



Yusei Holdings Limited  
友成控股有限公司\*  
(Incorporated in the Cayman  
Islands with limited liability)  
Stock code: 8319



Interim Report  
**2006**

\* for identification purpose 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 Enterprises 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.*



## INTERIM RESULTS (UNAUDITED)

The board of directors of Yusei Holdings Limited (the “Company”) is pleased to announce the unaudited results of the Company and its subsidiaries (collectively the “Group”) for the three months and six months period ended 30 June 2006, together with the comparative figures for the corresponding periods of last year, as follows:

### Condensed consolidated income statement (unaudited)

	Notes	For three months ended 30 June		For six months ended 30 June	
		2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Turnover	3	97,262	39,958	173,574	98,550
Cost of sales		(80,562)	(29,904)	(142,951)	(75,488)
Gross profit		16,700	10,054	30,623	23,062
Other operating income		31	28	91	317
Distribution costs		(933)	(1,045)	(2,092)	(2,054)
Administrative expenses		(9,459)	(3,675)	(18,522)	(7,701)
Other operating expenses		(1)	20	(8)	(3)
Profit from operation		6,338	5,382	10,092	13,621
Finance costs		(1,906)	(750)	(3,172)	(1,667)
Profit before taxation	4	4,432	4,632	6,920	11,954
Taxation	5	(1,264)	(506)	(1,975)	(1,529)
Profit attributable to the equity holders of the Company		3,168	4,126	4,945	10,425
Dividends		–	–	–	–
Earnings per share – Basic	6	0.022	0.037	0.034	0.094



Condensed consolidated balance sheet

	Notes	30 June 2006 RMB'000 (unaudited)	31 December 2005 RMB'000 (audited)
<b>Non-current assets</b>			
Property, plant and equipment		174,926	154,736
Intangible asset		1,529	1,633
Land use rights		3,770	3,876
		<u>180,225</u>	<u>160,245</u>
<b>Current assets</b>			
Inventories		67,705	41,245
Debtors, deposits and prepayments	7	98,424	59,934
Amount due from ultimate holding company		860	–
Amount due from a director		–	751
Bank balances, deposits and cash		33,293	21,879
		<u>200,282</u>	<u>123,809</u>
<b>Current liabilities</b>			
Creditors and accrued charges	8	96,288	72,792
Amount due to ultimate holding company		2,136	1,745
Tax liabilities		3,360	1,806
Obligations under finance leases		3,677	4,412
Bank borrowings		101,250	52,806
Other payables		–	1,038
		<u>206,711</u>	<u>134,599</u>
<b>Net current liabilities</b>		<u>(6,429)</u>	<u>(10,790)</u>
		<u>173,796</u>	<u>149,455</u>
<b>Capital and reserves</b>			
Share capital		1,524	1,524
Reserves		131,033	126,488
		<u>132,557</u>	<u>128,012</u>
<b>Non-current liabilities</b>			
Obligations under finance leases		16,040	15,743
Bank borrowings		25,199	5,700
		<u>41,239</u>	<u>21,443</u>
		<u>173,796</u>	<u>149,455</u>



## Condensed consolidated statement of changes in equity (unaudited)

	Share capital	Share premium	Paid-in capital	Restricted			Statutory		Retained profits	Total
				Special reserve	shares reserve	Translation reserve	Capital reserve	surplus reserve		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2005	-	-	50,032	-	-	-	36	1,851	21,870	73,789
Profit for the period	-	-	-	-	-	-	-	-	10,425	10,425
Dividend paid to ultimate holding company before listing of the Company's shares	-	-	-	-	-	-	-	-	(5,000)	(5,000)
Transfer	-	-	-	-	-	-	-	303	(303)	-
At 30 June 2005	-	-	50,032	-	-	-	36	2,154	26,992	79,214
At 1 January 2006	1,524	40,153	-	49,663	3,973	(99)	36	4,255	28,507	128,012
Profit for the period	-	-	-	-	-	-	-	-	4,945	4,945
Fair value of estimated vesting shares charged to income statement	-	-	-	-	5,507	-	-	-	-	5,507
Exchange difference arising on conversion of foreign operations	-	-	-	-	-	13	-	-	-	13
Dividend paid	-	-	-	-	-	-	-	-	(5,920)	(5,920)
Transfer	-	-	-	-	-	-	-	2,562	(2,562)	-
At 30 June 2006	1,524	40,153	-	49,663	9,480	(86)	36	6,817	24,970	132,557

