assets (included in debtors, deposits and prepayments)	**212**	212
Non-current assets	**3,876**	4,088
	4,088	4,300

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

16. INVENTORIES

	2005 RMB'000	2004 RMB'000
Raw materials	**12,176**	8,699
Work-in-progress	**12,157**	8,973
Finished goods	**16,912**	7,558
	41,245	25,230
At cost	**41,005**	25,117
At net realisable value	**240**	113
	41,245	25,230

17. DEBTORS, DEPOSITS AND PREPAYMENTS

The Company allows a credit period of 30 to 90 days to its customers.

The aging analysis of trade debtors is as follows:

	2005 RMB'000	2004 RMB'000
1 – 30 days	**40,372**	23,886
31 – 60 days	**9,153**	7,672
61 – 90 days	**4,325**	3,635
91 – 180 days	**3,028**	3,559
Over 180 days	**63**	–
Trade debtors	**56,941**	38,752
Other debtors, deposits and prepayments	**2,993**	1,929
	59,934	40,681

18. AMOUNT DUE FROM ULTIMATE HOLDING COMPANY

The amount at 31 December 2004 was unsecured, interest free and was repaid during the year ended 31 December 2005.

19. AMOUNT DUE FROM A DIRECTOR

Name of director	At 1 January 2004 RMB'000	At 31 December 2004 and 1 January 2005 RMB'000	Maximum amount outstanding during 2004 RMB'000	At 31 December 2005 RMB'000	Maximum amount outstanding during 2005 RMB'000
Keisuke Murakoshi	1,666	1,597	2,197	751	1,597

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

20. BANK BALANCES, DEPOSITS AND CASH

At 31 December 2005, bank balances, deposits and cash of approximately RMB14,443,000 (2004: RMB9,641,000) were denominated in Renminbi, which is not freely convertible currency in the international market and its exchange rate is determined by the People's Bank of China.

21. CREDITORS AND ACCRUED CHARGES

The aging analysis of trade creditors is as follows:

	2005 RMB'000	2004 RMB'000
1 – 30 days	**33,419**	11,515
31 – 60 days	**16,918**	6,323
61 – 90 days	**8,212**	7,973
91 – 180 days	**4,491**	3,752
Over 180 days	**1,660**	832
Trade creditors	**64,700**	30,395
Other creditors and accrued charges	**8,092**	11,357
	72,792	41,752

22. AMOUNTS DUE TO RELATED PARTIES

	Notes	2005 RMB'000	2004 RMB'000
Mr. Xu Yue	(i)	–	9,900
Yusei Hangzhou Property Company Limited ("Hangzhou Property")	(ii)	–	8,033
		–	17,933

Notes:

(i) Mr. Xu Yue is a brother of Mr. Xu Yong, a director of the Company. The amount at 31 December 2004 was unsecured, interest free and fully repaid during the year ended 31 December 2005.

(ii) Mr. Xu Yue has beneficial interest in Hangzhou Property. Included in the balance at 31 December 2004 was a loan of RMB5,000,000 which bore interest at commercial rate and was reapaid on 15 February 2005, the remaining balance was unsecured, interest free and fully repaid on 14 July 2005.

23. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

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

24. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2005 RMB'000	2004 RMB'000	**2005 RMB'000**	2004 RMB'000
Amounts payable under finance leases:				
Within one year	**5,316**	2,915	**4,412**	2,345
More than one year, but not exceeding two years	**5,316**	2,915	**4,632**	2,464
More than two years, but not exceeding five years	**11,813**	8,018	**11,111**	7,446
	22,445	13,848	**20,155**	12,255
Less: Future finance charges	**(2,290)**	(1,593)		
Present value of lease obligations	**20,155**	12,255		
Less: Amount due within one year shown under current liabilities			**(4,412)**	(2,345)
Amount due after one year			**15,743**	9,910

It is the Group's policy to lease certain of its machinery and equipment under finance leases. The average lease term is 4.75 years. For the year ended 31 December 2005, the average effective borrowing rate was 4.84% per annum. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

