



YUSEI HOLDINGS LIMITED 友成控股有限公司*

(Incorporated in the Cayman Islands with limited liability)
(Stock code: 00096)



Annual Report 2011

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CORPORATE INFORMATION

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 8 Youcheng Road
Xiaoshan Economy & Technology Development Zone
Zhejiang
311215
The PRC

BUSINESS ADDRESS IN HONG KONG

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

COMPANY SECRETARY

Mr. Shum Shing Kei CPA

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

NOMINATION 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

96

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 2011, 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 2011 was approximately RMB831,994,000, representing a decrease of 0.6% as compared to that of approximately RMB837,367,000 for the year ended 31 December 2010. 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 2011 decreased by 0.6% to approximately RMB831,994,000 as compared to that of approximately RMB837,367,000 for the year ended 31 December 2010. It was mainly attributable to the sluggish domestic economic growth and the worsening global economic environment.

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 RMB116,024,000 for the year ended 31 December 2011, representing an decrease of approximately 15.3% as compared to that of approximately RMB137,003,000 for the year ended 31 December 2010. During the year, the overall gross profit margin was decreased as (i) the increase in product pricing was lower than the increase in raw materials pricing arising from keen competition in the market; and (ii) the exports sales of the Group's products were affected by the instability of global economic environment.

DISTRIBUTION COSTS

Distribution costs for the year ended 31 December 2011 increased by approximately 11.9% to approximately RMB20,933,000 as compared to that of approximately RMB18,707,000 for the year ended 31 December 2010. Such increase was mainly attributable to increase in unit costs of packing materials and transportation costs.

NET FOREIGN EXCHANGE LOSS

Net foreign exchange loss mainly represented the loss arising from exchange rate translation of Japanese Yen ("JPY") denominated obligations under finance leases and bank borrowings at the balance sheet date as a result of the appreciation of the Japanese Yen against RMB.

MANAGEMENT DISCUSSION AND ANALYSIS

ADMINISTRATIVE EXPENSES

Administrative expenses for the year ended 31 December 2011 increased by approximately 3.3% to approximately RMB52,617,000 as compared to that of approximately RMB50,927,000 for the year ended 31 December 2010. Such increase was mainly attributable to the Group's expansion.

FINANCE COSTS

Finance costs for the year ended 31 December 2011 increased to approximately RMB22,975,000 as compared to that of approximately RMB17,675,000 for the year ended 31 December 2010. Such increase was attributable to the increase in borrowing rates and the Group's average bank borrowings as a result of the Group's expansion.

PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company decreased by approximately 28.3% from approximately RMB21,407,000 for the year ended 31 December 2010 to approximately RMB15,340,000 for the year ended 31 December 2011.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2011, the equity amounted to approximately RMB212,034,000. Current assets amount to approximately RMB567,041,000, of which bank balance, deposits and cash and pledged bank deposits totaling approximately RMB83,547,000. The Group had non-current assets of RMB443,325,000 and its current liabilities amounted to approximately RMB738,187,000, comprising mainly its creditors and accrued charges and bank borrowings. The net asset value per share was RMB1.2. The Group expresses its gearing ratio as a percentage of finance leases and borrowings over total assets. As at 31 December 2011, the Group had a gearing ratio of 43.0%.

SEGMENT INFORMATION

The sole principal activity of the Group is moulding fabrication, manufacturing and trading of moulds and plastic components. All the Group's operations are located and carried out in the PRC. As the Group operated in a single operating segment, no segmental analysis has been presented accordingly.

EMPLOYMENT AND REMUNERATION POLICY

As at 31 December 2011, the total number of the Group's staff was approximately 2,600. The total staff costs (including directors' remuneration) amounted to approximately RMB114,939,000 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.

MANAGEMENT DISCUSSION AND ANALYSIS

CHARGE ON GROUP ASSETS

As at 31 December 2011, the Group's bank borrowings are secured by land use rights and property, plant and equipment and pledged bank deposits of the Group with an aggregate net carrying values of approximately RMB20,440,000, RMB69,960,000 and RMB10,000,000, respectively.

FOREIGN CURRENCY RISK

The Group carries on business in Renminbi ("RMB"), United States dollars ("US\$") and JPY and therefore the Group is exposed to foreign currency risk as the values of these currencies fluctuate in the international market.

The Group's exposure to foreign currency risk is attributable to the debtors, deposits and prepayments; bank balances, deposits and cash; creditors and accrued charges; obligations under finance leases and bank borrowings of the Group which are denominated in foreign currencies of US\$ and JPY. The functional currencies of the relevant group entities are RMB and HK\$. The Group currently does not have a foreign currency hedging policy in respect of foreign currency exposure. However, the directors monitor the related foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

CAPITAL COMMITMENTS

As at 31 December 2011, the Group had a capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment totalling approximately RMB5,700,000.

OUTLOOK

Management will actively adopted the Group's strategy to leverage on the experience of its management team in the plastic component manufacturing industry and its expertise in mould development to enhance the quality of its products, expand its customer base and strengthen the leading position in the high-end mould industry and its overall core competitiveness in relation to the one-stop services ranging from products development, plastic injection, aluminium-plating and assembling.

As a service provider to the well-known international branded manufacturers, the management believes that the Group possesses the managerial characteristics which our major customers may appreciate, including: (i) high-level demand on the quality of the products, particularly in the automotive parts and components, office automation machines like assembling parts of photocopies and printers must meet a high standard of precision in order to ensure the machine work effectively; (ii) emphasis on

MANAGEMENT DISCUSSION AND ANALYSIS

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 customers' 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.

For keeping abreast of the current development in the market and the customers' needs, the Group strengthens the communication with customers in USA and Japan. Apart from seconding technicians to Japan for training, the Group employed experienced salesmen and technicians from United Kingdom and Japan to improve the capability of marketing and technical ability.

As regards the quality of the products, the Group had adopted ERP system to facilitate the production flow and monitor the product quality. To response the changing technology in the industry, the Company will continue to acquire and install advanced machinery and equipment and to increase the ability to design and develop precision plastic injection moulds. The Company will rely on the one-stop solution from precision mould, plastic injection, aluminium plating to assembling to improve the sales network to capture opportunities in order to increase market share and to enlarge the customer bases. Nevertheless, the Group is cautious in accepting the new customers and we take into account of all factors in the process, including product pricing and the reputation of the potential customers and so on. For market exploring, the Group will continue to promote its business internationally and during the period, the Group had built up business relationship with several new internationally reputable customers in Europe and America such as Germany, France and Brazil, and serves them with high-quality moulds.

The Group's new factories in Zengcheng, Guangzhou of about 30,000 square meter was completed in 2011 and equipped with advanced mold production equipment. The new factory intends to meet the growing auto parts market in South China.

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 2011.

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 2011 and the state of affairs of the Group at that date are set out in the financial statements on pages 25 to 86.

SUMMARY FINANCIAL INFORMATION

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

RESULTS

	2011	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	831,994	837,367	554,484	464,764	444,747
Cost of sales	(715,970)	(700,364)	(460,973)	(382,989)	(354,515)
Gross profit	116,024	137,003	93,511	81,775	90,232
Other income	8,669	5,270	6,603	3,005	2,668
Distribution costs	(20,933)	(18,707)	(13,132)	(8,443)	(7,641)
Net foreign exchange loss	(5,094)	(16,774)	-	(19,276)	-
Administrative expenses	(52,617)	(50,927)	(44,527)	(36,414)	(37,507)
Finance costs	(22,975)	(17,675)	(16,928)	(13,695)	(9,196)
Share of results of associates	948	(6,205)	(2,418)	-	-
Profit before taxation	24,022	31,985	23,109	6,952	38,556
Income tax expense	(8,682)	(10,578)	(3,547)	(6,616)	(7,691)
Profit for the year	15,340	21,407	19,562	336	30,865
ASSETS AND LIABILITIES					
Total assets	1,010,366	947,301	805,403	674,105	486,202
Total liabilities	(798,332)	(742,331)	(621,911)	(510,362)	(314,421)
	212,034	204,970	183,492	163,743	171,781

REPORT OF THE DIRECTORS

DIVIDENDS

The Directors do not recommend the payment of final dividend for the year ended 31 December 2011.