## Condensed consolidated cash flow statement (unaudited)

	<b>For six months ended 30 June</b>	
	<b>2006</b>	2005
	<b>RMB'000</b>	RMB'000
<b>Net cash from/(used in) operating activities</b>	<b>(30,429)</b>	18,103
<b>Net cash used in investing activities</b>	<b>(24,624)</b>	(16,055)
<b>Net cash from/(used in) financing activities</b>	<b>66,467</b>	(5,527)
<b>Increase/(Decrease) in cash and cash equivalents</b>	<b>11,414</b>	(3,479)
<b>Cash and cash equivalents at 1 January</b>	<b>21,879</b>	10,943
<b>Cash and cash equivalents at 30 June, representing Bank balances, deposits and cash</b>	<b>33,293</b>	7,464

## Notes:

## 1. GROUP RESTRUCTURING AND BASIS OF PREPARATION

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 Enterprises Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 13 October 2005.

Under a group reorganization scheme to rationalize 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 reorganization were set out in the prospectus issued by the Company dated 30 September 2005.

The principal step of the reorganization 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 Group resulting from the above mentioned reorganization is regarded as a continuing entity. Accordingly, the income 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 six months period ended 30 June 2005. All material intra-group transactions and balances have been eliminated on combination.

The unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by HKICPA and the disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprises Market of the Stock Exchange of Hong Kong.

The accounting policies and methods of computation used in the preparation of these condensed consolidated interim financial statements are consistent with those used in the annual report for the year ended 31 December 2005.



## 2. SEGMENT INFORMATION

All the Group's operations are located and carried out in 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 segment is presented.

## 3. TURNOVER

Turnover represents the net amounts received and receivable for goods sold to outside customers, less returns and discounts, and net of value-added tax ("VAT").

## 4. PROFIT BEFORE TAXATION

	2006 RMB'000 (unaudited)	2005 RMB'000 (unaudited)
Profit before taxation has been arrived at after charging/(crediting):		
Cost of inventories sold	142,951	75,488
Amortisation of intangible assets included in administrative expenses	219	219
Amortisation of land use rights included in administrative expenses	106	106
Depreciation of property, plant and equipment	<u>4,319</u>	<u>3,886</u>

## 5. TAXATION

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

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 2 years commencing from its first profit-making year, followed by a 50% reduction in the PRC income tax for 3 years. The first profit-making year of Hangzhou Yusei is 2003 and the effective tax rate for 31 December 2003 and 2004 is nil. The effective tax rate for Hangzhou Yusei is 13.2% for the three months and six months ended 30 June 2005 and 30 June 2006.

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 and 16.5% thereafter.

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

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

## 6. EARNINGS PER SHARE

The earnings per share for the three months and six months ended 30 June 2006 is calculated based on the profit attributable to the equity holders of the Company of approximately RMB3,168,000 (2005: RMB4,126,000) for the three months ended 30 June 2006 and the profit attributable to the equity holders of the Company of approximately RMB4,945,000 (2005: RMB10,425,000) for six months ended 30 June 2006 and on the weighted average number of ordinary shares of 145,600,000 shares in issue in 2006 (2005: assuming the 110,600,000 shares in issue for the group reorganization scheme were issued at 1 January 2005).

Diluted earnings per share have not been calculated as there were no potential dilutive shares during the periods.



7. 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:

	30 June 2006 RMB'000 (unaudited)	31 December 2005 RMB'000 (audited)
1 – 30 days	50,831	40,372
31 – 60 days	11,746	9,153
61 – 90 days	11,563	4,325
91 – 180 days	8,535	3,028
Over 180 days	10,905	63
	<hr/>	<hr/>
Trade debtors	93,580	56,941
Other debtors, deposits and prepayments	4,844	2,993
	<hr/>	<hr/>
	<b>98,424</b>	<b>59,934</b>

8. CREDITORS AND ACCRUED CHARGES

The aging analysis of trade creditors is as follows:

	30 June 2006 RMB'000 (unaudited)	31 December 2005 RMB'000 (audited)
1 – 30 days	57,994	33,419
31 – 60 days	19,919	16,918
61 – 90 days	5,788	8,212
91 – 180 days	2,615	4,491
Over 180 days	1,527	1,660
	<hr/>	<hr/>
Trade creditors	87,843	64,700
Other creditors and accrued charges	8,445	8,092
	<hr/>	<hr/>
	<b>96,288</b>	<b>72,792</b>





## MANAGEMENT DISCUSSION AND ANALYSIS

### Business review

During the six months ended 30 June 2006, 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 six months ended 30 June 2006 was approximately RMB173,574,000, representing an increase of 76% as compared to that of approximately RMB98,550,000 for the six months ended 30 June 2005. The Group's customers are mainly the manufacturers of branded home electrical appliances, office equipment and plastic components with production facilities located in the PRC.

