* for identification only

YUSEI HOLDINGS LIMITED
友成控股有限公司*

(Incorporated in the Cayman Islands with limited liability)
Stock code: 8319

2007

ANNUAL REPORT

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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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

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Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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Zhejiang
311215
The PRC

BUSINESS ADDRESS IN HONG KONG

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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

Shanghai Pudong Development Bank
55 Tiyu Road
Chengxiang Town, Xiaoshan
Zhejiang
311215
The PRC

The Bank of Tokyo-Mitsubishi, UFJ Ltd
20/F, AZIA Center
1233 Lujiazui Ring Road
Pudong Shanghai
People's Republic of China

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the year ended 31 December 2007, 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 2007 was approximately RMB444,747,000, representing an increase of 19.3% as compared to that of approximately RMB372,773,000 for the year ended 31 December 2006. The Group's customers are mainly the manufacturers of branded home electrical appliances, office equipment and plastic components with production facilities located in the PRC.

FINANCIAL REVIEW

Turnover

The Group's turnover for the year ended 31 December 2007 increased by 19.3% to approximately RMB444,747,000 as compared to that of approximately RMB372,773,000 for the year ended 31 December 2006.

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 RMB90,232,000 for the year ended 31 December 2007, representing an increase of approximately 30.8% as compared to that for the year ended 31 December 2006. During the year, the overall gross profit margin was increased.

Distribution costs

Distribution costs for the year ended 31 December 2007 increased by approximately 31.3% to approximately RMB7,641,000 as compared to that of approximately RMB5,821,000 for the year ended 31 December 2006. Such increase was mainly attributable to increase in turnover.

Administrative expenses

Administrative expenses for the year ended 31 December 2007 decreased by approximately 12.2% to approximately RMB37,507,000 as compared to that of approximately RMB42,738,000 for the year ended 31 December 2006. Such decrease was mainly attributable to net effect of (i) the inclusion of amortised fair value of estimated vesting shares granted to a director, selected employees and technical consultants of approximately RMB1,866,000 (2006: RMB10,908,000), 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.

Finance costs

Finance costs for the year ended 31 December 2007 increased to approximately RMB9,196,000 as compared to that of approximately RMB7,173,000 for the year ended 31 December 2006. 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 increased by approximately 149% from approximately RMB12,375,000 for the year ended 31 December 2006 to approximately RMB30,865,000 for the year ended 31 December 2007.

Financial resources and liquidity

As at 31 December 2007, the equity amounted to approximately RMB171,781,000. Current assets amount to approximately RMB270,515,000, of which approximately RMB64,178,000 were cash and bank deposits (excluding pledged bank deposits of approximately RMB10,214,000). The Group had net current assets of approximately RMB16,858,000 and its current liabilities amounted to approximately RMB253,657,000, comprising mainly its creditors and accrued charges and bank borrowings. The net asset value per share was RMB1.07. The Group expresses its gearing ratio as a percentage of finance leases and borrowings over total assets. As at 31 December 2007, the Group had a gearing ratio of 34.3%.

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 2007, the total number of the Group's staff was approximately 1,580. The total staff costs (including directors' remuneration) amounted to approximately RMB45,617,000 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 2007, certain land use rights and property, plant and equipment of the Group with an aggregate net book value of approximately RMB3,664,000 and RMB40,929,000 respectively were pledged as securities for bank borrowings.

Capital commitments

As at 31 December 2007, the Group had a capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment amounting to approximately RMB19,424,000.

OUTLOOK

There has been an increase in the Group's turnover for the year ended 31 December 2007 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.

In March 2007, the Group was granted a loan facility of RMB50,000,000 from China Merchant Bank and the Group has additional financial resources back-up for expansion of production capacity.

As a service provider to the well-known international branded manufacturers, the management believes that the Group possesses the managerial characteristics which our major customers may appreciate, including: (i) high-level demand on the quality of the products, particularly in the automotive parts and components, office automation machines like assembling parts of photocopies and printers must meet a high standard of precision in order to ensure the machine work effectively; (ii) emphasis on production efficiency to shorten the production cycle; and (iii) active participation in production process of the suppliers to ensure the product quality and the mutual communication to improve the suppliers' production efficiency. In addition, to deliver the parts and components of high precision to the customers, the Group put much efforts in acquisition of advanced production machineries which were made by the international well-known branded manufacturers.

As regards the quality of the products, the Group had adopted ERP system to facilitate the production flow and monitor the product quality. To response the changing technology in the industry, the Company will continue to acquire and install advanced machinery and equipment and to increase the ability to design and develop precision plastic injection moulds. The Company will rely on the one-stop solution from precision mould, plastic injection, aluminium plating to assembling to improve the sales network to capture opportunities in order to increase market share and to enlarge the customer bases. Nevertheless, the Group is cautious in accepting the new customers and we take into account of all factors in the process, including product pricing and the reputation of the potential customers and so on. During the year, the Company had several new customers, including a well-known office automation machine manufacturer and several famous manufacturers of automotive part and components.

In addition, the Group continues to enlarge our production capacities in accordance with the corporate development strategies. The Group's new production facility of 26,727 sq. metre in Suzhou, Jiangsu province is under construction and will be ready for production in June 2008. In response for the customers' demand, the Group will consider the feasibility to set up production facilities in other regions of the PRC.

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 2007.