On 24 March 2011, the directors declared a special dividend of RMB0.07 (or equivalent to HK\$0.0832) per share payable to shareholders of the Company (the "Shareholders") whose names appear on the register of members of the Company on 12 April 2011. Such dividends were fully settled in April 2011.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 33 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 35 to the consolidated financial statement and 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.

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 76% of the total sales for the year and sales to the largest customer included therein amounted to 32%. Purchases from the Group's five largest suppliers accounted for 28% of the total purchases for the year and purchases from the largest suppliers included therein amounted to 9%.

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

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr. Xu Yong

Mr. Manabu Shimabayashi

Non-executive directors:

Mr. Katsutoshi Masuda

Mr. Toshimitsu Masuda

Mr. Toshinobu Ito

Mr. Shinichi Koizumi

Mr. Lo Ka Wai*

Mr. Fan Xiaoping*

Mr. Hisaki Takabayashi*

* *Independent non-executive directors*

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

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 21 to 22 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.

REPORT OF THE DIRECTORS

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

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

DIRECTORS' REMUNERATION

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

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in notes 23, 27, 28 and 38 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.

REPORT OF THE DIRECTORS

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 and were withdrawn from the GEM on 14 December 2010. On 15 December 2010, the Company's shares were listed on the Main Board of the Stock Exchange. 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 the Listing Rules relating to securities transactions by the directors to be notified to the Company and the Stock Exchange are as follows:

Name of Company	Name of Director	Capacity			Number of shares		Approximate Percentage of interests
		Personal Interests	Family Interests	Corporate Interests	Long Position	Short Position	
Company	Katsutoshi Masuda ("Mr. Masuda") (Note 1)	-	-	80,960,000 shares	80,960,000 shares	-	46%
Company	Toshimitsu Masuda (Note 2)	-	-	80,960,000 shares	80,960,000 shares	-	46%
Company	Xu Yong	10,560,000 shares	-	-	10,560,000 shares	-	6%
Company	Manabu Shimabayashi	-	110,200 shares	-	110,200 shares	-	0.1%
Company	Shinichi Koizumi	22,000 shares	-	-	22,000 shares	-	0%
Company	Fan Xiaoping	19,800 shares	-	-	19,800 shares	-	0%
Yusei Machinery Corporation ("Yusei Japan")	Mr. Masuda (Note 3)	21,960 shares	2,100 shares	25,760 shares	49,820 shares	-	49.8%
Yusei Japan	Toshimitsu Masuda (Note 4)	1,700 shares	-	25,760 shares	27,460 shares	-	27.5%

REPORT OF THE DIRECTORS

Notes:

1. Mr. Masuda is deemed to be interested in 49.8% of the issued share capital in Yusei Japan pursuant to the SFO. Yusei Japan is interested in 46% 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 80,960,000 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 25.8% in the issued share capital of Yusei Japan which in turn is interested in 46% in the issued share capital of the Company. By virtue of SFO, Mr. Toshimitsu Masuda is deemed to be interested in 80,960,000 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 25.8% 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 and were withdrawn from the GEM on 14 December 2010. On 15 December 2010, the Company's shares were listed on the Main Board of the Stock Exchange. So far as the Directors are aware, the following persons (other than the Directors or chief executive of the Company) had an interest and/or a short position in the shares or underlying shares in respect of equity derivatives of the Company that would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO (including interests and/or short positions which they are taken or deemed to have under such provisions of the SFO), or be recorded in the register of the Company or who are directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying right to vote in all circumstances at general meetings of any other member of the Group are as follows:

Name of Company	Number of shareholder	Capacity	Number of shares		Approximate percentage of interests
			Long Position	Short Position	
Company	Yusei Japan	Beneficial Owner	80,960,000 shares	-	46%
Company	Conpri (Note 1)	Corporate Interest	80,960,000 shares	-	46%
Company	Mrs. Echiko Masuda (Note 2)	Family Interests	80,960,000 shares	-	46%
Company	Superview International Investment Limited (Note 3)	Beneficial Owner	38,722,000 shares	-	22%

REPORT OF THE DIRECTORS

Notes:

1. Conpri is interested in 25.8% in the issued share capital of Yusei Japan. By virtue of SFO, Conpri is deemed to be interested in 80,960,000 shares held by Yusei Japan.
2. Mrs. Echiko Masuda is the spouse of Mr. Masuda and is deemed to be interested in 80,960,000 Shares pursuant to the SFO.
3. Superview International Investment Limited is wholly owned by Mr. Xu Yue, an elder brother of Mr. Xu Yong who is an executive director of the Company.

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 2011.

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 2011, the Company had adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Appendix 10 to the Listing Rules. The Company also had made specific enquiry of all directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors.

AUDIT COMMITTEE AND SUMMARY OF INDEPENDENT AUDITOR'S REPORT

The Company has established an audit committee comprising of the three independent non-executive directors, namely Mr. Hisaki Takabayashi, Mr. Fan Xiaoping and Mr. Lo Ka Wai, with written terms of reference in compliance with Rules 3.21 to 3.22 of the Listing Rules. The primary duties of the audit committee are (i) to review, in draft form, the Company's annual report and accounts, half-yearly report and quarterly reports 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 2011, which was of an opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been made.

DIRECTORS' INTEREST IN A COMPLETING BUSINESS

Yusei Japan is beneficially owned as to 46% 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 25.8% by Conpri, as to approximately 21.9% by Mr. Masuda, as to approximately 12.1% by Mr. Akio Suzuki, as to approximately 2.1% by Mrs. Echiko Masuda and as to approximately 1.7% by Mr. Toshimitsu Masuda, as to 30% by Tokyo Small and Medium Business Investment & Consultation Co., Ltd., respectively and as to approximately 6.4% held by Yusei Japan itself as a result of share repurchase, which according to the confirmation of a practicing Japanese law firm, need not be extinguished from the issued share capital of Yusei Japan under Japanese laws. Conpri is a company incorporated in Japan with limited liability and is owned as to 50% by Mr. Toshimitsu Masuda, 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 and Mr. Toshimitsu Masuda are the Company's non-executive directors. Mr. Akio Suzuki was the Company's non-executive directors.

