YUSEI HOLDINGS LIMITED

友成控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8319)

Annual Report 2006

* for identification only

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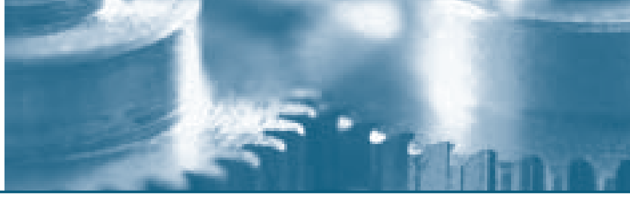
This report, for which the directors of Yusei Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose 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.



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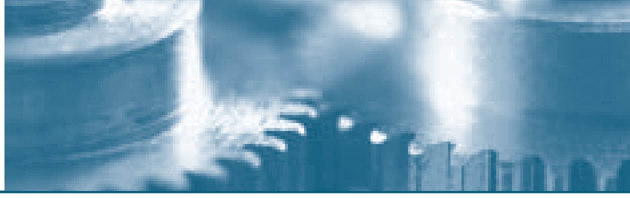

CORPORATE INFORMATION

Registered office
Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head office and principal place of business in the PRC
No. 8 Youcheng Road
Xiaoshan Economy & Technology Development Zone
Zhejiang
311215
The PRC

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

Company secretary
Mr. Shum Shing Kei CPA

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

Hong Kong branch share registrar and transfer office
Computershare Hong Kong Investor Services Limited
46th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

Stock Code
8319

Auditors
SHINEWING (HK) CPA Limited

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

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

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Zhejiang
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The PRC

The Bank of Tokyo-Mitsubishi, UFJ Ltd
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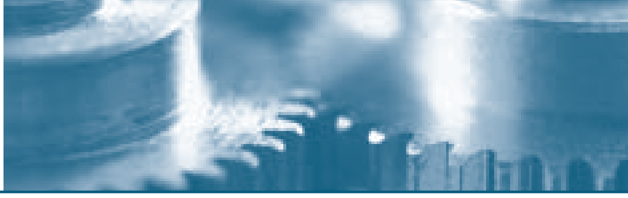


MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the year ended 31 December 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 year ended 31 December 2006 was approximately RMB372,773,000, representing an increase of 45% as compared to that of approximately RMB256,923,000 for the year ended 31 December 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. During the year, the Group had at least 5 new customers, including manufacturers of branded home electrical appliances based in Japan and USA, and manufacturers of interior decorative parts, safety devices and other components of motor vehicles based in USA, Australia and Japan.

FINANCIAL REVIEW

Turnover

The Group's turnover for the year ended 31 December 2006 increased by 45% to approximately RMB372,773,000 as compared to that of approximately RMB256,923,000 for the year ended 31 December 2005.

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

Gross profit

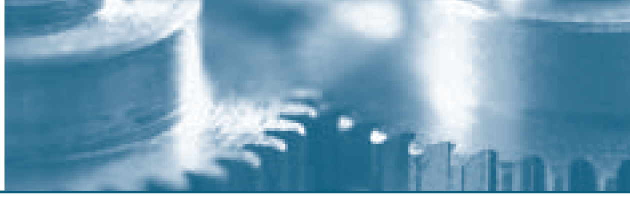
The Group achieved a gross profit of approximately RMB68,959,000 for the year ended 31 December 2006, representing an increase of approximately 35% as compared to that for the year ended 31 December 2005. During the year, the percentage of the sales of products with comparatively low gross profit margin to the total sales was increased, resulting in a decrease in overall gross profit margin.

Distribution costs

Distribution costs for the year ended 31 December 2006 increased by approximately 20% to approximately RMB5,821,000 as compared to that of approximately RMB4,864,000 for the year ended 31 December 2005. Such increase was mainly attributable to increase in turnover.

Administrative expenses

Administrative expenses for the year ended 31 December 2006 increased by approximately 40% to approximately RMB42,738,000 as compared to that of approximately RMB30,539,000 for the year ended 31 December 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 RMB10,908,000 (2005: RMB3,973,000), in accordance with Hong Kong Financial Reporting Standard; and (ii) increase in staff costs and administrative expenses as a result of the Group's expansion.



MANAGEMENT DISCUSSION AND ANALYSIS

Finance costs

Finance costs for the year ended 31 December 2006 increased to approximately RMB7,173,000 as compared to that of approximately RMB4,324,000 for the year ended 31 December 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 12% from approximately RMB14,041,000 for the year ended 31 December 2005 to approximately RMB12,375,000 for the year ended 31 December 2006.

Financial resources and liquidity

As at 31 December 2006, the equity amounted to approximately RMB145,304,000. Current assets amount to approximately RMB183,985,000, of which approximately RMB35,698,000, in aggregate, were pledged bank deposits and bank balances, deposits and cash. The Group had non-current liabilities of RMB44,701,000 and its current liabilities amounted to approximately RMB192,598,000, comprising mainly its creditors and accrued charges and short-term bank borrowings. The net asset value per share was RMB0.91. The Group expresses its gearing ratio as a percentage of finance leases, borrowings and other payable over total assets. As at 31 December 2006, the Group had a gearing ratio of 31%.

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 31 December 2006, the total number of the Group's staff was approximately 1,100. The total staff costs (including directors' remuneration) amounted to approximately RMB42,940,000 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

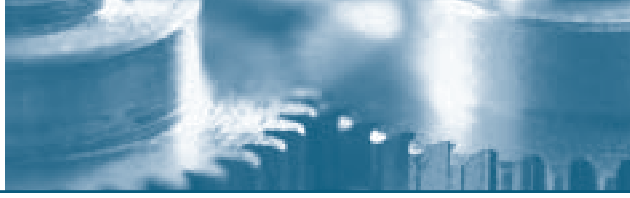
As at 31 December 2006, certain land use rights, and plant and equipment of the Group with an aggregate net book value of approximately RMB4,886,000 and RMB4,583,000 respectively were pledged as securities for bank borrowings.

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 31 December 2006, the Group had no material capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment.



MANAGEMENT DISCUSSION AND ANALYSIS

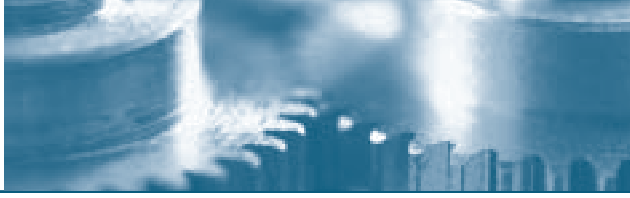
OUTLOOK

There has been an increase in the Group's turnover for the year ended 31 December 2006 as compared with the corresponding period of 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.

During the year, the Group acquired an aluminium plating technique, a leading technique within the sector, which strengthen 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.

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 was constructed 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. The operation of this workshop was commenced in August 2006. The construction costs of approximately RMB10,000,000 are financed by internal generated funds and bank borrowings. In third quarter of 2006, the Group continued to acquired advanced production machineries including 2 sets of imported plastic injection mould machines and 2 sets of vertical aluminium plating machines.

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 response the changing technology in the industry, the Company will continue to acquire and install advanced machinery and equipment and second technicians to Japan for training in order 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.

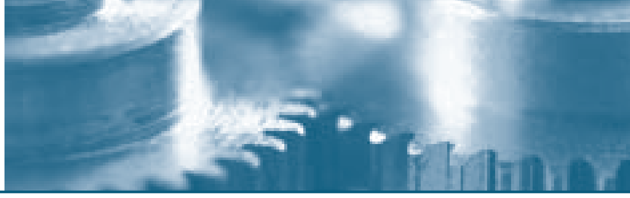


MANAGEMENT DISCUSSION AND ANALYSIS

COMPARISON OF THE BUSINESS OBJECTIVES WITH THE ACTUAL BUSINESS PROGRESS

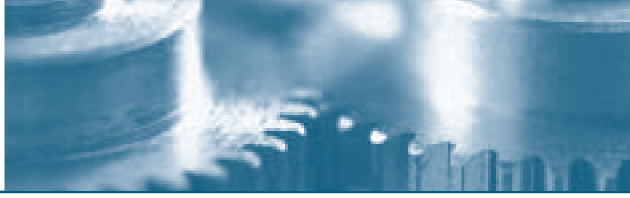
The Shares of the Company were listed on the GEM Board of the Stock Exchange on 13 October 2005. The business objectives as listed in the prospectus of the Company dated 30 September 2005 (the "Prospectus") were prepared for the year ended 31 December 2006.