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 set of CNC wiring machine and 1 set of CNC electrolysis machine.	– new production machineries including 1 set of CNC wiring machine, 1 set of CNC electrolysis machine
2. Enhance moulding business to become a one-stop service provider	– Conduct training program for the research and development division	– Training courses were conducted for research and development division in respect of (i) technical softwares including UG software, (ii) the CAE moulding analysis and (iii) operation of new machines.
	– 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 of training in Japan for 2-3 high-quality technicians to keep abreast of the new technology for mould fabrication and production of plastic products	– 4 technicians are staying in Japan for training

Business objective	Implementation	Actual business progress
3. Develop sales channel	– set up technical support and sale office in Shanghai	– Set up technical support and sales office for better services provided to major customers
	– Participate in mould design and fabricated sales exhibition	– Participate in mould design and development with clients about electric wheel-chairs for disabled

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 2007, the cost of implementation of business objectives of the Group is compared as follows:

	Actual HK$'000	Estimated HK$'000
Capital expenditure	30,250	30,250
Enhance moulding business to become a one-stop service provider	3,050	3,050
Develop sales channel	500	500
	33,800	33,800

PROPOSED DIVIDEND

The Directors recommend the payment of a final dividend of RMB9,000,000 for the year ended 31 December 2007.

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 2007.

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 2007 and the state of affairs of the Group at that date are set out in the financial statements on pages 30 to 31.

The directors recommend the payment of a final dividend of RMB0.05625 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

	2007 **RMB'000**	2006 RMB'000	2005 RMB'000	2004 RMB'000 (Note)	2003 RMB'000 (Note)
Revenue	**444,747**	372,773	256,923	164,523	125,652
Cost of sales	**(354,515)**	(303,814)	(205,693)	(124,816)	(96,106)
Gross profit	**90,232**	68,959	51,230	39,707	29,546
Other income	**2,668**	4,189	6,610	1,441	638
Distribution costs	**(7,641)**	(5,821)	(4,864)	(3,350)	(2,364)
Administrative expenses	**(37,507)**	(42,738)	(30,539)	(13,390)	(10,319)
Finance costs	**(9,196)**	(7,173)	(4,324)	(1,942)	(1,724)
Other expenses	–	–	–	(298)	(2,932)
Profit before taxation	**38,556**	17,416	18,113	22,168	12,845
Income tax expense	**(7,691)**	(5,041)	(4,072)	(941)	(613)
Profit for the year	**30,865**	12,375	14,041	21,227	12,232
ASSETS AND LIABILITIES					
Total assets	**486,202**	382,603	284,054	204,975	138,406
Total liabilities	**(314,421)**	(237,299)	(156,042)	(131,186)	(92,453)
	171,781	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 15 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 29 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 page 32 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 78% of the total sales for the year and sales to the largest customer included therein amounted to 30%. Purchases from the Group's five largest suppliers accounted for 35% of the total purchases for the year and purchases from the largest suppliers included therein amounted to 12%.

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. Lo Ka Wai, Fan Xiaoping and Hisaki Takabayashi 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 20, 24, 25, 30 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.

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 2007.

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 31 to the financial statements. Up to 31 December 2007, no option has been granted pursuant to the share option scheme.

CONNECTED TRANSACTIONS

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

Pursuant to Rule 20.38 of the GEM Listing Rules, the Board engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the Board.

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 2007, 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 2007, 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 2007, neither the Company nor any of its subsidiary had purchased, sold or redeemed any of the Company's listed shares.

DIRECTORS' INTEREST IN A COMPLETING BUSINESS

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

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

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

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

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

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

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

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

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

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

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

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

COMPLIANCE ADVISOR'S INTEREST

Pursuant to the compliance advisor's agreement dated 30 September 2005 entered into between the Company and Quam Capital Limited ("Quam Capital"), Quam Capital has been appointed as the compliance advisor of the Company for the period commencing from 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 2007.

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. The consolidated financial statements for the year have been audited by SHINEWING.

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
27 March 2008

CORPORATE GOVERNANCE REPORT

DIRECTORS' SECURITIES TRANSACTIONS

– During the year ended 31 December 2007, 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 26 to 27.

– 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".

- 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 2007
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.

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.

AUDITORS' REMUNERATION

- SHINEWING (Hong Kong) CPA Limited ("SHINEWING") were appointed as the auditors of the Company pursuant to the shareholders' resolution passed in the Extra-ordinary General Meeting held on 12 January 2007. Auditing fees in respect of annual audit service for the year ended 31 December 2007 amounted to HK$650,000. SHINEWING did not provide other non-audit services to the Company.

- The consolidated financial statements for the years ended 31 December 2006 and 2007 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 2007, 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 Independent auditor's report.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS AND SENIOR MANAGEMENT

Directors

Mr. Katsutoshi MASUDA (增田勝年先生), aged 63, 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 66, 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 45, 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 61, 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 39, 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 57, was appointed as a non-executive Director on 2 June 2005. Mr. Ito is currently the Business Bureau Chief of 日本靜岡縣－浙江省經濟交流促進機構靜岡縣委員會(Shizuoka Prefecture-Zhejiang Economic Exchange Committee), the Managing Executive and Business Bureau Chief of 日本靜岡日中友好協進會(Japan and China Friendship Council of Shizuoka Prefecture) and the Managing Executive and Business Bureau Chief of 日本靜岡縣日中貿易協同組合(Shizuoka Prefecture Japan-China Trading Cooperation Company). Mr. Ito joined the Group in April 1992 as a director of Zhejiang Yusei.

Independent non-executive Director

Mr. FAN Xiaoping (范曉屏先生), aged 51, 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 38, 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 47, 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 40, 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 39, 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 36, 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.

信永中和 ShineWing

SHINEWING (HK) CPA Limited
16/F., United Centre
95 Queensway, 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 68, which comprise the consolidated balance sheet as at 31 December 2007 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.