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

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

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

REPORT OF THE DIRECTORS

- (2) not either alone or jointly with any other person, firm or company, carry on (including but not limited to making investments, setting up distribution channels and/or liaison offices and creating business alliances), participate, be engaged, concerned or interested in or in any way assist in or provide support (whether financial, technical or otherwise) to any business similar to or which competes (either directly or indirectly) or is likely to compete with the business of the design, development and fabrication of precision plastic injection moulds or the manufacturing of plastic components in the Group's Exclusive Markets or the provision of certain assembling and further processing of plastic components for customers (the "Business") from time to time carried out by any member of the Group (provision of assistance and support to the Group excepted) including the entering into of any contracts, agreements or other arrangements in relation to any of the above;
- (3) not directly or indirectly sell, distribute, supply or otherwise provide products that are within the Group's Product Portfolio to any purchaser or potential purchaser of any products within the Group's Product Portfolio in the Group's Exclusive Markets (the "Customers") and upon receipt of any enquiry from Customers for products which are within the Group's Product Portfolio, to refer to the Company or any member of the Group all such business opportunities received by the Covenantors and provide sufficient information to enable the Company or any member of Group to reach an informed view and assessment on such business opportunities;
- (4) not directly or indirectly sell, distribute, supply or otherwise provide any products that are within the Group's Product Portfolio where the relevant Covenantor(s) know(s), or is reasonably regarded as should have known, that such products are destined to be re-sold, re-distributed or re-supplied for the purpose of commercial exploitation in the Group's Exclusive Markets;
- (5) upon receipt of any order or enquiry from customers outside the Group's Exclusive Markets for products which are within the Group's Product Portfolio and where the relevant Covenantor(s) know(s), or is reasonably regarded as should have known, that such products are destined to be re-sold, re-distributed or re-supplied for the purpose of commercial exploitation in the Group's Exclusive Markets, the relevant Covenantor shall inform the Group in writing of such order or enquiry and refer such customer to contract directly with the Group for the order of the relevant product;
- (6) not do or say anything which may be harmful to the reputation of any member of the Group or which may lead any person to reduce their level of business with any member of the Group or seek to improve their terms of trade with any member of the Group; and
- (7) not solicit or entice or endeavour to solicit or entice any of the employees of or consultants to the Group to terminate their employment or appointment with any member of the Group.

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

REPORT OF THE DIRECTORS

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

30 March 2012

CORPORATE GOVERNANCE REPORT

DIRECTORS' SECURITIES TRANSACTIONS

- During the year ended 31 December 2011, the Company had adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Appendix 10 to the Listing Rules. The Company also had made specific enquiry of all directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors.

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 3.12 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 21 to 22.
- 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 three 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. The Nomination Committee is mainly responsible for making recommendations to the Board on the appointment of Directors and succession planning for Directors.
- During the Year, the Board held 4 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.

CORPORATE GOVERNANCE REPORT

- 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. Toshimitsu Masuda is the son of Mr. Katsutoshi Masuda.

Name of directors	Attendance of individual directors in meetings of the Board in 2011
Katsutoshi Masuda	4/4
Xu Yong	4/4
Manabu Shimabayashi	4/4
Toshimitsu Masuda	4/4
Toshinobu Ito	4/4
Shinichi Koizumi	4/4
Lo Ka Wai	4/4
Fan Xiao Ping	4/4
Hisaki Takabayahi	4/4

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. Xu Yong 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.

CORPORATE GOVERNANCE REPORT

NON-EXECUTIVE DIRECTORS

- Each of Non-executive Directors has entered into a letter of appointment with the Company for a term of three years 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.
- The Remuneration Committee has held one meeting during the year with all members of the Committee attended.

NOMINATION OF DIRECTORS

- The Company has set up nomination committee. The Nomination Committee is responsible for the recommendation, election and appointment of Directors of the Company. 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.
- The Nomination Committee has held one meeting during the year with all members of the Committee attended.

AUDITORS' REMUNERATION

- SHINEWING (HK) CPA Limited ("SHINEWING") were appointed as the auditors of the Company pursuant to the shareholders' resolution passed in the Annual General Meeting held on 2 June 2011. Auditing fees in respect of annual audit service for the year ended 31 December 2011 amounted to RMB860,000.
- The consolidated financial statements for the years ended 31 December 2007, 2008, 2009, 2010 and 2011 were audited by SHINEWING.

CORPORATE GOVERNANCE REPORT

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 3.21 to 3.22 of the Listing Rules. The primary duties of the Audit Committee are (1) to review, in draft form, the Company's annual report and accounts, and interim 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 two meetings each year.

Name of directors	Attendance of individual directors in meetings of the committee in 2011
Lo Ka Wai	2/2
Fan Xiao Ping	2/2
Hisaki Takabayahi	2/2

ACCOUNTABILITY AND AUDIT

The Board acknowledges its responsibility for preparing the consolidated 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 2011, 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 consolidated 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 (増田勝年先生), aged 67, 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. XU Yong (許勇先生), aged 49, is an executive Director and the 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 was graduated from the Central Party School of the Communist Party of China in 2008 and obtained the law degree. 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. Manabu SHIMABAYASHI (島林學步先生), aged 38, is the director and deputy manager of Zhejiang Yusei. Mr. Shimabayashi will be appointed as an executive Director of the Company with effect from the date on which the listing of the Shares is transferred from GEM to Main Board. He graduated from Seijo University (成城大學) with a bachelor degree in economics in 1996. He was employed by an accountants' firm in Shizuoka, Japan from 1996 to 2007. Mr. Shimabayashi joined the Group in 2007 as head of management department of Zhejiang Yusei.

Mr. Toshimitsu MASUDA (増田敏光先生), aged 43, son of Mr. Katsutoshi Masuda, was appointed as a non-executive Director on 2 June 2005. Mr. Toshimitsu Masuda graduated from Kogakuin 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 61, 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.

Mr. Shinichi KOIZUMI (小泉伸一先生), aged 59, will be appointed as a non-executive Director with effect from the date on which the listing of the Shares is transferred from GEM to Main Board. Mr. Koizumi graduated from Keio University (慶應義塾大學) with bachelor degree in business in 1976. Before joining Yusei Japan, Mr. Koizumi was employed by the Shizuoka Bank Ltd.,. He joined Yusei Japan in 2007. At present, Mr. Koizumi is also a director of Yusei Japan.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. FAN Xiaoping (范曉屏先生), aged 53, 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 42, 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 currently the Chief Financial Officer of Heng Xin China Holdings Limited, a company listed on the Main Board of the Stock Exchange.

Mr. Hisaki TAKABAYASHI (高林久記先生), aged 51, 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. LI Yuquan (李玉泉先生), aged 63, joined the Group in 2010. He is currently the Group's managing supervisor. Before joining the Group, Mr. Li served as senior management positions in a number of large enterprises. Currently, Mr. Li is responsible for the internal management of the Group, upgrading the management and optimizing business operations.

Mr. CHEN Gang (陳剛先生), aged 44, 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. WANG Dehong (王德洪先生), aged 42, was graduated from Hubei Institute of Technology in 1994 to obtain a Bachelor degree of Engineering. In 1995, Mr. Wang joined the Group and had held various positions, including technicians, chief of quality control department and head of production department. He is currently the Group's production supervisor and is responsible for enhancement of the Group's overall production management, quality and efficiency.

Mr. SHUM Shing Kei (沈成基先生), aged 40, is 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 a fellow 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.

INDEPENDENT AUDITOR'S REPORT



SHINEWING (HK) CPA Limited
43/F, The Lee Gardens
33 Hysan Avenue
Causeway Bay, Hong Kong

TO THE MEMBERS OF YUSEI HOLDINGS LIMITED

友成控股有限公司

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Yusei Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 25 to 86, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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 of the consolidated financial statements that give a true and fair view 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.