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

25. BANK BORROWINGS

	2005 RMB'000	2004 RMB'000
Secured (note a)	**43,906**	15,000
Unsecured (note b)	**14,600**	33,200
	58,506	48,200

25. BANK BORROWINGS *(Continued)*

The maturity profile of the above loans is as follows:

	2005 RMB'000	2004 RMB'000
On demand or within one year	**52,806**	35,900
More than one year, but not exceeding two years	**5,700**	6,600
More than two years, but not exceeding five years	**–**	5,700
	58,506	48,200
Less: Amount due within one year shown under current liabilities	**(52,806)**	(35,900)
	5,700	12,300

(a) As at 31 December 2005, the amount is secured by certain trade debtors, land use rights and property, plant and equipment of the Group with an aggregate net book value of RMB5,006,000 (2004: Nil), RMB4,088,000 (2004: RMB4,300,000) and RMB39,160,000 (2004: RMB27,591,000) respectively. Included in the secured loans at 2004 was an amount of RMB4,000,0000 which was guaranteed by Mr. Xu Yong. The secured loan guaranteed by Mr. Xu Yong has been repaid during the year ended 31 December 2005.

(b) As at 31 December 2005, the amount guaranteed by the ultimate holding company is RMB12,300,000 (2004: RMB18,900,000). In addition, 浙江蕭山五粮液系列酒銷售有限公司, in which Mr. Xu Yue has beneficial interest, has provided guarantees on certain borrowings of the Group during the year. The guarantees have been released by the bank before the listing of the shares of the Company on 13 October 2005.

(c) For the year ended 31 December 2005, all the bank borrowings were arranged at fixed interests rates ranging from 4.85% to 6.70% (2004: 5.49% to 6.70%) per annum.

26. OTHER PAYABLES

	2005 RMB'000	2004 RMB'000
On demand or within one year	**1,038**	3,850
More than one year, but not exceeding two years	**–**	1,839
	1,038	5,689

The other payables are payable to independent third parties for purchases of property, plant and equipment. They are unsecured and interest free.

27. SHARE CAPITAL OF THE COMPANY

	Number of shares '000	Amount HK$'000
Ordinary shares of HK$0.01 each		
Authorised		
On the date of incorporation *(note a)*	35,000	350
Increase during the year *(note b)*	1,465,000	14,650
At end of the year	1,500,000	15,000

	Number of shares '000	Amount HK$'000	Shown in the financial statements as RMB'000
Issued and fully paid			
On the date of incorporation *(note c)*	–	–	–
Issue of shares for acquisition of subsidiaries *(note d)*	34,786	348	369
Capitalisation of contributed surplus *(note e)*	75,814	758	791
Placement of new shares *(note f)*	35,000	350	364
Issue of shares with vesting conditions to a director, employees and consultants *(note g)*	14,400	144	150
At end of the year	160,000	1,600	1,674
Less: Unvested shares issued with vesting conditions *(note g)*	(14,400)	(144)	(150)
	145,600	1,456	1,524

27. SHARE CAPITAL OF THE COMPANY *(Continued)*

Notes:-

(a) The Company was incorporated on 4 April 2005 with an authorised share capital of HK$350,000 divided into 35,000,000 shares of par value HK$0.01 each.

(b) Pursuant to written resolutions of the sole shareholder passed on 19 September 2005, the authorised share capital of the Company was increased from HK$350,000 to HK$15,000,000 by the creation of an additional 1,465,000,000 new shares of HK$0.01 each.

(c) One share was issued and allotted, credited as fully paid, to the initial subscriber of the Company on 21 April 2005.

(d) Pursuant to three separate transfer agreements all dated the same at 15 April 2005, Yusei Machinery Corporation agreed to transfer the interests in Zhejiang Yusei, Hangzhou Yusei and Hangzhou Yusei Mould to the Company in exchange for 34,786,304 new shares of HK$0.01 each allotted by the Company amounting to HK$347,863.04 (equivalent to RMB369,000). The aggregated consideration based on the transfer agreements amounted to RMB75,622,000 (equivalent to HK$71,342,000). The agreements were completed on 6 June 2005 and a contributed surplus amounting to HK$70,994,000 (equivalent to RMB75,253,000), being the difference between the par value of the shares issued and the aggregated consideration, was recognised in the Company's balance sheet.