AUDITOR'S 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 auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity'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 affairs of the Group as at 31 December 2007 and of its profits 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.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Ip Yu Chak
Practising Certificate Number: P04798
Hong Kong
27 March 2008

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

	NOTES	2007 RMB'000	2006 RMB'000
Revenue	7	444,747	372,773
Cost of sales		(354,515)	(303,814)
Gross profit		90,232	68,959
Other income	8	2,668	4,189
Distribution costs		(7,641)	(5,821)
Administrative expenses		(37,507)	(42,738)
Finance costs	9	(9,196)	(7,173)
Profit before taxation		38,556	17,416
Income tax expense	10	(7,691)	(5,041)
Profit for the year	11	30,865	12,375
Dividend	13	5,798	5,920
Earnings per share	14		
Basic and diluted		RMB0.2	RMB0.1

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2007

	NOTES	2007 RMB'000	2006 RMB'000
Non-current assets			
Property, plant and equipment	15	202,529	192,403
Intangible asset	16	1,327	1,578
Land use rights	17	11,831	4,637
		215,687	198,618
Current assets			
Inventories	18	47,527	50,568
Debtors, deposits and prepayments	19	147,788	96,968
Amount due from a director	20	808	751
Pledged bank deposits	21	10,214	5,500
Bank balances, deposits and cash	22	64,178	30,198
		270,515	183,985
Current liabilities			
Creditors and accrued charges	23	143,236	100,730
Amount due to ultimate holding company	24	539	3,924
Amount due to a related party	25	100	–
Income tax liabilities		2,498	2,418
Obligations under finance leases			
– due within one year	26	4,569	4,476
Bank borrowings – due within one year	27	102,715	81,050
		253,657	192,598
Net current assets (liabilities)		16,858	(8,613)
Total assets less current liabilities		232,545	190,005
Non-current liabilities			
Amount due to a related party	25	–	10,404
Obligations under finance leases			
– due after one year	26	5,844	10,667
Deferred income – government grants	28	1,283	–
Bank borrowings – due after one year	27	53,637	23,630
		60,764	44,701
		171,781	145,304
Capital and reserves			
Share capital	29	1,623	1,623
Reserves	32	170,158	143,681
Total equity		171,781	145,304

The consolidated financial statements on pages 30 to 68 were approved and authorised for issue by the Board of Directors on 27 March 2008 and are signed on its behalf by:

Katsutoshi Masuda
Director

Keisuke Murakoshi
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2007

	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000	Reserve for shares issued with vesting conditions RMB'000	Translation reserve RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2006	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 30)	–	–	–	10,908	–	–	–	–	10,908
2005 Final dividend paid	–	–	–	–	–	–	–	(5,920)	(5,920)
Transfer	–	–	–	–	–	–	2,562	(2,562)	–
At 31 December 2006 and 1 January 2007	1,623	40,054	49,663	14,881	(170)	36	6,817	32,400	145,304
Exchange differences arising on conversion of foreign operations and net expenses directly recognised in equity	–	–	–	–	(456)	–	–	–	(456)
Profit for the year	–	–	–	–	–	–	–	30,865	30,865
Total recognised income and expense for the year	–	–	–	–	(456)	–	–	30,865	30,409
Fair value of estimated shares issued with vesting conditions charged to consolidated income statement (note 30)	–	–	–	1,866	–	–	–	–	1,866
2006 Final dividend paid	–	–	–	–	–	–	–	(5,798)	(5,798)
Transfer	–	–	–	–	–	–	4,054	(4,054)	–
At 31 December 2007	1,623	40,054	49,663	16,747	(626)	36	10,871	53,413	171,781

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

	2007 RMB'000	2006 RMB'000
OPERATING ACTIVITIES		
Profit before taxation	38,556	17,416
Adjustments for:		
Release of government grants	(14)	–
Interest income	(337)	(222)
Depreciation and amortisation	20,649	16,815
Loss on disposal of property, plant and equipment	–	13
Recognition of the fair value of vested shares issued with vesting conditions	1,866	10,908
Impairment of trade debtors	232	1,392
Impairment of inventories	1,066	455
Finance costs	9,196	7,173
Operating cash flows before movements in working capital	71,214	53,950
Decrease (increase) in inventories	1,975	(9,778)
Increase in debtors, deposits and prepayments	(50,839)	(38,389)
Increase in amount due from a director	(57)	–
Increase in creditors and accrued charges	41,419	27,938
(Decrease) increase in amount due to ultimate holding company	(3,385)	2,179
Increase in amount due to a related party	100	–
Cash generated from operations	60,427	35,900
Income taxes paid	(7,611)	(4,429)
NET CASH FROM OPERATING ACTIVITIES	52,816	31,471
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(29,917)	(55,773)
Purchase of land use rights	(7,712)	–
Increase in pledged bank deposits	(4,714)	(5,500)
Purchase of intangible asset	(302)	(521)
Proceeds from disposal of property, plant and equipment	–	18
Interest received	337	222
NET CASH USED IN INVESTING ACTIVITIES	(42,308)	(61,554)
FINANCING ACTIVITIES		
New bank borrowings raised	128,169	145,780
Government grants received for acquisition of land use rights	1,297	–
Repayment of bank borrowings	(76,497)	(99,606)
(Decrease) increase in amount due to a related party	(10,404)	10,000
Interest paid	(8,109)	(6,769)
Dividend paid	(5,798)	(5,920)
Repayment of obligations under finance leases	(4,730)	(5,012)
NET CASH FROM FINANCING ACTIVITIES	23,928	38,473
INCREASE IN CASH AND CASH EQUIVALENTS	34,436	8,390
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	30,198	21,879
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(456)	(71)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, representing Bank balances, deposits and cash	64,178	30,198

1. CORPORATE 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 directors consider the parent and ultimate holding company of the Company as at 31 December 2007 to be Yusei Machinery Corporation, a company incorporated in Japan.