INDEPENDENT AUDITOR'S REPORT

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 2011 and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

EMPHASIS OF MATTERS

Without qualifying our opinion, we draw attention to Note 2 to the consolidated financial statements which indicates that as at 31 December 2011, the Group has net current liabilities of approximately RMB171,146,000. These conditions as set out in Note 2 to the consolidated financial statements indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

SHINEWING (HK) CPA Limited

Certified Public Accountants

Wong Hon Kei Anthony

Practising Certificate Number: P05591

Hong Kong

30 March 2012

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011

	NOTES	2011 RMB'000	2010 RMB'000
Revenue	8	831,994	837,367
Cost of sales		(715,970)	(700,364)
Gross profit		116,024	137,003
Other income	9	8,669	5,270
Distribution costs		(20,933)	(18,707)
Net foreign exchange loss		(5,094)	(16,774)
Administrative expenses		(52,617)	(50,927)
Finance costs	10	(22,975)	(17,675)
Share of results of associates	19	948	(6,205)
Profit before taxation		24,022	31,985
Income tax expense	11	(8,682)	(10,578)
Profit for the year	12	15,340	21,407
Earnings per share			
Basic and diluted	15	RMB0.087	RMB0.122

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	2011	2010
	RMB'000	RMB'000
Profit for the year	<u>15,340</u>	<u>21,407</u>
Exchange differences arising on translating	<u>4,044</u>	<u>2,844</u>
Total comprehensive income for the year	<u>19,384</u>	<u>24,251</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	NOTES	2011 RMB'000	2010 RMB'000
Non-current assets			
Property, plant and equipment	16	402,609	351,988
Intangible assets	17	530	502
Land use rights	18	20,098	20,793
Interests in associates	19	20,031	19,083
Deposits paid to acquire non-current assets	20	57	1,378
		<u>443,325</u>	<u>393,744</u>
Current assets			
Inventories	21	163,417	114,438
Debtors, deposits and prepayments	22	310,547	313,725
Amounts due from associates	23	9,530	7,501
Pledged bank deposits	24	46,972	24,931
Bank balances, deposits and cash	25	36,575	92,962
		<u>567,041</u>	<u>553,557</u>
Current liabilities			
Creditors and accrued charges	26	357,324	322,755
Amount due to a director	27	-	111
Amount due to ultimate holding company	28	129	993
Income tax liabilities		5,946	5,390
Obligations under finance leases			
- due within one year	29	15,131	14,362
Bank and other loans - due within one year	30	359,657	287,152
		<u>738,187</u>	<u>630,763</u>
Net current liabilities		<u>(171,146)</u>	<u>(77,206)</u>
		<u>272,179</u>	<u>316,538</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	NOTES	2011 RMB'000	2010 RMB'000
Non-current liabilities			
Obligations under finance leases			
- due after one year	29	8,961	24,118
Bank and other loans - due after one year	30	50,241	86,422
Deferred income - government grants	31	943	1,028
		60,145	111,568
		212,034	204,970
Capital and reserves			
Share capital	33	1,810	1,810
Reserves		210,224	203,160
		212,034	204,970

The consolidated financial statements on pages 25 to 86 were approved and authorised for issue by the board of directors on 30 March 2012 and are signed on its behalf by:

Director

Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Share capital	Share premium	Special reserve	Reserve for shares issued with vesting conditions	Redeemable convertible note reserve	Translation reserve	Capital reserve	Statutory surplus reserve	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 33)		(Note 35(vi))	(Note 35(iv))	(Note 35(v))		(Note 35(ii))	(Note 35(iii))		
1 January 2010	1,674	40,003	49,663	18,065	3,004	(1,430)	71	10,871	61,571	183,492
Profit for the year	-	-	-	-	-	-	-	-	21,407	21,407
Other comprehensive income for the year	-	-	-	-	-	2,844	-	-	-	2,844
Total comprehensive income for the year	-	-	-	-	-	2,844	-	-	21,407	24,251
Bonus issue of shares	136	(136)	-	-	-	-	-	-	-	-
Transfer to retained profits upon early redemption of redeemable convertible note (Note 32)	-	-	-	-	(231)	-	-	-	231	-
Effect of early redemption of redeemable convertible note (Note 32)	-	-	-	-	(2,773)	-	-	-	-	(2,773)
Transfer	-	-	-	-	-	-	-	1,071	(1,071)	-
At 31 December 2010 and 1 January 2011	1,810	39,867	49,663	18,065	-	1,414	71	11,942	82,138	204,970
Profit for the year	-	-	-	-	-	-	-	-	15,340	15,340
Other comprehensive income for the year	-	-	-	-	-	4,044	-	-	-	4,044
Total comprehensive income for the year	-	-	-	-	-	4,044	-	-	15,340	19,384
Dividend paid	-	-	-	-	-	-	-	-	(12,320)	(12,320)
Transfer	-	-	-	-	-	-	-	2,332	(2,332)	-
At 31 December 2011	1,810	39,867	49,663	18,065	-	5,458	71	14,274	82,826	212,034

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	2011 RMB'000	2010 RMB'000
OPERATING ACTIVITIES		
Profit before taxation	24,022	31,985
Adjustments for:		
Bank interest income	(738)	(914)
Depreciation and amortisation	45,499	40,439
Finance costs	22,975	17,675
Gain on sales of materials	(4,812)	(2,312)
Government subsidies	(507)	(1,151)
Impairment loss on trade debtors	-	801
Impairment loss on inventories	519	-
Loss (gain) on disposal of property, plant and equipment	443	(7)
Release of government grants	(85)	(85)
Reversal of impairment loss on trade debtors	(188)	-
Reversal of impairment loss on inventories	(364)	-
Share of results of associates	(948)	6,205
Operating cash flows before movements in working capital	85,816	92,636
Increase in inventories	(44,322)	(4,075)
Decrease (increase) in debtors, deposits and prepayments	3,170	(119,775)
Increase in amounts due from associates	(2,029)	-
Increase in creditors and accrued charges	35,033	80,347
Decrease in amount due to ultimate holding company	(889)	(1,128)
Cash generated from operations	76,779	48,005
Income taxes paid	(8,126)	(8,094)
NET CASH FROM OPERATING ACTIVITIES	68,653	39,911
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(93,794)	(93,116)
(Increase) decrease in pledged bank deposits	(22,041)	17,334
Purchase of intangible assets	(215)	(306)
Deposit paid for acquisition of machinery	(57)	(1,378)
Proceeds from sales of property, plant and equipment	1,953	714
Interest received	738	914
Repayment from directors	-	751
Repayment from associates	-	3,531
NET CASH USED IN INVESTING ACTIVITIES	(113,416)	(71,556)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	2011	2010
	RMB'000	RMB'000
FINANCING ACTIVITIES		
Repayment of bank and other loans	(287,152)	(232,860)
Interest paid	(25,608)	(18,020)
Repayment of obligations under finance leases	(14,388)	(9,168)
Dividend paid	(12,320)	-
(Repayment) advance from a director	(106)	111
New bank and other loans raised	327,327	272,861
Government subsidies received	507	1,151
Proceed of sale and leaseback transactions	-	17,918
Redemption on redeemable convertible note	-	(12,967)
	(11,740)	19,026
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(11,740)	19,026
NET DECREASE IN CASH AND CASH EQUIVALENTS	(56,503)	(12,619)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	92,962	102,737
Effect of foreign exchange rate changes	116	2,844
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, Representing bank balances, deposits and cash	36,575	92,962

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

1. CORPORATE INFORMATION

Yusei Holdings Limited (the "Company") is a public limited company incorporated in Cayman Island as an exempted company with limited liability on 4 April 2005. On 13 October 2005, the shares of the Company were listed on the Growth Enterprise Market ("the GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and were withdrawn from the GEM on 14 December 2010. On 15 December 2010, the Company's shares are listed on the Main Board of the Stock Exchange. Its ultimate holding company is Yusei Machinery Corporation ("Yusei Japan") (incorporated in Japan). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information to the annual report.