### Financial review

#### *Turnover*

The Group's turnover for the six months ended 30 June 2006 increased by 76% to approximately RMB173,574,000 as compared to that of approximately RMB98,550,000 for the six months ended 30 June 2005.

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

#### *Gross profit*

The Group achieved a gross profit of approximately RMB30,623,000 for the six months ended 30 June 2006, representing an increase of approximately 33% as compared to that for the six months ended 30 June 2005. During the period, the percentage of the sales of products with comparatively low gross profit margin to the total sales was increased, resulting in a decrease in overall gross profit margin.

#### *Distribution costs*

Distribution costs for the six months ended 30 June 2006 increased by approximately 1.9% to approximately RMB2,092,000 as compared to that of approximately RMB2,054,000 for the six months ended 30 June 2005. Such increase was mainly attributable to increase in turnover.

#### *Administrative expenses*

Administrative expenses for the six months ended 30 June 2006 increased by approximately 141% to approximately RMB18,522,000 as compared to that of approximately RMB7,701,000 for the six months ended 30 June 2005. Such increase was mainly attributable to (i) the inclusion of amortised fair value of estimated vesting shares granted to a director, selected employees and technical consultants of approximately RMB5,500,000, in accordance with Hong Kong Financial Reporting Standard; (ii) increase in staff costs and administrative expenses as a result of the Group's expansion and listing.

#### *Finance costs*

Finance costs for the six months ended 30 June 2006 increased to approximately RMB3,172,000 as compared to that of approximately RMB1,667,000 for the six months ended 30 June 2005. 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 53% from approximately RMB10,425,000 for the six months ended 30 June 2005 to approximately RMB4,945,000 for the six months ended 30 June 2006. Such decrease was mainly attributable to (i) the inclusion of amortised fair value of estimated vesting shares granted to a director, selected employees and technical consultants in accordance with Hong Kong Financial Reporting Standard; (ii) decrease in gross profit margin and (iii) increase in staff costs and administrative expenses as a result of the Group's expansion and listing.

### *Financial resources and liquidity*

As at 30 June 2006, the equity amounted to approximately RMB132,557,000. Current assets amount to approximately RMB200,282,000, of which approximately RMB33,293,000 were cash and bank deposits. The Group had non-current liabilities of approximately RMB41,239,000 and its current liabilities amounted to approximately RMB206,711,000, comprising mainly its creditors and accrued charges and bank borrowings. The net asset value per share was RMB0.83. The Group expresses its gearing ratio as a percentage of finance leases, other payable and borrowings over total assets. As at 30 June 2006, the Group had a gearing ratio of 38% (As at 31 December 2005: 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 segment is presented.

### *Employment and remuneration policy*

As at 30 June 2006, the total number of the Group's staff was approximately 900. The total staff costs amounted to approximately RMB12,000,000 for the period. 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 30 June 2006, land use rights and plant and equipment of the Group with an aggregate net book value of approximately RMB3,982,000 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.

### *Capital commitments*

As at 30 June 2006, the Group had no material capital commitments.



## Outlook

There has been an increase in the Group's turnover and gross profit for the six months ended 30 June 2006 as compared with the corresponding period of last year. Management will actively adopt 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.

In the first quarter of 2006, the Group acquired aluminium plating technique, a leading technique within the sector, which strengthens our services for further processing of plastic components. In addition, in January 2006, the Group was granted a loan facility of RMB60,000,000 from Bank of Tokyo Mitsubishi UFJ and Suizuoka Bank Limited and the Group has additional financial resources back-up for expansion of production capacity.

In the first half of 2006, the Group further acquired advanced production machineries including 2 sets of CNC electrolysis machineries and 3 sets of horizontal machining centers to enhance the quality and production capacity of mould fabrication. In addition, the Group's new spray painting and metallic plating workshop is under construction in the premises of Hangzhou Yusei to provide additional production capacity in respect of surface finishing process on its plastic component products of front and back covers for automobile headlights and taillights. It is expected to have production run in the second half of 2006. The construction costs of approximately RMB10,000,000 are financed by internal generated funds and bank borrowings.

As regards the quality of the products, the Group had adopted the ERP system to facilitate the production flow and monitor the product quality. To respond 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 were listed in the prospectus of the Company dated 30 September 2005 (the "Prospectus").