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

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 HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, a number of new Hong Kong Accounting Standards ("HKASs"), HKFRSs, amendments and interpretations (herein collectively referred to as "New HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for accounting period beginning on 1 January 2007. 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 year adjustment has been required.

Up to the date of issue of these consolidated financial statements, the HKICPA has also issued the following New HKFRSs which are not yet effective for the accounting year ended 31 December 2007 and which have not been adopted in these consolidated financial statements.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKFRS 2 (Amendent)	Share-based Payment – Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combination[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC)– Interpretation 11	HKFRS 2 – Group and Treasury Share Transactions[3]
HK(IFRIC)– Interpretation 12	Service Concession Arrangements[4]
HK(IFRIC)– Interpretation 13	Customer Loyalty Programmes[5]
HK(IFRIC)– Interpretation 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

1 Effective for annual periods beginning on or after 1 January 2009.
2 Effective for annual periods beginning on or after 1 July 2009.
3 Effective for annual periods beginning on or after 1 March 2007.
4 Effective for annual periods beginning on or after 1 January 2008.
5 Effective for annual periods beginning on or after 1 July 2008.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

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. BASIS OF PREPARATION

The consolidated financial statements have been prepared on 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 HKFRSs 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.

4. 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing

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.

The Group as lessee

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.

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 at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at 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 year 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 year 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 year in which the foreign operation is disposed of.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

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

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated balance sheet and released to income on a systematic and rational basis over the useful lives of the related assets.

Other government grants are recognised as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the year in which they become receivable.

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.

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 is calculated at the tax rates that are expected to apply in the year 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

Property, plant and equipment including buildings held for use in production or for administrative purposes other than construction in progress are stated at cost less any subsequent accumulated depreciation and accumulated impairment losses.

Construction in progress represents property, plant and equipment under construction for production or for its own use purposes 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.

Intangible assets

Software acquired separately and with finite useful lives is stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives 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.

Research and development expenditures

Expenditure on research activities is recognised as an expense in the year in which it is incurred.

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 respective estimate useful lives.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment losses 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.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset 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 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 in prior years. A reversal of an impairment loss is recognised as income immediately in the consolidated income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets

The Group's financial assets are mainly loans and receivables. 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.

Debtors, bills receivables, deposits and amount due from a director

Debtors, bills receivables, 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.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period. Interest is recognised on an effective interest basis for the debt instruments other than those financial assets designated as at fair value through profit or loss of which interest income is included in net gains or losses.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For all other financial assets, objective evidence of impairment could include:

– significant financial difficulty of the issuer or counterparty; or

– default or delinquency in interest or principal payments; or

– it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade debtors, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period as well as observable changes in national or local economic conditions that correlate with default on receivables.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets (Continued)

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade debtors, where the carrying amount is reduced through the use of an allowance account. When a trade debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial asset at the date of 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.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the assets expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred assets, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Creditors, bills payable, accrued charges, amount due to ultimate holding company, amount due to a related party and obligations under finance leases

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

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 year in which they arise.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. Interest expense is recognised on an effective interest basis other than those financial liabilities designated as at fair value through profit or loss of which the interest expense is included in net gains or losses.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the profit or loss.

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 issued 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 each balance sheet date, the Group revises its estimates of the number of unvested and allotted shares that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss, with a corresponding adjustment to reserve for shares issued with vesting conditions.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Equity-settled share-based payment transactions (Continued)

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

At the time when the vesting conditions of 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.

When the unvested and allotted shares are forfeited, the amount previously recognised in reserve for shares issued with vesting conditions will be transferred to retained profits.

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 each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss, with a corresponding adjustment to 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 profits.

5. 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 amounting to approximately RMB1,866,000 (2006: RMB10,908,000) 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 year when the forfeiture occurred as a change in accounting estimate.

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

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.

Impairment of inventories

The management of the Group reviews an aging analysis at each balance sheet date, and makes impairment for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates the net realisable value for such raw materials, work-in-progress and finished goods based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes impairment for obsolete items.

6. FINANCIAL RISK, MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include equity, bank borrowings, debtors, bills receivable, deposits, creditors, bills payable, obligations under finance leases, balances with ultimate holding company and a related party 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. 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; amounts due to a related party; amount due to ultimate holding company, obligations under finance leases and bank borrowings reported in the consolidated balance sheet approximate their carrying amounts due to their immediate or short-term maturities.

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

ii. Foreign currency risk

Foreign currency risk refers to the risk that movement in foreign currency rate which will affect the Group's financial results and its cashflow. The management considers the Group does not expose to significant foreign currency risk as majority of its operations and transactions are in the PRC and denominated in RMB.

iii. 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 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.

The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group only transacts with entities with good repayment history.

As at 31 December 2007, the Group has certain concentration of credit risk as 31% (2006: 30%) of the Group's total trade debtors and bills receivables balance is due from the Group's largest customer.

The Group's exposure and the credit ratings of its counterparties are continuously monitored and controlled by credit limits. 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.

iv. Interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's fair value interest-rate risk mainly arises from bank borrowings as detailed in note 27. Bank borrowings were issued at fixed rates expose the Group to fair value interest-rate risk. The Group has no cash flow interest-rate risk as there are no borrowings which bear floating interest rates. The Group historically has not used any financial instruments to hedge potential fluctuations in interest rates.

Sensitivity analysis

At 31 December 2007, it is estimated that a general increase or decrease of one percentage in interest rates, with all other variables held constant, would decrease or increase the Group's profit for the year and retained profits by approximately RMB1,127,000 (2006: RMB922,000).