Business objective	Implementation	Actual business progress
1. Capital expenditure (including capital investment in production facilities and capital investment in equipment)	– Install advanced mould fabrication equipment, including 1 sets of high speed milling machine, 3 sets of CNC electrolysis machine, 3 set of machining centre	– new production machineries including 1 set of milling machine, 2 sets of CNC electrolysis machineries, 3 sets of machining centers, 3 sets of EDM electrical discharge machine, 2 sets of vacuum aluminium-plating machine
2. Enhance moulding business to become a one-stop service provider	– Recruit 10 additional mould fabrication technicians	– Recruit 12 additional mould fabrication technicians
	– Conduct on-site technical training for the mould fabrication division	– Technical training courses were conducted by equipment suppliers for the mould fabrication division
	– Conduct training program for the research and development division	– Training courses were conducted for research and development division in respect of technical softwares by UG software provider
	– Continuous provision of training to staff for project management	– Management courses in were conducted to the Group's managerial staff and technicians by professionals
	– Provision for project management training courses to staff for business development as a one-stop service provider	



MANAGEMENT DISCUSSION AND ANALYSIS

Business objective	Implementation	Actual business progress
	– Provision of training in Japan for 2-3 high-quality technicians to keep abreast of the new technology for mould fabrication	– 2 technicians are staying in Japan for mould fabrication training
	– Provision of training in Japan for 1-2 high-quality technicians in respect of product development	– 2 technicians are staying in Japan for product development training
	– Continue to study the possibility of reducing cost and improving quality	– 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
3. Develop sales channel	– participate in precision mould exhibitions	– the technical staff of the Group's mould fabrication and product manufacturing divisions participated in Shanghai mould industry exhibition held in April 2006
	– Explore the possibility of settling up a mould design and development syndication with clients	– Participate in mould design and development with clients about electric wheel-chairs for disabled



MANAGEMENT DISCUSSION AND ANALYSIS

USE OF PROCEEDS

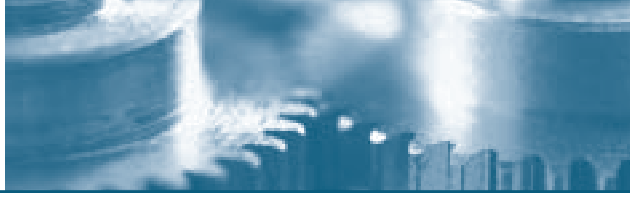
The proceeds from the Company's issue of new shares at the time of its listing on the Hong Kong Stock Exchange in October 2005, after deduction of related issuance expenses, amounted to approximately HK$33,318,000.

As at 31 December 2006, the cost of implementation of business objectives of the Group is compared as follows:

	Actual	**Estimated**
	HK$'000	HK$'000
Capital expenditure	19,250	19,250
Enhance moulding business to become a one-stop service provider	2,000	2,000
Develop sales channel	275	275
	21,525	21,525

PROPOSED DIVIDEND

The Directors recommend the payment of a final dividend of RMB6,080,000 for the year ended 31 December 2006.



REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2006.

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 2006 and the state of affairs of the Group at that date are set out in the financial statements on pages 30 to 70.

The directors recommend the payment of a final dividend of RMB0.038 per share in respect of the year.

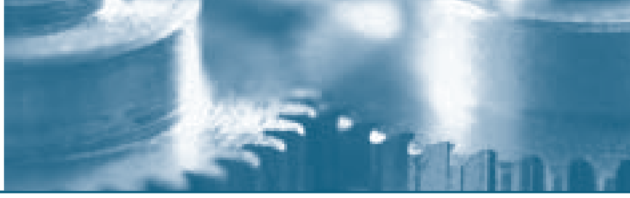
SUMMARY FINANCIAL INFORMATION

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

RESULTS

	2006	2005	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
			(Note)	(Note)
Revenue	**372,773**	256,923	164,523	125,652
Cost of sales	**(303,814)**	(205,693)	(124,816)	(96,106)
Gross profit	**68,959**	51,230	39,707	29,546
Other income	**4,189**	6,610	1,441	638
Distribution costs	**(5,821)**	(4,864)	(3,350)	(2,364)
Administrative expenses	**(42,738)**	(30,539)	(13,390)	(10,319)
Finance costs	**(7,173)**	(4,324)	(1,942)	(1,724)
Other expenses	**–**	–	(298)	(2,932)
Profit before taxation	**17,416**	18,113	22,168	12,845
Income tax expense	**(5,041)**	(4,072)	(941)	(613)
Profit for the year	**12,375**	14,041	21,227	12,232
ASSETS AND LIABILITIES				
Total assets	**382,603**	284,054	204,975	138,406
Total liabilities	**(237,299)**	(156,042)	(131,186)	(92,453)
	145,304	128,012	73,789	45,953

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



REPORT OF THE DIRECTORS

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

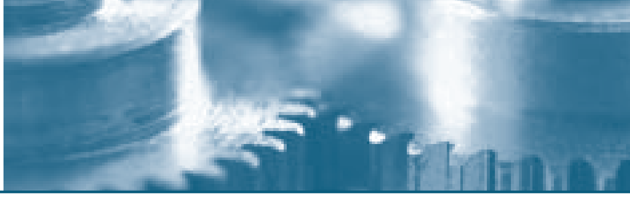
Details of movements in the reserves of the Company and the Group during the year are set out in note 31 to the financial statement the consolidated statement of changes in equity, respectively.

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

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 82.8% of the total sales for the year and sales to the largest customer included therein amounted to 28.2%. Purchases from the Group's five largest suppliers accounted for 44.6% of the total purchases for the year and purchases from the largest suppliers included therein amounted to 15.0%.

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



REPORT OF THE DIRECTORS

DIRECTORS

The directors of the Company during the year were:

Executive directors:
Mr. Keisuke Murakoshi
Mr. Xu Yong

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

* *Independent non-executive directors*

In accordance with articles 87 and 88 of the Company's articles of association, Messrs. Katsutoshi Masuda, Keisuke Murakoshi and Xu Yong 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

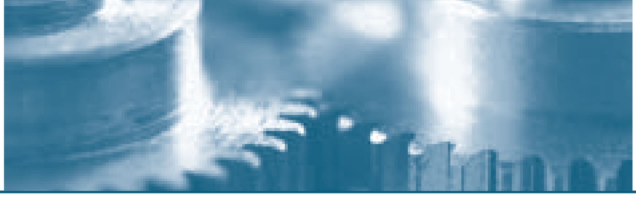
Biographical details of the directors of the Company and the senior management of the Group are set out on pages 25 to 26 of the annual report.

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.



REPORT OF THE DIRECTORS

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

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.

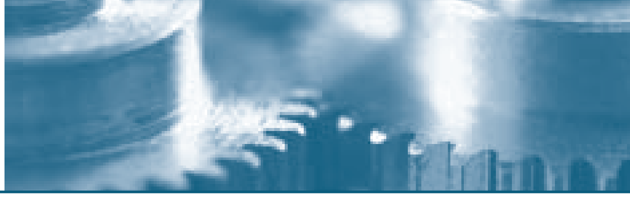
2. **Mould supply agreement between the Company and Yusei Japan**

   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:

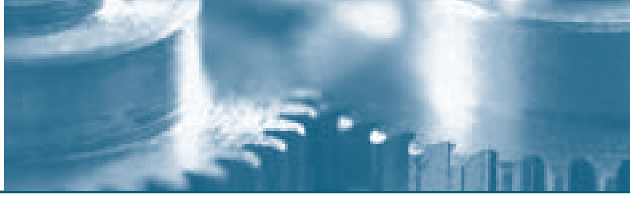
1. Long-term technical service: Yusei Japan shall second 3 technical consultants to Zhejiang Yusei and Hangzhou Yusei for providing technical advice and assistance to Zhejiang Yusei and Hangzhou Yusei. The technical advice and assistance will be on mould manufacturing and production of plastic products 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

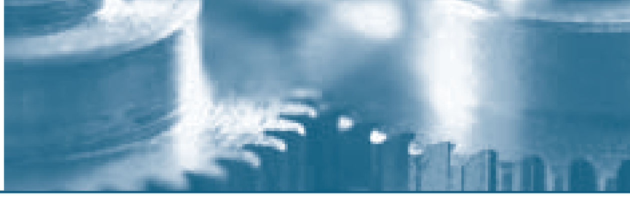
The Shares of the Company were listed on GEM of the Stock Exchange on 13 October 2005. So far as the Directors are aware, the following persons (other than the Directors or chief executive of the Company) had an interest and/or a short position in the shares or underlying shares in respect of equity 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 5% or more of the nominal value of any class of share capital carrying right to vote in all circumstances at general meetings of any other member of the Group are as follows:

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

Notes:

1. Conpri is interested in 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.



REPORT OF THE DIRECTORS

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 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 note 30 to the financial statements. Up to 31 December 2006, 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 37 to the financial statements. The continuing connected transactions had been entered into in accordance with the relevant agreements and pricing policies and have not exceeded the cap disclosed in the Company's prospectus dated 30 September 2005.