(e) Pursuant to written resolutions of the sole shareholder passed on 19 September 2005, the directors were authorised to capitalise the sum of HK$758,136.95 (equivalent to RMB791,000) standing to the credit of the share premium account of the Company by applying such sum to pay up in full at par a total number of 75,813,695 shares of HK$0.01 each for allotment and issue to Yusei Machinery Corporation. Such new shares rank pari passu in all respects with the existing shares.

(f) On 12 October 2005, the Company placed 35,000,000 new shares of HK$0.01 each at the placing price of HK$1.25 per share amounting to HK$43,750,000 (equivalent to RMB45,619,000). Details of the placement are set out in the Company's prospectus dated 30 September 2005. Such new shares rank pari passu in all respects with the existing shares.

(g) On 12 October 2005, the Company capitalised the sum of HK$144,000 (equivalent to RMB150,000) from the share premium account of the Company to pay up in full at par for the allotment and issue of 14,400,000 shares of HK$0.01 each to Mr. Xu Yong, the employees elected and certain technical consultants. In substance, resulting of the restriction of the terms of issue of these share (see note 29), these shares can only be regarded as share capital for accounting purpose only when the vesting conditions are fulfilled. Accordingly, the unvested amount of the share capital is adjusted for presentation purpose. Such new shares rank pari passu in all respects with the existing shares.

28. PAID-IN CAPITAL

At 31 December 2004, the balance represented the paid-in capital of Zhejiang Yusei, Hangzhou Yusei and Hangzhou Yusei Moulding. These paid in capital were transferred to special reserve upon the listing of the shares of the Company.

29. SHARES ISSUED WITH VESTING CONDITIONS

In recognition of the respective contribution of Mr. Xu Yong, the director of the Company, and certain selected employees and technical consultants to the Group, on 19 September 2005, the Company conditionally approved the allotment of 14,400,000 shares to these persons by the capitalisation, at par, of the share premium account arising from the placement of the shares as set out in note 27(g). The allotment was made on 12 October 2005. Details of the allotment are as follows:

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

The directors consider the fair value of these shares at the date of allotment is HK$1.25 per share by reference to the placement price of the same amount to independent third parties on 12 October 2005 (see note 27(f)).

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

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

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

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

29. SHARES ISSUED WITH VESTING CONDITIONS *(Continued)*

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

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

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

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

The remaining balance of the unvested and allotted shares will be forfeited by Mr. Xu Yong and the selected employee and such forfeited shares will be sold by the Company with his lawful attorney on his behalf and the proceeds from such sale will be paid to the Company as compensation.

The aforesaid forfeiture on termination of employment does not apply to the technical consultants.

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

The directors based on the terms of the allotted shares and estimated that an amount of RMB3,973,000 (equivalent to HK$3,819,000) to be charged to the consolidated income statement as staff cost for the year and credited to the reserve for shares issued with vesting condition. The fair value of the vested shares is attributable to:

	RMB'000
The director	2,413
Selected employees and technical consultants	1,560
	3,973

30. SHARE OPTIONS

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

At 31 December 2005, no options had been granted and remained outstanding under the Scheme. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company at the date of listing on GEM of the Stock Exchange, i.e., 16,000,000, unless approval from the Company's shareholders is obtained.

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

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

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

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

31. RESERVES

(i) Basis of appropriations to reserves

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

(ii) Capital reserve

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

(iii) Statutory surplus reserve

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

(iv) Reserve for shares issued with vesting conditions

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

(v) Special reserve

The special reserve of the Group represents the difference between the nominal value of the registered capital of the acquired subsidiaries as set out in note 1 and the nominal value of the shares of the Company issued for the acquisition at the time of the group reorganisation on 6 June 2005.

32. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2005, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of RMB12,792,000 (2004:RMB12,367,000).

33. CAPITAL COMMITMENTS

	2005 RMB'000	2004 RMB'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	**1,888**	5,146

34. RETIREMENT BENEFITS SCHEMES

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

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

The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

35. FINANCIAL RISK, MANAGEMENT OBJECTIVES AND POLICIES

i. Credit risk

Credit risk refers to the risk that debtors will default on their obligations to repay the amounts owing to the Group, resulting in a loss to the Group. The Group has adopted procedures in extending credit terms to customers and in monitoring its credit risk.

The Group's current credit practices include assessment and valuation of customer's credit reliability and periodic review of their financial status to determine credit limits to be granted.

The maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as end of the financial year in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet.

ii. Significant concentration of credit risk

The Group's policy does not permit non-secured credit risk to be significantly centralised in one customer or group of customers unless the customer has good repayment history. And the major debtor at 31 December 2005 accounts for only 25% of the group's total trade receivable.

iii. Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on bank borrowings with fixed interest rates. Therefore, any future variations in interest rates will not have a significant impact on the Group's finance cost for the bank borrowings at 31 December 2005.

35. FINANCIAL RISK, MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

iv. Foreign currency risk

The Group is exposed to foreign exchange rate risk as the Group carries on business in RMB and US dollars. The Group also purchased machinery in Japanese Yen. The Group will manage the exchange rate risk by using appropriate financial derivatives. During the year ended 31 December 2005, the Group did not enter into any financial derivatives arrangement for this purpose.

v. Liquidity risk

The Group is exposed to liquidity risk as its financial assets due within one year is less than its financial liabilities due within one year. At 31 December 2005, maximum banking facilities in an aggregate amount of approximately RMB99.8 million were available from the Group's principal bankers, of which approximately RMB58.5 million has been utilised. On 20 January 2006, the Group obtained an additional banking facilities of RMB60 million from the Group's principal bankers and the date of repayment on the amount drawn, if any, is one year from the date of drawdown.

vi. Fair value of financial assets and financial liabilities

The directors consider the fair values of debtors, deposits and prepayments; amount due from ultimate holding company; amount due from a director; bank balances, deposit and cash; creditors and accrued charges; amounts due to related parties; amount due to ultimate holding company, obligations under finance leases; bank borrowings and other payables reported in the combined balance sheet approximate their carrying amounts.

36. RELATED PARTY TRANSACTIONS

During the year ended 31 December 2005, the Group had the following transactions with its related companies:

Name of related party	Nature of transactions	2005 RMB'000	2004 RMB'000
Ultimate holding company	Purchase of raw materials	**1,902**	4,983
	Sales of finished goods	**1,096**	–
	Technical fee paid	**1,925**	1,800
	Purchase of property, plant and equipment	**–**	1,686
Keisuke Murakoshi	Disposal of property	**620**	–
Hangzhou Property	Interest paid	**–**	33

36. RELATED PARTY TRANSACTIONS *(Continued)*

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

	2005 RMB'000	2004 RMB'000
Short-term benefits	1,501	1,122
Share-based payments	2,655	–
	4,156	1,122

The remuneration of directors and key executives disclosed above are based on the service contracts entered into between the Group and the respective individuals before the listing of the Company's shares on 13 October 2005. The remuneration of directors and key executives for subsequent renewal of these service contracts will be determined by the remuneration committee having regard to the performance of individuals and market trends.

37. SUBSIDIARIES

Particulars of the subsidiaries of the Company as at 31 December 2005 established and operating in the PRC are as follows:

Name of subsidiary	Issued and fully paid registered capital	Attributable interests directly held by the Company	Nature of business
Zhejiang Yusei	US$3,000,000	100%	Moulding fabrication, manufacturing and trading of plastic components
Hangzhou Yusei	US$6,500,000	100%	Moulding fabrication, manufacturing and trading
Hangzhou Yusei Mould	US$500,000	100%	Not yet commenced business