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

iv. Interest rate risk *(Continued)*

Sensitivity analysis *(Continued)*

The above sensitivity analysis has been determined assuming that a change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The one percentage point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis was performed on the same basis for 2006.

v. Liquidity risk

The Group is exposed to liquidity risk as at 31 December 2006 as its financial assets due within one year was less than its financial liabilities due within one year. At 31 December 2007, maximum banking facilities in an aggregate amount of approximately RMB216.8 million (2006: approximately RMB129.6 million) were available from the Group's principal bankers, of which approximately RMB166.8 million (2006: RMB119.8 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 and its related party.

The following table details the contractual maturities at the balance sheet date of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates) and the earliest date the Group can be required to pay:

As at 31 December 2007

	Effective interest rate	Carrying amount	Total contractual undiscounted cash flow	Within one year or on demand	More than one year lessthan two years	More than two years less than five years
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade creditors and accrued charges	–	143,236	143,236	143,236	–	–
Amount due to ultimate holding company	–	539	539	539	–	–
Amount due to a related party	–	100	100	100	–	–
Obligations under finance leases	4.49%	10,413	11,013	4,957	4,375	1,681
Bank borrowings	6.98%	156,352	166,484	109,371	57,113	–
		310,640	321,372	258,203	61,488	1,681

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

v. Liquidity risk *(Continued)*

As at 31 December 2006

	Effective interest rate	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within one year or on demand RMB'000	More than one year less than two years RMB'000	More than two years less than five years RMB'000
Trade creditors and accrued charges	–	100,730	100,730	100,730	–	–
Amount due to ultimate holding company	–	3,924	3,924	3,924	–	–
Amount due to a related party	6.70%	10,404	11,117	–	11,117	–
Obligations under finance leases	4.49%	15,143	16,359	5,078	5,078	6,203
Bank borrowings	6.30%	104,680	111,312	86,185	25,127	–
		234,881	243,442	195,917	41,322	6,203

vi. Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the bank borrowings disclosed in note 27, cash and cash equivalents and equity of the Company, comprising issued share capital disclosed in note 29, reserves and retained profits as disclosed in consolidated statement of changes in equity. The management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as raise of new borrowings or repayment of existing borrowings. The Group's approach to capital management remains unchanged throughout the year.

7. REVENUE AND SEGMENT INFORMATION

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

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

8. OTHER INCOME

	2007 RMB'000	2006 RMB'000
Gain on sales of materials	992	1,675
Bank interest income	337	222
Exchange gain	748	2,171
Government grants (Note 28)	164	–
Others	427	121
	2,668	4,189

9. FINANCE COSTS

	2007 RMB'000	2006 RMB'000
Interest on:		
Bank borrowings wholly repayable within five years	8,137	5,296
Finance leases	692	991
Loan from a related party	348	713
Other borrowings	19	173
	9,196	7,173

10. INCOME TAX EXPENSE

	2007 RMB'000	2006 RMB'000
PRC enterprise income tax		
Current year	6,582	5,233
Under (over) provision in prior years	1,109	(192)
	7,691	5,041

Pursuant to the approvals obtained from the relevant PRC tax authorities, the applicable tax rate for the Company's subsidiary, 杭州友成機工有限公司 Hangzhou Yusei Machinery Co., Ltd. ("Hangzhou Yusei") is 26.4% and Hangzhou Yusei is entitled to a tax concession period in which it is fully exempted from PRC enterprise income tax for two years commencing from its first profit-making year, followed by a 50% reduction in the PRC enterprise income tax for three years. The first profit-making year of Hangzhou Yusei is 2003 and the effective tax rate for the years ended 31 December 2003 and 2004 is zero. The effective tax rate for Hangzhou Yusei is 13.2% for each of the years ended 31 December 2006 and 2007.

10. INCOME TAX EXPENSE *(Continued)*

In addition, as the Company's another subsidiary, 浙江友成塑料模具有限公司 Zhejiang Yusei Plastics & Mould Co., Ltd. ("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 enterprise income tax rate of 10.75% from 2003 to 2005. Zhejiang Yusei is subjected to an PRC enterprise income tax rate of 16.5% commencing from 1 January 2006.

杭州友成模具技術研究有限公司 Hangzhou Yusei Mould Technology Research Co., Ltd. ("Hangzhou Yusei Moulding"), 蘇州友成機工有限公司 Suzhou Yusei Machinery Co., Ltd. ("Suzhou Yusei") and 友成(中國)模具有限公司, Yusei (China) Mould Co., Ltd. ("Yusei (China)") are not subject to PRC enterprise income tax as they have not commenced business up to 31 December 2007.

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the enterprise income tax rate for domestic-invested and foreign-invested enterprises at 25%. The Company and certain subsidiaries which are enjoying the tax holiday will continue until expiry while the preferential tax rates disclosed above will continue after the New Corporate Income Tax Law.