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 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 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 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 year ended 31 December 2006, 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

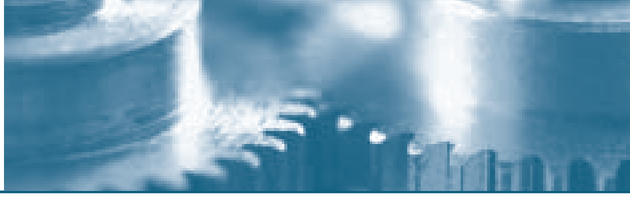
Yusei Japan is beneficially owned as to 66% equity interest of the Company. With its production and business operations based in Japan, Yusei Japan is principally engaged in the design, fabrication and sales of plastic injection moulds, and, to a lesser extent, the manufacture and sales of plastic component 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;



REPORT OF THE DIRECTORS

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

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

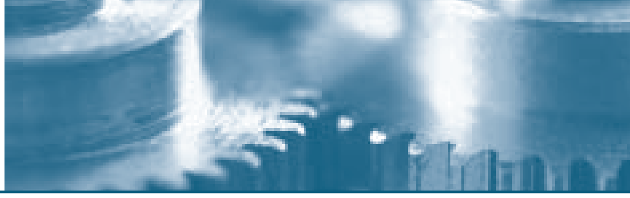
(4) not directly or indirectly sell, distribute, supply or otherwise provide any products that are within the Group's Product Portfolio where the relevant Covenantor(s) know(s), or is reasonably regarded as should have known, that such products are destined to be re-sold, re-distributed or re-supplied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

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

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

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

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



REPORT OF THE DIRECTORS

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 13 October 2005 (date of listing) 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 2006.

AUDITORS

SHINEWING (HK) CPA Limited ("SHINEWING") were appointed as auditors of the Company on 12 January 2007 in succession to Deloitte Touche Tohmatsu which resigned on 5 December 2006.

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

ON BEHALF OF THE BOARD

Katsutoshi Masuda
Chairman

PRC
30 March 2007

DIRECTORS' SECURITIES TRANSACTIONS

– During the year ended 31 December 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 he required standard of dealings and its code of conduct regarding securities transactions by directors.

BOARD OF DIRECTORS

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

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

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

– The list of directors and their biographies are set out in pages 25 to 26.

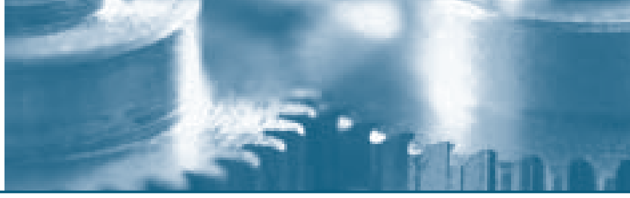
– Interim and final board meetings of the Board are held on a regular basis. The Board is responsible for formulating and reviewing the business direction and strategy for the relevant auditing period and for supervising the operating and financial performance of the Group. Where necessary, the Board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

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

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

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

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



CORPORATE GOVERNANCE REPORT

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

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

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

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

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

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

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

Name of directors	**Attendance of individual directors in meetings of the Board in 2006**
Katsukoshi Masuda	5/5
Keisuke Murakoshi	5/5
Xu Yong	5/5
Akio Suzuki	5/5
Toshimitsu Masuda	5/5
Toshinobu Ito	5/5
Lo Ka Wai	5/5
Fan Xiao Ping	5/5
Hisaki Takabayahi	5/5

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

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

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

NON-EXECUTIVE DIRECTORS

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

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

REMUNERATION OF DIRECTORS

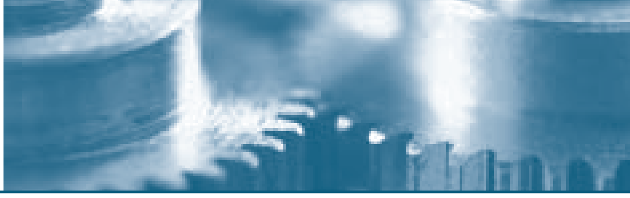
– The Company has established Remuneration Committee comprising all independent non-executive directors.

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

– Since the Company and each of the directors entered into a director's service contract in 2005 for a term of three years, under which the remuneration is fixed, there was no change in remuneration and performance policy for the directors and no discussion took place in respect of the directors' remuneration during the year.

NOMINATION OF DIRECTORS

– The Company has not set up any nomination committee. The Board is responsible for the recommendation, election and appointment of senior management personnel of the Company. At a Board meeting held on 29 March 2006, matters relating to the nomination of directors for re-election at the annual general meeting were discussed. The meeting was attended by Messrs Katsutoshi Masuda, Keisuke Murakoshi, Xu Yong, Akio Suzuki, Toshimitsu Masuda, Toshinobu Ito, Lo Ka Wai, Fan Xiaoping and Hisaki Takabayashi. The criteria for nomination of directors for re-election include the past performance of the respective directors and the suitability of the nominee as a director of a listed company.



CORPORATE GOVERNANCE REPORT

AUDITORS' REMUNERATION

– SHINEWING (Hong Kong) CPA Limited ("SHINEWING") were appointed as the auditors of the Company pursuant to the shareholders' resolution passed in the Extraordinary General Meeting held on 12 January 2007. Auditing fees in respect of annual audit service amounted to HK$480,000. SHINEWING did not provide other non-audit services to the Company except for the agreed-upon- procedure review on the Group's continuing connected transactions as required by Rules 20.38 of GEM Listing Rules.

– The financial statements for the year ended 31 December 2006 were audited by SHINEWING whereas those for the two years ended 31 December 2004 and 2005 was audited by Messrs. Deloitte Touche Tohmatsu.

AUDIT COMMITTEE

– The Company has established an Audit Committee comprising all Independent Non-executive Directors, namely Messrs Lo Ka Wai (as chairman), Fan Xiaoping and Hisaki Takabayashi, with written terms of reference in compliance with Rules 5.28 to 5.30 of the GEM Listing Rules. The primary duties of the Audit Committee are (1) to review, in draft form, the Company's annual report and accounts, half-yearly and quarterly reports and providing advice and comments thereon to the Board; and (2) to review and supervise the Company's financial reporting and internal control procedures.

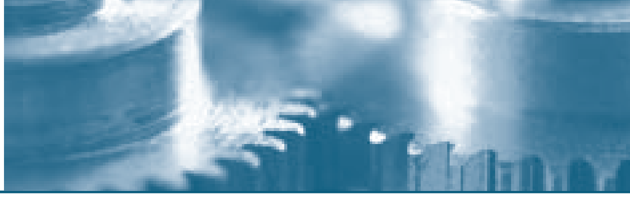
– The Audit Committee holds at least four meetings each year.

Name of directors	Attendance of individual directors in meetings of the committee in 2006
Lo Ka Wai	4/4
Fan Xiao Ping	4/4
Hisaki Takabayahi	4/4

ACCOUNTABILITY AND AUDIT

The Board acknowledges its responsibility for preparing the financial statements of the Group which give a true and fair view of the state of affairs of the Group on a going concern basis. In preparing the accounts for the year ended 31 December 2006, the directors have selected suitable accounting policies and applied them consistently and made judgements and estimates that are prudent and reasonable.

The statement of the auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Report of the Auditors.



BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS AND SENIOR MANAGEMENT

Directors

Mr. Katsutoshi MASUDA (增田勝年先生), aged 62, is the chairman and a non-executive Director of the Company. Mr. Masuda was appointed as the chairman of the Company on 2 June 2005 and as a Director on 21 April 2005. Mr. Masuda has over 35 years of experience in mould fabrication and manufacturing. Mr. Masuda founded Yusei Machinery Corporation ("Yusei Japan"), the Company's ultimate holding company in September 1969 and is currently also a director and shareholder of Yusei Japan and Conpri. Mr. Masuda is one of the founders of the Group in April 1992 and is responsible for the major strategy of the Group.

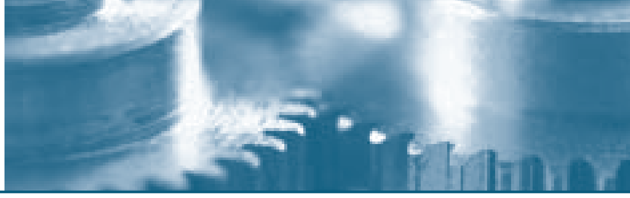
Mr. Keisuke MURAKOSHI (村越啟介先生), aged 65, is an executive Director of the company and its subsidiary, Zhejing Yusei. Mr. Murakoshi was appointed as a Director of the Company on 21 April 2005. Mr. Murakoshi joined the Group in April 1992 as a director. In August 1993, Mr. Murakoshi was appointed as the 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 44, 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 60, 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 38, 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 56, 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.



BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Independent non-executive Director

Mr. FAN Xiaoping (范曉屏先生), aged 50, 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 37, 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.

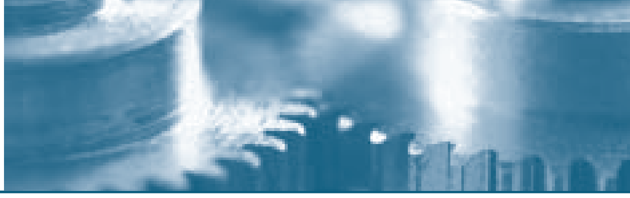
Mr. Hisaki TAKABAYASHI (高林久記先生), aged 46, was appointed as an independent non-executive Director on 2 September 2005. Mr. Takabayashi graduated from 大東文化大學(Daitobonka University) with a bachelor degree in Chinese in March 1983. Mr. Takabayashi was the deputy representative of the Shanghai Office of 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 39, 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 38, 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 35, 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.



NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY given that the Annual General Meeting of Yusei Holdings Limited (the "Company") will be held at No.8 Youcheng Road, Xiaoshan Economy & Technology Development Zone, Zhejiang, China on 27 April 2007 (Friday) 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 2006.

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, 4 April 2007

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. Katsutoshi Masuda, Mr. Keisuke Murakoshi and Mr. Xu Yong, 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.

INDEPENDENT AUDITORS' REPORT

信永中和
ShineWing

SHINEWING (HK) CPA Limited
Suites 09-18, 20/F.,
Shui On Centre,
6-8 Harbour Road,
Wanchai, Hong Kong.

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

We have audited the consolidated financial statements of Yusei Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 30 to 70, which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

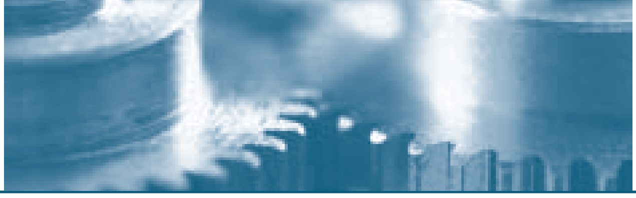
DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error.



INDEPENDENT AUDITORS' REPORT

In making those risk assessments, the auditors consider internal control relevant to the Group's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

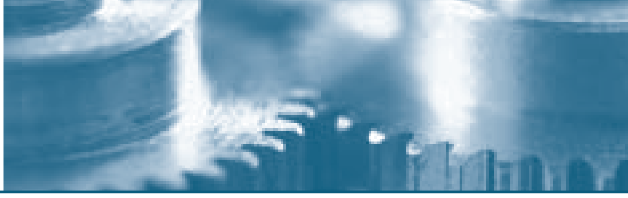
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of the Group's affairs as at 31 December 2006 and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Without qualifying our opinion, we draw attention to Note 3B to the consolidated financial statements which indicates that the Group recorded consolidated net current liabilities of approximately RMB8,613,000 as at 31 December 2006. In forming our opinion, we have considered the adequacy of disclosures made in the consolidated financial statements concerning the adoption of the going concern basis for the preparation of the consolidated financial statements. As set out in Note 3B to the consolidated financial statements, provided that (i) the Group can obtain the continuing financial supports from its related company; (ii) the Group can successfully negotiate with its major banks to secure their ongoing support to the Group and extend the short-term loans upon maturity for a period up to 31 March 2008; (iii) the availability of the additional banking facilities granted by the Group's major banks; and (iv) the Group can implement other measures to improve its working capital position and net financial position. The directors of the Company are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. The consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon future funding being available. The consolidated financial statements do not include any adjustments that would result from a failure of the Group to obtain such future funding. We consider that the fundamental uncertainty has been adequately disclosed in the consolidated financial statements and our opinion is not qualified in this respect.

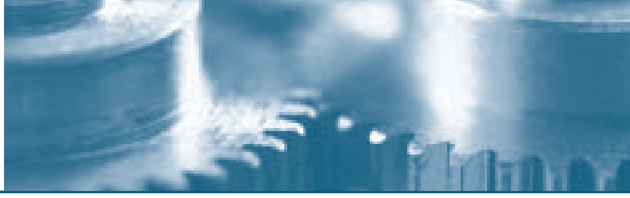
SHINEWING (HK) CPA Limited
Certified Public Accountants
Ip Yu Chak
Practicing Certificate Number: P04798
Hong Kong
30 March 2007



CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

	NOTES	2006 RMB'000	2005 RMB'000
Revenue	5	**372,773**	256,923
Cost of sales		**(303,814)**	(205,693)
Gross profit		**68,959**	51,230
Other income	6	**4,189**	6,610
Distribution costs		**(5,821)**	(4,864)
Administrative expenses		**(42,738)**	(30,539)
Finance costs	7	**(7,173)**	(4,324)
Profit before taxation		**17,416**	18,113
Income tax expense	8	**(5,041)**	(4,072)
Profit for the year	9	**12,375**	14,041
Dividend	11	**5,920**	5,000
		RMB	RMB
Earnings per share	12		
– Basic		**0.08**	0.12



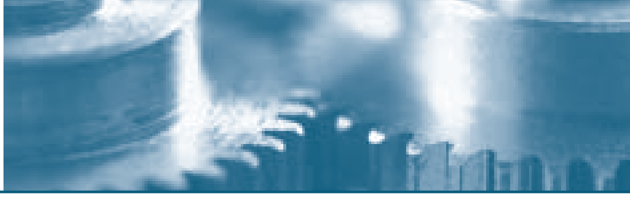
CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2006

	NOTES	2006 RMB'000	2005 RMB'000 (Restated)
Non-current assets			
Property, plant and equipment	13	**192,403**	153,689
Intangible asset	14	**1,578**	1,633
Land use rights	15	**4,637**	4,886
		198,618	160,208
Current assets			
Inventories	16	**50,568**	41,245
Debtors, deposits and prepayments	17	**96,968**	59,971
Amount due from a director	18	**751**	751
Pledged bank deposits	19	**5,500**	–
Bank balances, deposits and cash	20	**30,198**	21,879
		183,985	123,846
Current liabilities			
Creditors and accrued charges	21	**100,730**	72,792
Amount due to ultimate holding company	22	**3,924**	1,745
Tax liabilities		**2,418**	1,806
Obligations under finance leases-due within one year	24	**4,476**	4,412
Bank borrowings-due within one year	25	**81,050**	52,806
Other payables	26	**–**	1,038
		192,598	134,599
Net current liabilities		**(8,613)**	(10,753)
Total assets less current liabilities		**190,005**	149,455
Non-current liabilities			
Amount due to a related party	23	**10,404**	–
Obligations under finance leases-due after one year	24	**10,667**	15,743
Bank borrowings-due after one year	25	**23,630**	5,700
		44,701	21,443
		145,304	128,012
Capital and reserves			
Share capital	27	**1,623**	1,524
Reserves	31	**143,681**	126,488
		145,304	128,012

The consolidated financial statements on pages 30 to 70 were approved and authorised for issue by the Board of Directors on 30 March 2007 and are signed on its behalf by:

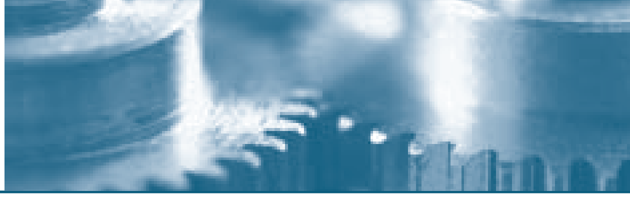
Katsutoshi Masuda	**Keisuke Murakoshi**
DIRECTOR	*DIRECTOR*