The consolidated financial statements are presented in Renminbi ("RMB"). Other than those subsidiaries established in the People's Republic of China (the "PRC") whose functional currency is RMB, the functional currency of the Company is Hong Kong dollars ("HK\$").

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

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared on a going concern basis notwithstanding the net current liabilities of approximately RMB171,146,000 as at 31 December 2011. In the opinion of the directors, the Group should be able to maintain itself as a going concern in the coming year by taking into consideration the proposed arrangements which include, but are not limited to, the following:

1. subsequent to the year end date, the Group has successfully negotiated with its major banks to extend the existing bank loans of approximately RMB85,580,000, of which has been included in current liabilities as short-term bank loans as at 31 December 2011. Also, the Group obtained a new loan from Yusei Japan of approximately RMB20,572,000 which is repayable by February 2013; and
2. the directors of the Company anticipate that the Group will generate positive cash flows from its businesses.

On the basis that the continuing availability of the banking facilities provided by its banks and the implementation of other measures with a view to improve its working capital position and net financial position, the directors of the Company consider that the Group will have sufficient working capital to meet its financial obligations as and when they fall due for the next twelve months from 31 December 2011. Accordingly, the directors of the Company are satisfied that it is appropriate to prepare these consolidated financial statements on a going concern basis. The consolidated financial statements do not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Amendments to HKFRSs Amendment to HKFRS 1	Improvements to HKFRSs issued in 2010 Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters Related Party Disclosures
Hong Kong Accounting Standards ("HKAS") 24 (as revised in 2009)	
Amendments to HKAS 32 Amendments to HK(IFRIC)- Interpretation ("Int") 14 HK(IFRIC) – Int 19	Classification of Rights Issues Prepayments of a Minimum Funding Requirement Extinguishing Financial Liabilities with Equity Instruments

The application of new and revised HKFRSs had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendment to HKFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters ¹
Amendments to HKFRS 1	First-time Adoption of Hong Kong Financial Reporting Standard – Government Loans ²
Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets ¹ Disclosures – Offsetting Financial Assets and Financial Liabilities ² Mandatory Effective Date of HKFRS 9 and Transition Disclosures ³
HKFRS 9	Financial Instruments ³
HKFRS 10	Consolidated Financial Statements ²
HKFRS 11	Joint Arrangements ²
HKFRS 12	Disclosure of Interests in Other Entities ²
HKFRS 13	Fair Value Measurement ²
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income ⁵
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets ⁴
HKAS 19 (as revised in 2011)	Employee Benefits ²
HKAS 27 (as revised in 2011)	Separate Financial Statements ²
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures ²
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities ⁶
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine ²

¹ Effective for annual periods beginning on or after 1 July 2011.

² Effective for annual periods beginning on or after 1 January 2013.

³ Effective for annual periods beginning on or after 1 January 2015.

⁴ Effective for annual periods beginning on or after 1 January 2012.

⁵ Effective for annual periods beginning on or after 1 July 2012.

⁶ Effective for annual periods beginning on or after 1 January 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

Amendments to HKFRS 7 Disclosures – Transfers of Financial Assets

The amendments to HKFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors of the Company anticipate that the application of these amendments to HKFRS 7 will have no significant effect on the Group's disclosures regarding transfers of financial assets in the future.

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities and amendments to HKFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offsetting requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amended offsetting disclosures are required for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

HKFRS 9 – Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

HKFRS 9 – Financial Instruments (continued)

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

The directors of the Company anticipate that the adoption of HKFRS 9 in the future may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

New and revised Standards on consolidation, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011). These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time. The directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and the potential impact is described below.

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial information and HK (SIC) – Int 12 Consolidation – Special Purpose Entities. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

The application of HKFRS 10 and HKFRS 12 may have significant impact on amounts reported in the consolidated financial statements. The application of HKFRS 10 might result in the Group no longer consolidating some of its investee, and consolidating investees that were not previously consolidated. However, the directors have not yet performed a detailed analysis of the impact of the application of these standards and hence have not yet quantified the extent of the impact.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 Financial Instruments: Disclosures will be extended to HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

The directors of the Company anticipate that the application of other new or revised HKFRSs will have no material impact on the results and the financial position of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES

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 Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). 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.

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 in full on consolidation.

Investments in subsidiaries

Investment in a subsidiary is stated at cost less any identified impairment loss on the statement of financial position of the Company.

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates (continued)

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Where a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Revenue recognition

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

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

Service income is recognised when services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income 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 on initial recognition.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant leases.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment (other than construction in progress) less their residual value over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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 the disposal or retirement of an item of property, plant and equipment is determined as the differences between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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 lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

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 statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs (see the accounting policy below). Contingent rentals are recognised as expenses in the periods, in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "land use rights" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

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) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period 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 are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, 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 statement of financial position and transferred to profit or loss over the useful lives of the related assets.

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 period in which they become receivable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Retirement benefits scheme contribution

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are recognised 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 or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Intangible asset

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Cash and cash equivalents

Bank balances and cash in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position 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 are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are mainly loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. 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.

Effective interest 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 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 to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including debtors, deposits, amounts due from ultimate holding company and an associates, pledged bank deposits and bank balances, deposits and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be 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 financial assets have been affected.

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

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as debtors, assets that are assessed not to be impaired individually are, in addition, 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.

For financial assets carried at amortised cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the 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 debtors and amounts due from associates, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a debtor, or amounts due from associates is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity Instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

The Group's financial liabilities are generally classified into other financial liabilities.

Effective interest method

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 (including all fees and 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 liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities including creditors and accrued charges, amounts due to a director and ultimate holding company, obligations under finance leases and bank and other loans are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when 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 asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. 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 in its entirety, 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 in other comprehensive income and accumulated in equity is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Derecognition (continued)

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

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

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 the end of each reporting period, 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.

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.

Impairment losses on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

4. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Impairment losses on tangible and intangible assets *(continued)*

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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 (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the entity's accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in consolidated financial statements.

Going concern consideration

The assessment of the going concern assumptions involves making judgement by the directors of the Company, at a particular point of time, about the future outcome of events or conditions which are inherently uncertain. The directors of the Company considers that the Group has ability to continue as a going concern and the major events or conditions, which may give rise to business risks, that individually or collectively may cast significant doubt about the going concern assumptions are set out in Note 2.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(CONTINUED)*

Critical judgements in applying the entity's accounting policies *(continued)*

Building

Despite the Group has paid the full purchase consideration as detailed in Note 16, certain of the Group's right to use of the building was not granted formal titles from the relevant government authorities. The directors of the Company are of the opinions that the risks and rewards of using the asset have been transferred to the Group and the absence of formal titles to the building do not impair the value of the relevant building to the Group.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated useful lives of property, plant and equipment

The directors of the Company determine 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. The directors of the Company 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.

Estimated impairment of property, plant and equipment and land use rights

The Group tests annually whether property, plant and equipment and land use rights have suffered any impairment in accordance with the accounting policy stated in Note 4. The recoverable amounts have been determined based on value-in-use calculations. These calculations require the use of estimates such as the future revenue and discount rates.