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 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:

	2007 RMB'000	2006 RMB'000
Profit before taxation	38,556	17,416
Tax at the income tax rate at 26.4% (2006: 26.4%)	10,178	4,598
Tax effect of expenses not deductible for tax purpose	1,457	4,728
Tax effect of tax concession period	(4,479)	(3,205)
Effect of different tax rates	(574)	(888)
Under (over) provision in prior years	1,109	(192)
Tax charge for the year	7,691	5,041

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

11. PROFIT FOR THE YEAR

	2007 RMB'000	2006 RMB'000
Profit for the year has been arrived at after charging:		
Directors' remuneration (Note 12)	3,855	9,800
Other staff costs	38,705	27,924
Recognition of the fair value of vested restricted shares	592	3,462
Retirement benefits scheme contributions	2,465	1,754
	41,762	33,140
Total staff costs	45,617	42,940
Depreciation of owned property, plant and equipment	17,458	13,659
Depreciation of property, plant and equipment under finance leases	2,333	2,331
Amortisation of intangible asset included in administrative expenses	553	576
Amortisation of land use rights included in administrative expenses	305	249
Total depreciation and amortisation expenses	20,649	16,815

	2007 RMB'000	2006 RMB'000
Operating lease charges on leased premises	103	103
Impairment of trade debtors	232	1,392
Impairment of inventories	1,066	455
Auditors' remuneration	609	480
Research and development expenses	120	–
Loss on disposal of property, plant and equipment	–	13

12. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

The emoluments of directors are analysed as follows:

2007

Name of director	Fees	Basic salaries and allowances	Discretionary bonus	Fair value of shares issued with vesting conditions	Retirement benefits scheme contribution	Total
	RMB'000	RMB'000	RMB'000	RMB'000 (Note 30)	RMB'000	RMB'000
Xu Yong	469	120	–	1,274	20	1,883
Keisuke Murakoshi	831	360	–	–	–	1,191
Lo Ka Wai	112	–	–	–	–	112
Katsutoshi Masuda	472	–	–	–	–	472
Toshimitsu Masuda	47	–	–	–	–	47
Akio Suzuki	47	–	–	–	–	47
Toshinobu Ito	47	–	–	–	–	47
Fan Xiaoping	28	–	–	–	–	28
Hisaki Takabayashi	28	–	–	–	–	28
	2,081	480	–	1,274	20	3,855

2006

Name of director	Fees	Basic salaries and allowances	Discretionary bonus	Fair value of shares issued with vesting conditions	Retirement benefits scheme contribution	Total
	RMB'000	RMB'000	RMB'000	RMB'000 (Note 30)	RMB'000	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 Xiaoping	31	–	–	–	–	31
Hisaki Takabayashi	31	–	–	–	–	31
	1,842	496	–	7,446	16	9,800

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

Of the five highest paid individuals in the Group during the year ended 31 December 2007, two (2006: two) were directors of the Company and details of their emoluments are set out above. The emoluments of the remaining three (2006: three) individuals were as follows:

	2007 RMB'000	2006 RMB'000
Basic salaries and allowances	3,290	3,255
Retirement benefits contribution	–	–
	3,290	3,255

The emoluments of these individuals were within the following bands:

	2007	2006
Nil to HK$1,000,000	1	1
HK$1,000,001 to HK$1,500,000	2	2

During the years ended 31 December 2006 and 2007, 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 years ended 31 December 2006 and 2007.

13. DIVIDEND

The directors recommend a payment of final dividend for the year ended 31 December 2007 of RMB0.05625 per share, amounting to RMB9,000,000 in aggregate, which was subjected to the approval by shareholders in general meeting.

The final dividend for the year ended 31 December 2006 of HK$0.0387 per share (equivalent to RMB0.036 per share), amounting to RMB5,798,000 in aggregate, was approved in the Company's annual general meeting held on 27 April 2007 and paid to the shareholders of the Company during the year ended 31 December 2007.

The final dividend for the year ended 31 December 2005 of HK$0.036 per share (equivalent to RMB0.037 per share), amounting to RMB5,920,000 in aggregate, was approved in 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.

14. EARNINGS PER SHARE

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

	2007 RMB'000	2006 RMB'000
Earnings for the purposes of basic and diluted earnings per share	30,865	12,375

	2007	2006
Weighted average number of ordinary shares for the purposes of basic earnings per share	155,104,000	147,683,068
Effect of unvested ordinary share (Note 29)	4,896,000	4,896,000
Weighted average number of ordinary shares for the purposes of diluted earnings per share	160,000,000	152,579,068

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Moulds RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
At 1 January 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 and 1 January 2007	61,977	197,237	3,970	4,930	429	–	268,543
Additions	832	25,519	357	1,788	–	1,421	29,917
At 31 December 2007	62,809	222,756	4,327	6,718	429	1,421	298,460
DEPRECIATION							
At 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 and 1 January 2007	9,519	61,411	2,045	2,823	342	–	76,140
Provided for the year	2,946	15,695	524	557	69	–	19,791
At 31 December 2007	12,465	77,106	2,569	3,380	411	–	95,931
NET CARRYING VALUE							
At 31 December 2007	50,344	145,650	1,758	3,338	18	1,421	202,529
At 31 December 2006	52,458	135,826	1,925	2,107	87	–	192,403

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

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

Buildings	20 years
Machinery and equipment	5 to 20 years
Motor vehicles	5 years
Office equipment	5 years
Moulds	5 years

The buildings of the Group are situated in the PRC.

The construction in progress of the Group represents buildings, plant and machinery under construction which are situated in the PRC.

Analysis of net carrying value of machinery and equipment held under finance leases is:

	2007 RMB'000	2006 RMB'000
Machinery and equipment	20,248	22,581

16. INTANGIBLE ASSET

	2007 RMB'000	2006 RMB'000
COST		
At beginning of the year	3,121	2,600
Additions	302	521
At end of the year	3,423	3,121
AMORTISATION		
At beginning of the year	1,543	967
Provided for the year	553	576
At end of the year	2,096	1,543
NET CARRYING VALUE		
At end of the year	1,327	1,578

Intangible asset represents software which is amortised on a straight-line basis over five years.