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2006

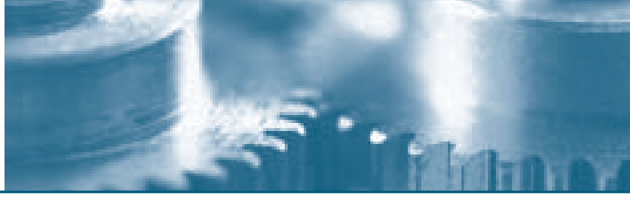
	Share capital RMB'000 (note 27)	Share premium RMB'000	Paid-in capital RMB'000 (note 28)	Special reserve RMB'000 (note 31(v))	Reserve for shares issued with vesting conditions RMB'000 (note 31(iv))	Translation reserve RMB'000	Capital reserve RMB'000 (note 31(ii))	Statutory surplus reserve RMB'000 (note 31(iii))	Retained profits RMB'000	Total RMB'000
At 1 January 2005	–	–	50,032	–	–	–	36	1,851	21,870	73,789
Exchange differences arising on conversion of foreign operations 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 placement 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 consolidated income statement (note 29)	–	–	–	–	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
Exchange differences arising on conversion of foreign operations and net expenses directly recognised in equity	–	–	–	–	–	(71)	–	–	–	(71)
Profit for the year	–	–	–	–	–	–	–	–	12,375	12,375
Total recognised income and expense for the year	–	–	–	–	–	(71)	–	–	12,375	12,304
Shares issued in last year with vesting conditions fulfilled during the year (note 29)	99	(99)	–	–	–	–	–	–	–	–
Fair value of estimated shares issued with vesting conditions charged to consolidated income statement (note 29)	–	–	–	–	10,908	–	–	–	–	10,908
2005 Final dividend paid	–	–	–	–	–	–	–	–	(5,920)	(5,920)
Transfer	–	–	–	–	–	–	–	2,562	(2,562)	–
At 31 December 2006	1,623	40,054	–	49,663	14,881	(170)	36	6,817	32,400	145,304



CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

	2006 RMB'000	2005 RMB'000 (Restated)
Operating activities		
Profit before taxation	17,416	18,113
Adjustments for:		
Bank interest income	(222)	(79)
Depreciation and amortisation	16,815	12,364
Loss (gain) on disposal of property, plant and equipment	13	(2)
Listing expenses written off	–	6,657
Recognition of the fair value of vested shares issued with vesting conditions	10,908	3,973
Allowance for bad and doubtful debts	1,392	–
Allowance for inventories	455	180
Finance costs	7,173	4,324
Operating cash flows before movements in working capital	53,950	45,530
Increase in inventories	(9,778)	(16,195)
Increase in debtors, deposits and prepayments	(38,389)	(19,253)
Decrease in amount due from a director	–	846
Increase in creditors and accrued charges	27,938	31,040
Increase (decrease) in amount due to ultimate holding company	2,179	(3,200)
Cash generated from operations	35,900	38,768
Income tax paid	(4,429)	(2,656)
Net cash from operating activities	31,471	36,112
Investing activities		
Purchase of property, plant and equipment	(55,773)	(36,792)
Purchase of land use right	–	(1,090)
Increase in pledged bank deposits	(5,500)	–
Proceeds on disposal of property, plant and equipment	18	704
Interest received	222	79
Acquisition of intangible asset	(521)	(786)
Net cash used in investing activities	(61,554)	(37,885)



CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

	2006 RMB'000	2005 RMB'000 (Restated)
Financing activities		
New bank borrowings raised	**145,780**	85,053
Repayment of bank borrowings	**(99,606)**	(74,747)
Increase (decrease) in amounts due to related parties	**10,000**	(17,933)
Interest paid	**(6,769)**	(4,324)
Dividend paid	**(5,920)**	–
Repayment of obligations under finance leases	**(5,012)**	(4,892)
Issue of shares	**–**	45,619
Listing expenses paid	**–**	(10,968)
Dividend paid to ultimate holding company before listing of the Company's shares	**–**	(5,000)
Net cash from financing activities	**38,473**	12,808
Increase in cash and cash equivalents	**8,390**	11,035
Effect of foreign exchange rate changes	**(71)**	(99)
Cash and cash equivalents at beginning of the year	**21,879**	10,943
Cash and cash equivalents at end of the year, representing		
Bank balances, deposits and cash	**30,198**	21,879

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 corporate information to the annual report.

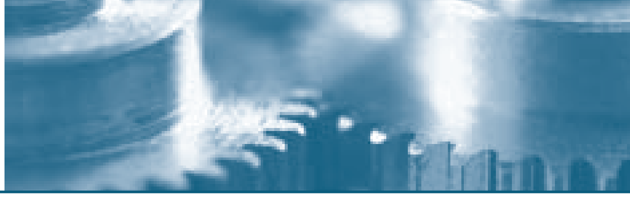
The principal activities of the Company and its subsidiaries (the "Group") are moulding fabrication, manufacturing and trading of moulds and plastic components.

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 purpose only.

The Group resulting from the above mentioned reorganisation is regarded as a continuing entity. Accordingly, the consolidated 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 year ended 31 December 2005.

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



2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The HKICPA has issued certain new and revised standards, amendments and interpretations ("new HKFRSs") which are effective for accounting period beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no significant impact on how the results or the financial position of the Group for current and previous accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

Up to the date of issue of these consolidated financial statements, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the accounting year ended 31 December 2006 and which have not been adopted in these consolidated financial statements.

Hong Kong Accounting Standard 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-Interpretation ("Int") 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC)-Int 8	Scope of HKFRS 2[4]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives[5]
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment[6]
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions[7]
HK(IFRIC)-Int 12	Service Concession Arrangements[8]

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 January 2009.
[3] Effective for annual periods beginning on or after 1 March 2006.
[4] Effective for annual periods beginning on or after 1 May 2006.
[5] Effective for annual periods beginning on or after 1 June 2006.
[6] Effective for annual periods beginning on or after 1 November 2006.
[7] Effective for annual periods beginning on or after 1 March 2007.
[8] Effective for annual periods beginning on or after 1 January 2008.

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

3A. Basis of preparation of the consolidated financial statements

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis, except for certain financial instruments, which are measured at fair values as explained in the accounting policies set out below.

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

3B. Fundamental uncertainty

The consolidated financial statements have been prepared on a going concern basis notwithstanding the net current liabilities of approximately RMB8,613,000 as at 31 December 2006. In the opinion of the directors, the Group should be able to maintain itself as a going concern in the coming year by taking into consideration the proposed arrangements which include, but are not limited to, the following:

1. a related company of the Company had confirmed to provide continuing financial supports to the Group to enable it to settle its liabilities as and when they fall due and agreed not to demand for repayment of amount due to them totaling approximately RMB10,404,000 as at 31 December 2006 until the Group is in a financial position to do so;

2. the directors anticipate that the Group will generate positive cash flows from its businesses;

3. the directors have implemented measures to tighten cost controls over various distribution costs and administrative expenses and to improve the Group's positive cashflow position and operating results;

4. subsequent to the balance sheet date, on 15 January 2007, a Group's major bank, agreed to roll over a short-term loan of approximately RMB19,224,000 granted to the Group upon maturity on 19 January 2007 for another one year up to 18 January 2008;

5. subsequent to the balance sheet date, in March 2007, the Group obtained additional banking facilities of RMB50,000,000 from a bank for one year up to March 2008;

6. subsequent to the balance sheet date, the Group has successfully negotiated with its major banks to secure their ongoing support to the Group and the banks also agreed to extend the short-term loans of approximately RMB42,250,000 in aggregate, as at 31 December 2006 upon maturity for a period up to 31 March 2008 subject to the terms and conditions mutually acceptable to both parties.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3B. Fundamental uncertainty *(Continued)*

On the basis that the Group obtained the continuing financial support from its related company, the continuing availability of the banking facilities provided by its banks and the implementation of other measures with a view to improve its working capital position and net financial position, the directors consider that the Group will have sufficient working capital to meet its financial obligations as and when they fall due for the twelve months from 31 December 2006. Accordingly, the directors are satisfied that it is appropriate to prepare these consolidated financial statements on a going concern basis. The consolidated financial statements do not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

3C. Significant accounting policies

Basis of consolidation

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

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

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

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

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

Property, plant and equipment

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3C. Significant accounting policies *(Continued)*

Property, plant and equipment *(Continued)*

Construction in progress represents property, plant and equipment under construction and is stated at cost less any identified impairment loss. Construction in progress is not depreciated until construction is completed and the assets are ready for their intended use. Construction in progress is transferred to the appropriate categories of property, plant and equipment when completed and ready for intended use.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives, and after taking into account 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 consolidated income statement in the year in which the item is derecognised.

Borrowing costs

Borrowing costs are recognised in profit or loss in the year in which they are incurred.

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. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated 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 to profit or loss.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3C. Significant accounting policies *(Continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At 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 Group (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 year, 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.

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs, if any. Grants related to depreciable assets are presented as deferred income and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are deducted in reporting the related expense.