Estimated impairment of interests in associates

Determining whether the interests in associates are impaired requires an estimation of the future cash flows expected to arise and the expected dividend yield from the associates in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

Impairment loss on inventories

The directors of the Company review an aging analysis at the end of each reporting period, and makes impairment for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The directors of the Company estimate 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 directors of the Company also carry out an inventory review on a product-by-product basis at the end of each reporting period and makes impairment for obsolete items. During the year ended 31 December 2011, the Group reversed an impairment loss on inventories of approximately RMB364,000 (2010: Nil) and written down of inventory of approximately RMB519,000 (2010: Nil)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(CONTINUED)*

Key sources of estimation uncertainty *(continued)*

Estimates impairment loss on debtors

The policy for making impairment loss on debtors of the Group is based on the evaluation of collectability of debtors and on judgement of the directors of the Company. A considerable amount of judgement is required in assessing the ultimate realisation of these debtors, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment loss may be required. At 31 December 2011, the carrying amount of debtors was approximately RMB264,342,000, net of accumulated impairment loss on debtors of approximately RMB2,231,000 (2010: carrying amount of debtors was approximately RMB301,669,000, net of accumulated impairment loss on debtors of approximately RMB2,419,000).

6. CAPITAL RISK 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 Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes obligation under finance lease and bank and other loans as disclosed in Notes 29 and 30 respectively, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves. The management of the Group 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 loans or repayment of existing loans.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

7. FINANCIAL INSTRUMENTS

A. Categories of financial instruments

	2011	2010
	RMB'000	RMB'000
Financial assets		
Loan and receivables		
– debtors, deposits and other receivables	268,379	304,596
– amounts due from associates	9,530	7,501
– pledged bank deposits	46,972	24,931
– bank balances, deposits and cash	36,575	92,962
	361,456	429,990
Financial liabilities		
Other financial liabilities measured at amortised cost		
– creditors and accrued charges	338,343	321,180
– amount due to a director	–	111
– amount due to ultimate holding company	129	993
– obligations under finance leases	24,092	38,480
– bank and other loans	409,898	373,574
	772,462	734,338

B. Financial risk, management objectives and policies

The Group's major financial instruments include debtors, deposits and other receivables; creditors and accrued charges; obligations under finance leases; bank and other loans; balances with ultimate holding company, associates and directors; pledged bank deposits and bank balances, deposits and cash. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

7. FINANCIAL INSTRUMENTS (CONTINUED)

B. Financial risk, management objectives and policies (continued)

Market risk

(i) *Currency risk*

The Group's exposure to currency risk is attributable to the debtors, deposits and other receivables; bank balances, deposits and cash; creditors and accrued charges; obligations under finance leases, bank and other loans of the Group which are denominated in foreign currencies of United State dollars ("US\$") and Japanese Yen ("JPY"). The functional currencies of the relevant group entities are RMB and HK\$. The Group currently does not have a foreign currency hedging policy in respect of foreign currency exposure. However, the directors of the Company monitor the related foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's major monetary assets and monetary liabilities denominated in currencies other than the functional currencies of the relevant group entities at the reporting date are as follows:

	As at 31 December	
	2011 RMB'000	2010 RMB'000
Monetary assets		
US\$		
Debtors, deposits and other receivables	37,690	24,020
Bank balances, deposits and cash	17,436	23,495
	<u>55,126</u>	<u>47,515</u>
JPY		
Debtors, deposits and other receivables	26	1,671
Bank balances, deposits and cash	181	1,326
	<u>207</u>	<u>2,997</u>
	<u>55,333</u>	<u>50,512</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

7. FINANCIAL INSTRUMENTS (CONTINUED)

B. Financial risk, management objectives and policies (continued)

Market risk (continued)

(i) Currency risk (continued)

	As at 31 December	
	2011 RMB'000	2010 RMB'000
Monetary liabilities		
US\$		
Creditors and accrued charges	54,776	36,633
Bank loans	18,903	6,599
	73,679	43,232
JPY		
Creditors and accrued charges	936	1,210
Obligations under finance leases	13,539	22,255
Bank loans	79,947	103,776
	94,422	127,241
	168,101	170,473

Sensitivity analysis

The Group is mainly exposed to JPY and US\$. The following table details the Group's sensitivity to a 10% (2010: 10%) increase and decrease in RMB against JPY and 5% (2010: 5%) increase and decrease in RMB against US\$ with all other variables held constant. 10% and 5% (2010: 10% and 5%) are the sensitivity rate used when the reporting foreign currency risk internally to key management personnel and represents directors' assessment of the reasonably possible change in foreign exchange rates of JPY and US\$. The sensitivity analysis includes US\$ and JPY denominated monetary assets and liabilities and adjusts their translation based on their carrying amounts at the end of each reporting period. A positive number below indicates a decrease in the post-tax profit where RMB strengthen 5% (2010: 5%) against US\$ and strengthen 10% (2010: 10%) against JPY. For a 5% and 10% (2010: 5% and 10%) weakening of RMB against US\$ and JPY respectively, there would be an equal and opposite impact on the post-tax profit.

	2011 Decrease (increase) in profit RMB'000	2010 Decrease (increase) in profit RMB'000
US\$	(684)	81
JPY	(8,522)	(11,154)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

7. FINANCIAL INSTRUMENTS (CONTINUED)

B. Financial risk, management objectives and policies (continued)

Market risk (continued)

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate pledged bank deposits, bank balances, deposits and cash, obligations under finance leases and bank and other loans (see Notes 24, 25, 29 and 30 respectively for details). The Group historically has not used any financial instruments to hedge potential fluctuations in interest rates.

The Group is also exposed to cash flow interest-rate risk in relation to floating-rate bank and other loans (see Note 30 for details). It is the Group's policy to keep its loans at floating-rate of interests so as to minimise the fair value interest rate risk. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Toyko Interbank Offer Rate ("TIBOR") arising from the Group's JPY denominated bank loans and RMB Benchmark Interest Rate arising from the Group's RMB denominated bank loans.

Sensitivity analysis

At 31 December 2011, it is estimated that a general increase or decrease of five percentage point (2010: five percentage point) in interest rates, with all other variables held constant, would decrease or increase the Group's post-tax profit for the year ended 31 December 2011 by approximately RMB654,000 (2010: RMB549,000).

The above sensitivity analysis has been determined assuming that a change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for bank and other loans in existence at that date. The five percentage point (2010: five percentage point) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents directors' assessment of the reasonably possible change in interest rates.

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 the end of the reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

7. FINANCIAL INSTRUMENTS (CONTINUED)

B. Financial risk, management objectives and policies (continued)

Credit risk (continued)

In order to minimise the credit risk, the directors of the Company have delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. 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.

As at 31 December 2011, the Group has certain concentration of credit risk as 46% (2010: 49%) of the Group's total balance of debtors was due from the Group's five largest customers.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 99.9% (31 December 2010: 99.9%) of the total debtors as at 31 December 2011.

The credit risk on liquid fund is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Liquidity risk

As at 31 December 2011, the Group has net current liabilities of approximately RMB171,146,000.