17. LAND USE RIGHTS

	2007 RMB'000	2006 RMB'000
COST		
At beginning of the year	6,364	6,364
Additions	7,712	–
At end of the year	14,076	6,364
AMORTISATION		
At beginning of the year	1,478	1,229
Charge for the year	305	249
At end of the year	1,783	1,478
NET CARRYING VALUE		
At end of the year	12,293	4,886
Analysed for reporting purposes as:		
Current assets (included in debtors, deposits and prepayments)	462	249
Non-current assets	11,831	4,637
	12,293	4,886

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

18. INVENTORIES

	2007 RMB'000	2006 RMB'000
Raw materials	18,462	15,305
Work-in-progress	16,015	11,345
Finished goods	13,050	23,918
	47,527	50,568
At cost	47,527	50,077
At net realisable value	–	491
	47,527	50,568

19. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group allows a general credit period of 30 to 90 days to its customers. For customers who purchased moulds from the Group and have established good relationships with the Group, the credit period may extend to the range from 90 days to 270 days.

The aging analysis of trade debtors and bills receivable is as follows:

	2007 RMB'000	2006 RMB'000
1 – 30 days	90,314	62,679
31 – 60 days	30,821	18,425
61 – 90 days	8,070	4,071
91 – 180 days	2,526	6,777
Over 180 days	2,213	2,956
Trade debtors and bills receivable	133,944	94,908
Less: Accumulated impairment losses	(1,624)	(1,392)
	132,320	93,516
Other debtors, deposits and prepayments	15,468	3,452
	147,788	96,968

Impairment losses in respect of trade debtors and bills receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors balance directly. The movement in the provision for impairment of trade debtors is as follows:

	2007 RMB'000	2006 RMB'000
Balance at beginning of the year	1,392	–
Impairment loss recognised in consolidated income statement	232	1,392
Balance at end of the year	1,624	1,392

At each of the balance sheet dates, the Group's trade debtors were individually determined to be impaired. The individually impaired receivables are recognised based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. Consequently, specific impairment provision was recognised. The Group does not hold any collateral over these balances.

19. DEBTORS, DEPOSITS AND PREPAYMENTS *(Continued)*

Receivables amounting to approximately RMB41,697,000 (2006: RMB22,442,000) that were past due but not impaired were all aged within one year and related to a number of customers that have a good track record with the Group. Based on past experience, the management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

20. AMOUNT DUE FROM A DIRECTOR

Name of director	At 1 January 2006, 31 December 2006 and 1 January 2007	Maximum amount outstanding during 2006	At 31 December 2007	Maximum amount outstanding during 2007
	RMB'000	RMB'000	RMB'000	RMB'000
Mr. Keisuke Murakoshi	751	751	808	808

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

21. PLEDGED BANK DEPOSITS

Deposits amounting to RMB10,214,000 (2006: RMB5,500,000) have been pledged to secure banking facilities granted to the Group. The bank deposits have been pledged for letter of credit and short-term bills payable and therefore classified as current assets. The pledged bank deposits carry fixed interest rates ranging from nil to 3.33% per annum (2006: 2.07% per annum) and will be released upon the settlement of relevant letter of credit and bills payable.

22. BANK BALANCES, DEPOSITS AND CASH

At 31 December 2007, bank balances, deposits and cash of approximately RMB43,318,000 (2006: RMB14,559,000) were denominated in RMB, which is not freely convertible currency in the international market and its exchange rate is determined by the Government of the PRC. The bank balances and deposits carry interest at 0.72% per annum.

23. CREDITORS AND ACCRUED CHANGES

The aging analysis of trade creditors is as follows:

	2007 RMB'000	2006 RMB'000
1 – 30 days	33,135	37,939
31 – 60 days	29,529	17,676
61 – 90 days	12,862	9,573
91 – 180 days	4,160	643
Over 180 days	1,923	2,714
Trade creditors	81,609	68,545
Bills payable	31,000	15,000
Other creditors and accrued charges	30,627	17,185
	143,236	100,730

The Group's bank deposits of approximately RMB8,000,000 (2006: RMB5,500,000) were pledged to the banks to secure the bills payable as at 31 December 2007.

24. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

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

25. AMOUNT DUE TO A RELATED PARTY

	2007 RMB'000	2006 RMB'000
杭州友成實業有限公司(前稱"杭州友成置業有限公司") Hangzhou Yusei Company Limited* ("Hangzhou Yusei")		
On demand (i)	100	–
More than one year (ii)	–	10,404
	100	10,404

Mr. Xu Yue, a brother of a Company's director, Mr. Xu Yong, has a beneficial interest in Hangzhou Yusei.

Notes:

(i) The amount due is unsecured, interest-free and repayable on demand.

(ii) The amount as at 31 December 2006 represented loan to the Group which was unsecured, bore interest at an annual rate of 6.696% and has been fully settled during the year ended 31 December 2007. The amount was carried at fair value and was subsequently measured at amortised cost, using the effective interest method.

* *For identification purpose*

26. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Amounts payable under finance leases:				
Within one year	4,957	5,078	4,569	4,476
More than one year, but not exceeding two years	4,375	5,078	4,196	4,680
More than two years, but not exceeding five years	1,681	6,203	1,648	5,987
	11,013	16,359	10,413	15,143
Less: Future finance charges	(600)	(1,216)		
Present value of lease obligations	10,413	15,143		
Less: Amounts due within one year shown under current liabilities			(4,569)	(4,476)
Amounts due after one year			5,844	10,667

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 2007, the average effective borrowing rate was 4.49% per annum (2006: 4.49% 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 obligations are denominated in RMB and Japanese Yen.