Retirement benefits scheme contribution

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3C. Significant accounting policies *(Continued)*

Taxation

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

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated 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 from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 to the profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Intangible assets

Software acquired separately and with finite useful lives is stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on a straight-line basis over the estimate useful lives of the respective software.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3C. Significant accounting policies *(Continued)*

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 and other costs 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 is the estimated selling price less all estimated costs of completion and other costs to be incurred in marketing, selling and distribution.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

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 it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

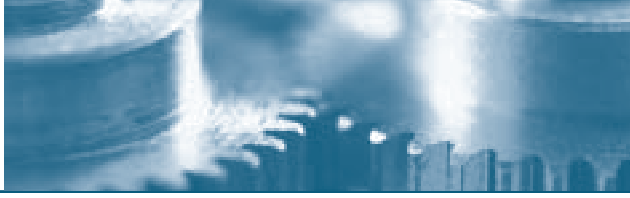
Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific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

Land use rights

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



3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3C. Significant accounting policies *(Continued)*

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated 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 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 specific financial assets of the Group are set out below.

Trade debtors, deposits and amount due from a director

Trade debtors, deposits and amount due from a director are non-interest bearing and are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the assets's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset as the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

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)*

3C. 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 accounting policies adopted for specific financial liabilities and equity instruments of the Group are set out below.

Bank borrowings

Interest-bearing bank loans 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 consolidated income statement 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.

Creditors, amount due to ultimate holding company, amount due to a related company and obligations under finance leases

Creditors, amount due to ultimate holding company, amount due to a related company and obligations under finance leases are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

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

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).

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3C. Significant accounting policies *(Continued)*

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

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 after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained earnings.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, management makes various estimates and judgements (other than those involving estimates) based on past experience, expectations of the future and other information. The key source of estimation uncertainty and the critical judgement that can significantly affect the amounts recognised in the consolidated financial statements is disclosed below:

Fair value of vested restricted shares

During the year, the Group has recognised the fair value of the vested restricted shares amounted to RMB10,908,000 (2005: RMB3,973,000) based on the assumption that the vesting conditions will be fulfilled by a 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.

Estimated useful lives of property, plant and equipment

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

Impairment of trade debtors

The Group performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customer's current credit-worthiness, as determined by a review of their current credit information. The Group continuously monitors collections and payments from its customers and maintain a provision for estimated credit losses based upon its historical experience and any specific customer collection issues that it has identified.

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

Taxation

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Where the final tax outcome of these transactions is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5. REVENUE AND SEGMENT INFORMATION

Revenue represents the net amounts received and receivable for goods sold to outside customers, less returns and discounts, 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 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.

6. OTHER INCOME

	2006	2005
	RMB'000	RMB'000
Gain on sales of materials	**1,675**	491
Bank interest income	**222**	79
Exchange gain	**2,171**	4,488
Government grant relating to the listing of the Company's shares (note)	**–**	1,300
Others	**121**	252
	4,189	6,610

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 as an incentive for the Company's successful listing on the GEM of the Stock Exchange on 13 October 2005.

7. FINANCE COSTS

	2006 RMB'000	2005 RMB'000
Interest on:		
Bank borrowings wholly repayable within five years	5,296	3,679
Finance leases	991	645
Short-term loan from a related party	713	–
Other borrowings	173	–
	7,173	4,324

8. INCOME TAX EXPENSE

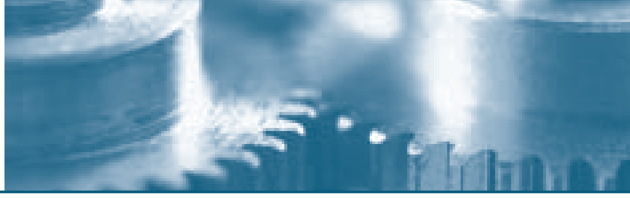
	2006 RMB'000	2005 RMB'000
PRC enterprise income tax		
Current year	5,233	4,072
Over-provision in prior years	(192)	–
	5,041	4,072

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 two years ended 31 December 2005 and 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. Zhejiang Yusei is subjected to an income tax rate of 16.5% commencing from 1 January 2006.



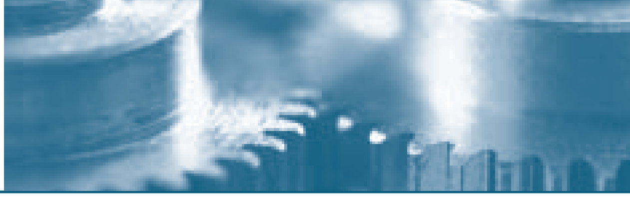
8. INCOME TAX EXPENSE *(Continued)*

Hangzhou Yusei Moulding is not subject to PRC income tax as it has not commenced business up to 31 December 2006.

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

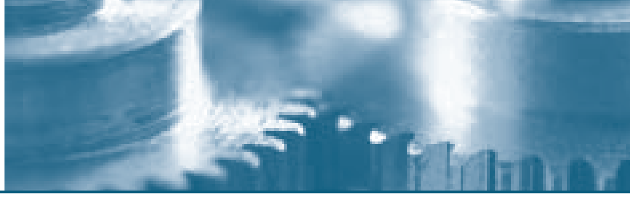
The charge for the year can be reconciled to the profit before taxation per consolidated income statement, based on the income tax rate of most of the Group's profit under assessment, as follows:

	2006 **RMB'000**	2005 RMB'000
Profit before taxation	**17,416**	18,113
Tax at the income tax rate at 26.4% (2005: 26.4%)	**4,598**	4,782
Tax effect of expenses not deductible for tax purpose	**4,728**	3,060
Tax effect of tax concession period	**(3,205)**	(4,734)
Effect of different tax rates	**(888)**	964
Over-provision in prior years	**(192)**	–
Tax charge for the year	**5,041**	4,072



9. PROFIT FOR THE YEAR

	2006 RMB'000	2005 RMB'000 (Restated)
Profit for the year has been arrived at after charging (crediting):		
Directors' remuneration (note 10)	9,800	3,385
Other staff costs	27,924	17,977
Recognition of the fair value of vested restricted shares	3,462	1,560
Retirement benefits scheme contributions	1,754	1,276
	33,140	20,813
Total staff cost	42,940	24,198
Amortisation of intangible asset included in administrative expenses	576	438
Amortisation of land use rights included in administrative expenses	249	255
Depreciation of owned property, plant and equipment	13,659	10,561
Depreciation of property, plant and equipment under finance leases	2,331	1,110
	16,815	12,364
Operating lease charges on leased office premises	103	–
Allowance for bad and doubtful debts	1,392	–
Allowance for inventories	455	180
Auditors' remuneration	480	859
Loss (gain) on disposal of property, plant and equipment	13	(2)
Listing expenses written off	–	6,657



10. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

The emoluments of directors are analysed as follows:

2006

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	485	136	–	7,446	16	8,083
Keisuke Murakoshi	867	360	–	–	–	1,227
Lo Ka Wai	122	–	–	–	–	122
Katsutoshi Masuda	153	–	–	–	–	153
Toshimitsu Masuda	51	–	–	–	–	51
Akio Suzuki	51	–	–	–	–	51
Toshinobu Ito	51	–	–	–	–	51
Fan Xiaopin	31	–	–	–	–	31
Hisaki Takabayashi	31	–	–	–	–	31
	1,842	496	–	7,446	16	9,800

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

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

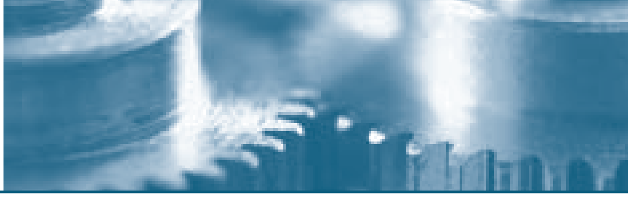
Of the five highest paid individuals in the Group during the year ended 31 December 2006, two (2005: two) were directors of the Company and details of their emoluments are set out above. The emoluments of the remaining three (2005: three) individuals were as follows:

	2006	2005
	RMB'000	RMB'000
Basic salaries and allowances	**3,255**	1,260
Share-based payments	**–**	437
	3,255	1,697

The emoluments of these individuals were within the following bands:

	2006	2005
HK$ nil to HK$1,000,000	**1**	3
HK$1,000,001 to HK$1,500,000	**2**	–

During the two years ended 31 December 2005 and 2006, 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 two years ended 31 December 2005 and 2006.



11. DIVIDEND

The directors recommend a payment of final dividend for the year ended 31 December 2006 of RMB0.038 per share, amounting to RMB6,080,000 in aggregate and is subjected to the approval by shareholders in general meeting.

The final dividend for the year ended 31 December 2005 of RMB0.037 per share, amounting to RMB5,920,000 in aggregate, was approved at the Company's annual general meeting held on 21 April 2006 and paid to the shareholders of the Company during the year ended 31 December 2006.

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 Machinery Corporation, in the year ended 31 December 2005.