### Business objective for the six months period ended 30 June 2006

	Implementation	Actual business progress
1. Capital expenditure (including capital investment in production facilities and capital investment in equipment)	<ul style="list-style-type: none"> <li>- Install advanced mould fabrication equipment, including 1 set of high speed milling machine, 2 sets of CNC electrolysis machines and 2 sets of machining centres</li> </ul>	<ul style="list-style-type: none"> <li>- new production machineries including 2 sets of CNC electrolysis machineries and 3 sets of horizontal machining centers were installed and are being operated</li> </ul>
2. Enhance moulding business to become a one-stop service provider	<ul style="list-style-type: none"> <li>- Conduct on-site technical training for the mould fabrication division</li> <li>- Recruit 10 additional mould fabrication technicians</li> <li>- Continue to study the possibility of reducing costs and improving quality</li> <li>- Provision of training in Japan for 1-2 high-quality technicians in respect of product development</li> </ul>	<ul style="list-style-type: none"> <li>- on-site training courses were conducted by equipment suppliers to staff of production divisions</li> <li>- recruit 11 additional mould fabrication technicians</li> <li>- management information system for mould fabrication are being operated for strengthening the management throughout the production process which aims to reduce the costs and improve the quality of moulds</li> <li>- 4 high-quality technicians are staying in Japan for training</li> </ul>

**Business objective****Implementation****Actual business progress**

	<ul style="list-style-type: none"><li>– Provision of project management training courses to staff for business development as a one-stop service provider</li></ul>	<ul style="list-style-type: none"><li>– Management courses were conducted to the Group's managerial staff and technicians by professionals</li></ul>
3. Develop sales channel	<ul style="list-style-type: none"><li>– participate in precision mould exhibition</li></ul>	<ul style="list-style-type: none"><li>– the technical staff of the Group's mould fabrication and product manufacturing divisions participated in Shanghai mould industry exhibition held in April 2006</li></ul>

**USE OF PROCEEDS FROM PLACING OF SHARES**

The proceeds from the Company's issue of new shares at the time of its listing on the Hong Kong Stock Exchange in October 2005, after deduction of related issuance expenses, amounted to approximately HK\$33,318,000. These proceeds were applied during the six months ended 30 June 2006 in accordance with the proposed applications set out in the Company's listing prospectus, as follows:

- approximately HK\$8,000,000 was used for capital expenditure;
- approximately HK\$775,000 was used for enhancing moulding business to become a one-stop service provider; and
- approximately HK\$75,000 was applied to finance working capital.

**PROPOSED DIVIDEND**

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2006 (2005: Nil).



## 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 required, (a) to notify 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 (b) to be entered in the register required to be kept therein, pursuant to section 352 of the SFO; or (c) to notify to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors referred to in Rule 5.46 of the GEM Listing Rules are as follows:

Name of Company	Name of Director	Capacity			Number of shares		
		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	–	66.0%
Company	Toshimitsu Masuda (Note 2)	–	–	105,600,000 shares	105,600,000 shares	–	66.0%
Company	Xu Yong	9,600,000 shares	–	–	9,600,000 shares	–	6.0%
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) and/or required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO and/or who are directly or indirectly interests 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 will be as follows

Name of Company	Name of shareholder	Capacity	Number of shares		Approximate percentage of interests
			Long Position	Short Position	
Company	Yusei Japan	Beneficial Owner	105,600,000 shares	–	66%
Company	Conpri (Note 1)	Corporate Interest	105,600,000 shares	–	66%
Company	Mrs. Echiko Masuda (Note 2)	Family Interests	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 30 June 2006.

## 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 section headed "Summary of the terms of the Share Option Scheme" in Appendix V of the Prospectus. Up to 30 June 2006, no option has been granted pursuant to the share option scheme.

## CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 June 2006, 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 the required standard of dealings and its code of conduct regarding securities transactions by directors.

## AUDIT COMMITTEE

The Company has established an audit committee comprising of the three independent non-executive directors, namely Mr. Hisaki Takabayashi, Mr. Fan Xiaoping and Mr. Lo Ka Wai, with written terms of reference in compliance with Rules 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 unaudited condensed consolidated financial statements for the six months ended 30 June 2006, 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 six months ended 30 June 2006, neither the Company nor any of its subsidiaries 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.

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



## 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 30 June 2006.

## CORPORATE GOVERNANCE

Throughout the period, the Company was in compliance with the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules.

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

PRC, 3 August 2006

*As at the date of this report, the Executive Directors are Mr. Keisuke Murakoshi and Mr. Xu Yong, the Non-executive Directors are Mr. Katsutoshi Masuda, Mr. Akio Suzuki, Mr. Toshimitsu Masuda and Mr. Toshinobu Ito and the Independent Non-Executive Directors are Mr. Lo Ka Wai, Mr. Fan Xiaoping and Mr. Hisaki Takabayashi.*