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. At 31 December 2011, maximum banking facilities (including bank and other loans and bills payables) in an aggregate amount of approximately RMB392,279,000 (2010: approximately RMB535,459,000) were available from the Group's principal bankers, of which approximately RMB339,152,000 (2010: RMB431,075,000) has been utilised. The Group ensures to the compliance of those covenants of the existing banking facilities.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank and other loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

7. FINANCIAL INSTRUMENTS (CONTINUED)

B. Financial risk, management objectives and policies (continued)

Liquidity risk (continued)

As at 31 December 2011

	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
Creditors and accrued charges	338,343	338,343	338,343	-	-
Amount due to ultimate holding company	129	129	129	-	-
Obligations under finance leases	24,092	25,281	16,121	9,160	-
Bank and other loans	409,898	433,440	380,313	28,315	24,812
	<u>772,462</u>	<u>797,193</u>	<u>734,906</u>	<u>37,475</u>	<u>24,812</u>

As at 31 December 2010

	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
Creditors and accrued charges	321,180	321,180	321,180	-	-
Amount due to a director	111	111	111	-	-
Amount due to ultimate holding company	993	993	993	-	-
Obligations under finance leases	38,480	41,446	16,139	17,508	7,799
Bank and other loans	373,574	389,511	299,401	48,901	41,209
	<u>734,338</u>	<u>753,241</u>	<u>637,824</u>	<u>66,409</u>	<u>49,008</u>

Bank loans with a repayment on demand clause are included in the "within one year or on demand" time band in the above maturity analysis. As at 31 December 2011 and 31 December 2010, the aggregate undiscounted principal amounts of these bank loans amounted to RMB10,446,000 and RMB13,944,000 respectively. Taking into account the Group had no history of default or delay in principal nor interests payments, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors of the Company believe that such bank loans will be repaid two years after the reporting date in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to RMB11,043,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

7. FINANCIAL INSTRUMENTS (CONTINUED)

C. Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments;
- the directors of the Company consider that the fair value of other financial assets and financial liabilities recorded at amortised cost in the consolidated statement of financial position approximate to the corresponding carrying amounts due to their short-term maturities; and
- the fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

The directors of the Company consider the fair values of other non-current liabilities approximate their carrying amounts as the impact of discounting is not significant.

8. REVENUE AND SEGMENT INFORMATION

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

For the two years ended 31 December 2011 and 2010, the sole principal activity of the Group is moulding fabrication, manufacturing and trading of moulds and plastic components. All the operation of Group are located and carried out in the PRC. In the opinion of the directors of the Company, being the chief operating decision maker, the Group operated in a single operating segment. Accordingly, no segmental analysis has been presented.

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2011	2010
	RMB'000	RMB'000
Customer A	265,451	225,203
Customer B	175,816	156,036
Customer C	86,888	87,282

All revenue generated from the major customers relate to the sale of moulds and plastic components.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

9. OTHER INCOME

	2011 RMB'000	2010 RMB'000
Gain on sales of materials	4,812	2,312
Bank interest income	738	914
Rental income received from customers	743	169
Utilities expenses claimed	573	-
Government subsidies (Note)	507	1,151
Release of government grants for land use rights (Note 31)	85	85
Reversal of impairment loss on trade debtors	188	-
Gain on disposal of property, plant and equipment	-	7
Others	1,023	632
	8,669	5,270

Note: Government subsidies of approximately RMB507,000 (2010: RMB1,151,000) have been recognised during the year ended 31 December 2011 which were designated for the encouragement of business development and high technology development incentive (2010: certain research projects of the Group). All conditions in respect of these grants had been fulfilled and such government grants were recognised in other income for the year.

10. FINANCE COSTS

	2011 RMB'000	2010 RMB'000
Interest on:		
bank and other loans wholly repayable within five years	23,859	16,534
finance leases	1,749	1,486
Effective interest expense on redeemable convertible note	-	61
Less: Interest expenses capitalised into construction in progress and property, plant and equipment (Note)	(2,633)	(479)
Total interest	22,975	17,602
Debt extinguishment loss	-	73
	22,975	17,675

Note: Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 6.06% (2010: 3.91%) per annum to expenditure on qualifying assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

11. INCOME TAX EXPENSE

	2011 RMB'000	2010 RMB'000
PRC Enterprise Income Tax (the "EIT")		
Current year	8,287	11,056
Under (over) provision in prior years	395	(478)
	<u>8,682</u>	<u>10,578</u>

(i) Overseas income tax

The Company is incorporated in the Cayman Islands and is exempted from taxation in the Cayman Islands.

(ii) Hong Kong Profits Tax

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

(iii) PRC EIT

Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

The applicable tax rate of the Company's subsidiary, 杭州友成機工有限公司 Hangzhou Yusei Machinery Co., Ltd.* ("Hangzhou Yusei") for 2011 was 15%. On 30 December 2009, Hangzhou Yusei was approved by Science and Technology Department of Zhejiang Province as high technology enterprise and therefore is subject to EIT at the rate of 15% for three years, with effective from 1 January 2009. Hangzhou Yusei is subjected to PRC EIT rate of 25% commencing from 1 January 2012.

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 operating and registered in the State Level New and High Technology Development Zone. Pursuant to the notice dated 20 March 2008 issued by the PRC tax authorities, the applicable tax rate of Zhejiang Yusei for 2008, 2009, 2010 and 2011 is 18%, 20%, 22% and 24% respectively. Zhejiang Yusei is subjected to PRC EIT rate of 25% commencing from 1 January 2012.

Pursuant to the approvals obtained from the relevant PRC tax authorities, 友成(中國)模具有限有限公司 Yusei (China) Mould Co., Ltd.* ("Yusei China") is entitled to a tax concession period in which it is fully exempted from PRC EIT for two years commencing from 1 January 2008, followed by a reduced income tax rate of 11%, 12% and 12.5% from 2010 to 2012.

The applicable tax rate of 蘇州友成機工有限公司 Suzhou Yusei Machinery Co., Ltd.* ("Suzhou Yusei") and 廣州友成機工有限公司 Guangzhou Yusei Machinery Co., Ltd.* ("Guangzhou Yusei") is 25% for the two years ended 31 December 2011 and 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

11. INCOME TAX EXPENSE (CONTINUED)

(iii) PRC EIT (continued)

杭州友成模具技術研究有限公司 Hangzhou Yusei Mould Technology Research Co., Ltd.* (“Hangzhou Yusei Moulding”) is subjected to PRC EIT rate of 25% for the year ended 31 December 2011 and nil for the year ended 31 December 2010 as it had not commenced business up to 31 December 2010.

* The English names are for identification purposes only.

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:

	2011	2010
	RMB'000	RMB'000
Profit before taxation	24,022	31,985
Tax at the income tax rate at 25% (2010: 25%)	6,005	7,996
Tax effect of share of results of associates	(237)	1,551
Tax effect of expenses not deductible for tax purpose	996	2,930
Tax effect of tax losses not recognised	2,603	1,092
Utilisation of tax losses previously not recognised	-	(543)
Tax effect of tax concession period	(1,834)	(2,865)
Effect of different tax rates	754	895
Under (over) provision in prior years	395	(478)
Tax charge for the year	8,682	10,578

At 31 December 2011, the Group has estimated unused tax losses of approximately RMB27,001,000 (2010: RMB16,589,000). No deferred tax asset has been recognised in the consolidated financial statements due to the unpredictability of future profit streams.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately RMB107,386,000 (31 December 2010: RMB75,219,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

12. PROFIT FOR THE YEAR

	2011	2010
	RMB'000	RMB'000
Profit for the year has been arrived at after charging:		
Directors' remuneration (Note 13)	2,693	2,727
Salaries, wages and other benefits	110,070	76,718
Retirement benefits scheme contributions	2,176	2,589
Other staff costs	112,246	79,307
Total staff costs	114,939	82,034
Depreciation of property, plant and equipment	44,617	39,409
Amortisation of intangible asset (included in administrative expenses)	187	335
Amortisation of land use rights (included in administrative expenses)	695	695
Total depreciation and amortisation expenses	45,499	40,439
Operating lease charges on leased premises	1,940	2,022
Impairment loss on trade debtors	-	801
Impairment loss on inventories (included in cost of sales)	519	-
Reversal of impairment loss on inventories (included in cost of sales)	(364)	-
Loss on disposals of property, plant and equipment	443	-
Auditors' remuneration	860	760