27. BANK BORROWINGS

	2007 RMB'000	2006 RMB'000
Secured (Note a)	35,400	34,900
Unsecured (Note b)	120,952	69,780
	156,352	104,680
The maturity profile of the above loans is as follows:		
On demand or within one year	102,715	81,050
More than one year, but not exceeding two years	53,637	23,630
	156,352	104,680
Less: Amounts due within one year shown under current liabilities	(102,715)	(81,050)
	53,637	23,630

(a) As at 31 December 2007, the amounts are secured by certain land use rights and property, plant and equipment of the Group with an aggregate net carrying value of RMB3,664,000 (2006: RMB4,886,000) and RMB40,929,000 (2006: RMB42,575,000), respectively.

(b) For the year ended 31 December 2007, all the bank borrowings were arranged at fixed interests rates ranging from 5.38% to 6.48% (2006: 4.79% to 6.34%) per annum.

(c) The bank borrowings as at 31 December 2007 are denominated in RMB115,800,000 (2006: RMB81,200,000) and Japanese Yen 632,932,000 (equivalent to approximately RMB40,552,000) (2006: Japanese Yen 357,760,000; equivalent to approximately RMB23,480,000).

(d) During the year, the Group advanced new borrowings of approximately RMB128,169,000 (2006: RMB145,780,000) to finance its capital expenditure and for expansion of production capacity of the Group.

28. GOVERNMENT GRANTS

During the year ended 31 December 2007, the Group received government grants of RMB1,297,000, which were designated for the purchase of land use rights. Such government grants are presented as deferred income and are released to income over the useful lives of the related land use rights. During the year, government grants released to consolidated income statement as income amounted to approximately RMB14,000.

The Group received another government grants of RMB150,000 which were designated for the research project of the Group. During the year ended 31 December 2007, all conditions in respect of such government grants had been fulfilled and such government grants were recognised as income during the year accordingly.

29. SHARE CAPITAL OF THE COMPANY

	Number of shares '000	Amount HK$'000
Ordinary shares of HK$0.01 each		
Authorised		
At 1 January 2006, 31 December 2006 and 31 December 2007	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			
At 1 January 2006, 31 December 2006 and 31 December 2007	160,000	1,600	1,674
Less: Unvested shares issued with vesting conditions (Note)	(14,400)	(144)	(150)
Adjusted share capital for presentation purpose at 1 January 2006	145,600	1,456	1,524
Add: Shares issued with vesting conditions fulfilled during the year (Note)	9,504	95	99
Adjusted share capital for presentation purpose at 31 December 2006 and 31 December 2007	155,104	1,551	1,623

Note:

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 30), 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 (2007: 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.

As the balance sheet date, the number of unvested ordinary shares were 4,896,000 shares (2006: 4,896,000 Shares).

30. 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 29. 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.

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%

30. 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.

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

The directors based on the terms of the allotted shares and estimated that an amount of RMB1,866,000 (equivalent to HK$1,993,000) (2006: RMB10,908,000 (equivalent to HK$10,695,000) 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:

	2007 RMB'000	2006 RMB'000
Mr. Xu Yong	1,274	7,446
Selected employees and technical consultants	592	3,462
	1,866	10,908

31. 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.

31. 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.

32. 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 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.

33. OPERATING LEASE COMMITMENT

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

	2007 RMB'000	2006 RMB'000
Within one year	696	52
In the second to fifth years inclusive	2,618	21
	3,314	73

Operating lease payments represent rentals payable by the Group for its leased factory and office premises. Leases are negotiated with terms ranging from two to five years and rentals are fixed for an average of two to five years.

34. CAPITAL COMMITMENT

	2007 RMB'000	2006 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	19,424	–

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 charged to the consolidated income statement amounted to approximately RMB2,485,000 (2006: RMB1,770,000).

36. RELATED PARTY TRANSACTIONS

During the year ended 31 December 2007, the Group had the following material transactions with its related companies:

Name of related party	**Nature of transactions**	2007 RMB'000	2006 RMB'000
Ultimate holding company	Purchase of raw materials	452	893
	Sales of raw materials	669	–
	Sales of finished goods	3,618	577
	Sub-contracting fee	387	3,388
	Technical fee paid	4,190	4,165
Hangzhou Yusei	Interest on loan	348	713

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

	2007 RMB'000	2006 RMB'000
Short-term benefits	3,428	3,365
Share-based payments	1,401	8,176
	4,829	11,541

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

37. SUBSIDIARIES

Particulars of the subsidiaries of the Company as at 31 December 2007 established and operating in the PRC are as follows:

Name of subsidiary	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
Yusei (China) (Note a)	US$2,000,000	100%	Not yet commenced business
Suzhou Yusei (Note b)	US$2,000,000	100%	Not yet commenced business

Notes:

(a) Yusei (China) was established under the laws of the PRC with limited liability on 13 February 2007 with an operating period of 50 years. The registered capital of Yusei (China) was US$10,000,000 (equivalent to RMB75,395,000) and wholly owned by the Company. Pursuant to a verification report dated 31 May 2007, the initial registered capital of US$2,000,000 (equivalent to RMB15,301,000), representing 20% of the total registered capital, has been fully paid up by the Company as of 31 May 2007. The remaining balance of the unpaid registered capital should be contributed by the Company within two years from the date of establishment of Yusei (China).

(b) Suzhou Yusei was established under the laws of the PRC with limited liability on 24 August 2007 with an operating period of 50 years. The registered capital of Suzhou Yusei was US$10,000,000 (equivalent to RMB75,395,000) and wholly owned by the Company. Pursuant to a verification report dated 7 November 2007, the initial registered capital of US$2,000,000 (equivalent to RMB15,079,000), representing 20% of the total registered capital, has been fully paid up by the Company as of 10 September 2007. The remaining balance of the unpaid registered capital should be contributed by the Company within two years from the date of establishment of Suzhou Yusei.

None of the subsidiaries had any debt securities outstanding as at the end of the year or at any time during the year.