12. EARNINGS PER SHARE

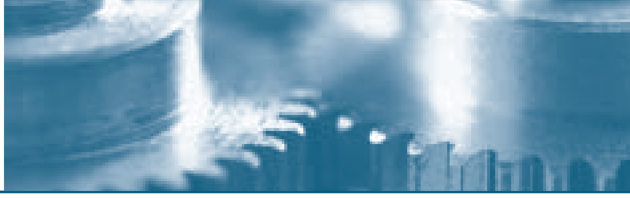
The calculation of the basic earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	2006	2005
	RMB'000	RMB'000
Earnings for the purposes of basic earnings per share	**12,375**	14,041

	2006	2005
Weighted average number of ordinary shares for the purposes of basic earnings per share	**147,683,068**	118,271,232

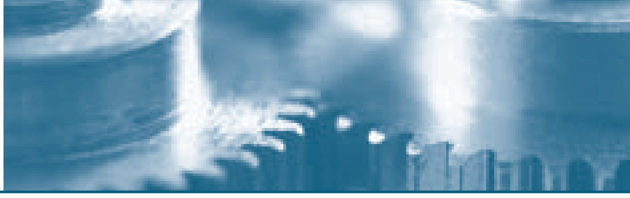
The earnings per share for year ended 31 December 2005 is computed assuming the 110,600,000 shares in issue prior to the placing of 35,000,000 new shares on 12 October 2005 as set out in note 28(f) and the granting of 14,400,000 shares with vesting conditions on 12 October 2005 as set out in note 29 were issued at 1 January 2004. During the year ended 31 December 2006, 9,504,000 shares (2005: nil) were regarded as additions to share capital for accounting purposed as the vesting conditions of these shares had been fulfilled. Such new shares rank pari passu in all respects with the existing shares.

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 (Restated)	Machinery and equipment RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Moulds RMB'000	Construction in progress RMB'000	Total RMB'000 (Restated)
COST							
At 1 January 2005	29,828	105,125	2,600	3,282	3,276	28,762	172,873
Additions	6,088	12,909	1,046	635	–	24,255	44,933
Transfer	23,439	29,565	–	13	–	(53,017)	–
Disposals	(629)	(105)	–	–	(2,847)	–	(3,581)
At 31 December 2005 and 1 January 2006	58,726	147,494	3,646	3,930	429	–	214,225
Additions	3,251	27,879	741	1,000	–	21,864	54,735
Transfer	–	21,864	–	–	–	(21,864)	–
Disposals	–	–	(417)	–	–	–	(417)
At 31 December 2006	61,977	197,237	3,970	4,930	429	–	268,543
DEPRECIATION							
At 1 January 2005	4,987	40,291	1,361	2,064	3,041	–	51,744
Provided for the year	942	10,073	272	303	81	–	11,671
Elimination on disposals	(12)	(20)	–	–	(2,847)	–	(2,879)
At 31 December 2005 and 1 January 2006	5,917	50,344	1,633	2,367	275	–	60,536
Provided for the year	3,602	11,067	798	456	67	–	15,990
Elimination on disposals	–	–	(386)	–	–	–	(386)
At 31 December 2006	9,519	61,411	2,045	2,823	342	–	76,140
NET BOOK VALUE							
At 31 December 2006	52,458	135,826	1,925	2,107	87	–	192,403
At 31 December 2005	52,809	97,150	2,013	1,563	154	–	153,689



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

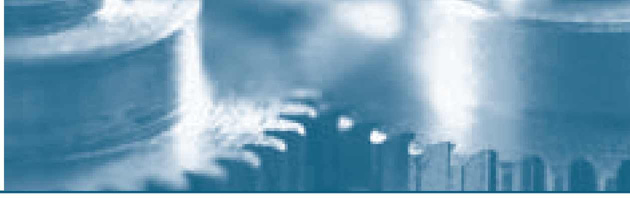
Analysis of net book values of machinery and equipment held under finance leases is:

	2006	2005
	RMB'000	RMB'000
Machinery and equipment	**22,581**	24,050

14. INTANGIBLE ASSET

	2006	2005
	RMB'000	RMB'000
COST		
At beginning of the year	**2,600**	1,814
Additions	**521**	786
At end of the year	**3,121**	2,600
AMORTISATION		
At beginning of the year	**967**	529
Charge for the year	**576**	438
At end of the year	**1,543**	967
NET CARRYING VALUES		
At end of the year	**1,578**	1,633

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

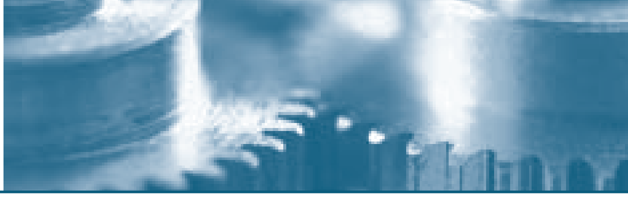


15. LAND USE RIGHTS

	2006 RMB'000	2005 RMB'000 (Restated)
COST		
At beginning of the year	6,364	5,274
Additions	–	1,090
At end of the year	6,364	6,364
AMORTISATION		
At beginning of the year	1,229	974
Charge for the year	249	255
At end of the year	1,478	1,229
NET CARRYING VALUES		
At end of the year	4,886	5,135

	2006 RMB'000	2005 RMB'000 (Restated)
Analysed for reporting purposes as:		
Current assets (included in debtors, deposits and prepayments)	249	249
Non-current assets	4,637	4,886
	4,886	5,135

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



16. INVENTORIES

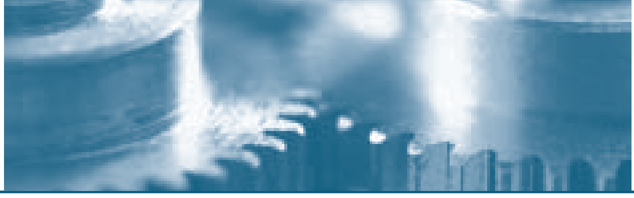
	2006 RMB'000	2005 RMB'000
Raw materials	**15,305**	12,176
Work-in-progress	**11,345**	12,157
Finished goods	**23,918**	16,912
	50,568	41,245
At cost	**50,077**	41,005
At net realisable value	**491**	240
	50,568	41,245

17. DEBTORS, DEPOSITS AND PREPAYMENTS

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

The aging analysis of trade debtors is as follows:

	2006 RMB'000	2005 RMB'000 (Restated)
1 – 30 days	**62,679**	40,372
31 – 60 days	**18,425**	9,153
61 – 90 days	**4,071**	4,325
91 – 180 days	**6,777**	3,028
Over 180 days	**2,956**	63
Trade debtors and bills receivable	**94,908**	56,941
Less: accumulated impairment losses	**(1,392)**	–
	93,516	56,941
Other debtors, deposits and prepayments	**3,452**	3,030
	96,968	59,971



18. AMOUNT DUE FROM A DIRECTOR

Name of director	At 1 January 2005	At 31 December 2005 and 1 January 2006	Maximum amount outstanding during 2005	At 31 December 2006	Maximum amount outstanding during 2006
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Keisuke Murakoshi	1,597	751	1,597	751	751

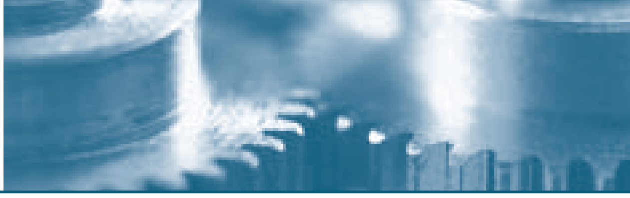
The amount is unsecured, interest-free and repayable on demand.

19. PLEDGED BANK DEPOSITS

Deposits amounting to RMB5,500,000 (2005: nil) have been pledged to secure banking facilities granted to the Group. The bank deposits have been pledged for short-term bills payable and therefore classified as current assets. The pledged bank deposits carry fixed interest rate of 2.07% and will be released upon the settlement of relevant bills payable.

20. BANK BALANCES, DEPOSITS AND CASH

At 31 December 2006, bank balances, deposits and cash of RMB14,559,000 (2005: RMB14,443,000) were denominated in Renminbi, which is not freely convertible currency in the international market and its exchange rate is determined by the Government of the PRC.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2006

21. CREDITORS AND ACCRUED CHARGES

The aging analysis of trade creditors is as follows:

	2006 RMB'000	2005 RMB'000
1 – 30 days	**37,939**	33,419
31 – 60 days	**17,676**	16,918
61 – 90 days	**9,573**	8,212
91 – 180 days	**643**	4,491
Over 180 days	**2,714**	1,660
Trade creditors	**68,545**	64,700
Bills payable	**15,000**	–
Other creditors and accrued charges	**17,185**	8,092
	100,730	72,792

The Group's bank deposits of RMB5,500,000 (2005: nil) were pledged to the banks to secure the bills payable as at 31 December 2006.

22. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

The amount was unsecured, interest-free and has been fully settled subsequent to the balance sheet date.

23. AMOUNT DUE TO A RELATED PARTY

	2006 RMB'000	2005 RMB'000
Yusei Hangzhou Property Company Limited ("Hangzhou Property")	**10,404**	–

Mr. Xu Yue, a brother of a Company's director, Mr. Xu Yong, has a beneficial interest in Hangzhou Property. The amount as at 31 December 2006 represents loan to the Group which is unsecured, bore interest at an annual rate of 6.696% and has no fixed terms of repayment. Hangzhou Property has undertaken not to demand for repayment for the next twelve months from the balance sheet date and the amount is therefore classified as an non-current liability as at 31 December 2006. The amount is carried at fair value and is subsequently measured at amortised cost, using the effective interest method.

24. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amounts payable under finance leases:				
Within one year	**5,078**	5,316	**4,476**	4,412
More than one year, but not exceeding two years	**5,078**	5,316	**4,680**	4,632
More than two years, but not exceeding five years	**6,203**	11,813	**5,987**	11,111
	16,359	22,445	**15,143**	20,155
Less: Future finance charges	**(1,216)**	(2,290)		
Present value of lease obligations	**15,143**	20,155		
Less: Amount due within one year shown under current liabilities			**(4,476)**	(4,412)
Amount due after one year			**10,667**	15,743

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

It is the Group's policy to lease certain of its machinery and equipment under finance leases. The average lease term is 4.75 years. For the year ended 31 December 2006, the average effective borrowing rate was 4.49% per annum (2005: 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. All finance leases obligation are denominated in RMB and Japanese Yen.

25. BANK BORROWINGS

	2006 RMB'000	2005 RMB'000
Secured (note a)	**34,900**	43,906
Unsecured (note b)	**69,780**	14,600
	104,680	58,506

The maturity profile of the above loans is as follows:

	2006 RMB'000	2005 RMB'000
On demand or within one year	**81,050**	52,806
More than one year, but not exceeding two years	**23,630**	5,700
	104,680	58,506
Less: Amount due within one year shown under current liabilities	**(81,050)**	(52,806)
	23,630	5,700

(a) As at 31 December 2006, 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 nil (2005: RMB5,006,000), RMB4,886,000 (2005 (restated): RMB5,135,000) and RMB4,583,000 (2005: RMB39,160,000), respectively.

(b) As at 31 December 2006, the amount guaranteed by the ultimate holding company is nil (2005: RMB12,300,000). During the year ended 31 December 2005, 浙江蕭山五糧液系列酒銷售有限公司, in which Mr. Xu Yue has beneficial interest, provided guarantees on certain borrowings of the Group. The guarantees has 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 2006, all the bank borrowings were arranged at fixed interests rates ranging from 4.79% to 6.34% (2005: 4.85% to 6.70%) per annum.

(d) The bank borrowings as at 31 December 2005 and 2006 are denominated in RMB and Japanese Yen.

(e) During the year, the Group advanced new borrowings approximately RMB145,780,000 to finance its capital expenditure and for expansion of production capacity of the Group.

26. OTHER PAYABLES

The other payables represent payable to independent third parties for purchases of property, plant and equipment which were unsecured, interest-free and had been fully settled during the year ended 31 December 2006.

27. SHARE CAPITAL OF THE COMPANY

	Number of shares '000	Amount HK$'000
Ordinary shares of HK$0.01 each		
Authorised		
On 4 April 2005 (date of incorporation) (note a)	35,000	350
Increase during the year (note b)	1,465,000	14,650
At 31 December 2005 and 2006	1,500,000	15,000

	Number of shares '000	Amount HK$'000	Shown in the consolidated 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 31 December 2005 and 31 December 2006	160,000	1,600	1,674
Less: Unvested shares issued with vesting conditions (note g)	(14,400)	(144)	(150)
Adjusted share capital for presentation purpose at 31 December 2005	145,600	1,456	1,524
Add: Shares issued with vesting conditions fulfilled during the year (note g)	9,504	95	99
Adjusted share capital for presentation purpose at 31 December 2006	155,104	1,551	1,623

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 were 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. During the year ended 31 December 2006, 9,504,000 shares (2005: nil) were regarded as additions to share capital for accounting purpose as the vesting conditions of these shares had been fulfilled. Such new shares rank pari passu in all respects with the existing shares.

28. PAID-IN CAPITAL

At 1 January 2005, 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

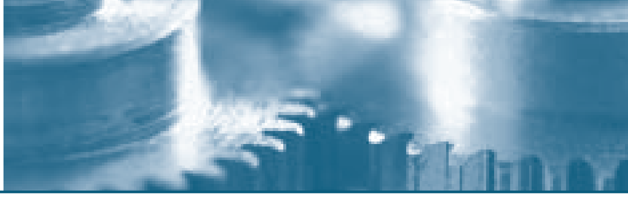
The directors consider the fair value of these shares at the date of allotment is HK$1.25 per share by reference to the placement price of the same amount to independent third parties on 12 October 2005 (see note 27(f)).

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/she will comply with the following non-disposal undertakings:

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

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

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

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

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

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

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

The directors based on the terms of the allotted shares and estimated that an amount of RMB10,908,000 (equivalent to HK$10,695,000) (2005: 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:

	2006	2005
	RMB'000	RMB'000
Mr. Xu Yong	**7,446**	2,413
Selected employees and technical consultants	**3,462**	1,560
	10,908	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.

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

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

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

30. SHARE OPTIONS *(Continued)*

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 losses, capitalisation into share capital and expansion of the Company's production and operation. For the capitalisation of statutory surplus reserve into share capital, the remaining amount of such reserve shall not be less than 25% of the registered share capital.

(iv) Reserve for shares issued with vesting conditions

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

(v) 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 approximately RMB12,792,000 (2006: nil).

33. OPERATING LEASE

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating lease which fall due as follows:

	2006	2005
	RMB'000	RMB'000
Within one year	**52**	–
In the second to fifth years inclusive	**21**	–
	73	–

Operating lease payments represent rentals payable by the Group for its leased office premises. Lease is negotiated for an average term of 2 years and rentals are fixed for an average of 2 years.

34. CAPITAL COMMITMENT

	2006	2005
	RMB'000	RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	**–**	1,888

35. RETIREMENT BENEFITS SCHEMES

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

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

The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions. During the year, the total retirement benefits scheme contributions changed to the consolidated income statement amounted to approximately RMB1,770,000 (2005: RMB1,292,000).

36. FINANCIAL RISK, MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include equity, bank borrowings, trade debtors and deposits, trade creditors and obligations under finance lease, balance with ultimate holding company and a related company and bank balances, deposits and cash. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

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 2006 accounts for only 30% of the Group's total trade debtors balance.

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 costs for the bank borrowings at 31 December 2005 and 31 December 2006.

iv. Foreign currency risk

The Group is exposed to foreign exchange rate risk as the Group carries on business in RMB and United States dollars. The Group also purchased machinery in Japanese Yen. The Group will manage the exchange rate risk by using appropriate financial derivatives. During the two years ended 31 December 2005 and 2006, 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 2006, maximum banking facilities in an aggregate amount of approximately RMB129.7 million (2005: approximately RMB99.8 million) were available from the Group's principal bankers, of which approximately RMB119.7 million (2005: RMB58.5 million) has been utilised. The Group had net current liabilities of approximately RMB8,613,000 as at 31 December 2006. The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflow from operations to meet its debt obligations and to obtain continuing financial supports from its bankers, its ultimate holding company and its related company.

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

vi. Fair value of financial assets and financial liabilities

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

37. RELATED PARTY TRANSACTIONS

During the year ended 31 December 2006, the Group had the following transactions with its related companies:

Name of related party	Nature of transactions	2006 RMB'000	2005 RMB'000
Ultimate holding company	Purchase of raw materials	**893**	1,902
	Sales of finished goods	**577**	1,096
	Sub-contracting fee paid	**3,388**	–
	Technical fee paid	**4,165**	1,925
Keisuke Murakoshi	Disposal of property	**–**	620
Hangzhou Property	Interest on short-term loan	**713**	–

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

	2006 RMB'000	2005 RMB'000
Short-term benefits	**3,365**	1,501
Share-based payments	**8,176**	2,655
	11,541	4,156

37. RELATED PARTY TRANSACTIONS *(Continued)*

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.

38. SUBSIDIARIES

Particulars of the subsidiaries of the Company as at 31 December 2006 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 of plastic components
Hangzhou Yusei Moulding	US$500,000	100%	Not yet commenced business