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

13. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

The emoluments of directors are analysed as follows:

2011

Name of director	Fees RMB'000	Basic salaries and allowances RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
Executive directors				
Xu Yong	630	126	13	769
Shimabayashi Manabu	630	187	-	817
Non-executive directors				
Katsutoshi Masuda	831	-	-	831
Toshimitsu Masuda	42	-	-	42
Toshinobu Ito	42	-	-	42
Mr. Shinichi Koizumi	42	-	-	42
Independent non-executive directors				
Lo Ka Wai	100	-	-	100
Fan Xiaoping	25	-	-	25
Hisaki Takabayashi	25	-	-	25
	2,367	313	13	2,693

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

13. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS (CONTINUED)

2010

Name of director	Fees RMB'000	Basic salaries and allowances RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
Executive directors				
Xu Yong	630	126	13	769
Shimabayashi Manabu (appointed on 15 December 2010)	29	797	-	826
Keisuke Murakoshi (resigned on 1 January 2010)	-	-	-	-
Non-executive directors				
Katsutoshi Masuda	851	-	-	851
Toshimitsu Masuda	42	-	-	42
Toshinobu Ito	42	-	-	42
Mr. Shinichi Koizumi (appointed on 15 December 2010)	2	-	-	2
Akio Suzuki (resigned on 6 December 2010)	41	-	-	41
Independent non-executive directors				
Lo Ka Wai	102	-	-	102
Fan Xiaoping	26	-	-	26
Hisaki Takabayashi	26	-	-	26
	<u>1,791</u>	<u>923</u>	<u>13</u>	<u>2,727</u>

Of the five highest paid individuals in the Group during the year ended 31 December 2011, three (2010: three) were directors of the Company and details of their remunerations are set out above. The remunerations of the remaining two (2010: two) individuals were as follows:

	2011 RMB'000	2010 RMB'000
Basic salaries and allowances	629	732
Retirement benefits scheme contributions	10	21
	<u>639</u>	<u>753</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

13. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS (CONTINUED)

The remunerations of these individuals were within the following bands:

	Number of employees	
	2011	2010
Nil to HK\$1,000,000 (equivalent to approximately RMB830,815 (2010: RMB865,700))	<u>2</u>	<u>2</u>

During the two years ended 31 December 2011 and 2010, no remuneration were paid by the Group to the five highest paid individuals and directors 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 remuneration during the two years ended 31 December 2011 and 2010.

14. DIVIDEND

	2011	2010
	RMB'000	RMB'000
Dividend paid during the year	<u>12,320</u>	<u>-</u>

Pursuant to board resolutions passed on 24 March 2011, the Company declared special dividends of approximately RMB12,320,000 to the then shareholders. Such dividends were fully settled in April 2011. No dividend has been proposed since the end of the reporting period.

No dividend was paid or proposed for the year ended 31 December 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

15. EARNINGS PER SHARE

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

	2011	2010
	RMB'000	RMB'000
Earnings		
Earnings for the purpose of basic earnings per share	15,340	21,407
Effect of dilutive potential ordinary shares:		
Interest on convertible loan note (net of tax)	<u>-</u>	<u>111</u>
Earnings for the purpose of diluted earnings per share	<u>15,340</u>	<u>21,518</u>
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	176,000,000	176,000,000
Effect of redeemable convertible note (Note 32)	<u>-</u>	<u>443,767</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>176,000,000</u>	<u>176,443,767</u>

The denominators for the purpose of calculating basic and diluted earnings per share for the year ended 31 December 2010 has been adjusted to reflect the bonus issue of shares on the basis of one bonus share for every ten existing shares on 28 May 2010.

Diluted earnings per share is same as basic earnings per share for the year ended 31 December 2011 as no potential ordinary shares outstanding.

Diluted earnings per share is same as basic earnings per share for the year ended 31 December 2010 as the effect of the exercise of the redeemable convertible note would result in increase in earnings per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery and equipment	Motor vehicles	Office equipment	Moulds	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST							
At 1 January 2010	111,504	316,385	5,696	9,189	9,126	-	451,900
Additions	807	44,122	444	969	15,474	31,779	93,595
Disposal	-	(1,954)	(678)	-	-	-	(2,632)
At 31 December 2010 and 1 January 2011	112,311	358,553	5,462	10,158	24,600	31,779	542,863
Additions	528	59,334	414	876	2,402	34,251	97,805
Transfer	57,547	8,483	-	-	-	(66,030)	-
Disposal	(911)	(2,435)	(165)	(86)	-	-	(3,597)
At 31 December 2011	169,475	423,935	5,711	10,948	27,002	-	637,071
DEPRECIATION							
At 1 January 2010	21,131	121,894	3,784	5,603	979	-	153,391
Provided for the year	5,885	26,748	601	1,367	4,808	-	39,409
Eliminated on disposals	-	(1,432)	(493)	-	-	-	(1,925)
At 31 December 2010 and 1 January 2011	27,016	147,210	3,892	6,970	5,787	-	190,875
Provided for the year	6,132	33,523	646	1,444	2,872	-	44,617
Eliminated on disposals	(490)	(349)	(149)	(42)	-	-	(1,030)
At 31 December 2011	32,658	180,384	4,389	8,372	8,659	-	234,462
CARRYING VALUES							
At 31 December 2011	136,817	243,551	1,322	2,576	18,343	-	402,609
At 31 December 2010	85,295	211,343	1,570	3,188	18,813	31,779	351,988

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

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

As at 31 December 2011, the property usage permits of certain building which transferred from construction in progress during the year has not been granted by relevant government authorities with the aggregate carrying values of approximately RMB56,579,000 (2010: nil). In the opinion of the directors of the Company, the absence of property usage permits to the building does not impair the value of the relevant building to the Group. The directors of the Company also believe that property usage permits to the building will be granted to the Group in due course.

As at 31 December 2011, certain of the property, plant and equipment were pledged to obtain bank and other loans granted to the Group, details of which are set out in Note 30.

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

	2011	2010
	RMB'000	RMB'000
Machinery and equipment	36,156	41,896

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

17. INTANGIBLE ASSETS

	Software RMB'000
COST	
At 1 January 2010	4,175
Additions	<u>306</u>
At 31 December 2010 and 1 January 2011	4,481
Additions	<u>215</u>
At 31 December 2011	<u>4,696</u>
AMORTISATION	
At 1 January 2010	3,644
Provided for the year	<u>335</u>
At 31 December 2010 and 1 January 2011	3,979
Provided for the year	<u>187</u>
At 31 December 2011	<u>4,166</u>
CARRYING VALUES	
At 31 December 2011	<u><u>530</u></u>
At 31 December 2010	<u><u>502</u></u>

The amount represents software which is amortised on a straight-line basis over two to five years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

18. LAND USE RIGHTS

	2011	2010
	RMB'000	RMB'000
COST		
At beginning of the year	25,025	25,025
Additions	-	-
At end of the year	25,025	25,025
AMORTISATION		
At beginning of the year	3,537	2,842
Charge for the year	695	695
At end of the year	4,232	3,537
CARRYING VALUES		
At end of the year	20,793	21,488
Analysed for reporting purposes as:		
Current assets (included in debtors, deposits and prepayments)	695	695
Non-current assets	20,098	20,793
	20,793	21,488

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

As at 31 December 2011, certain of the land use rights were pledged to obtain bank loans granted to the Group, details of which are set out in Note 30.

19. INTERESTS IN ASSOCIATES

	2011	2010
	RMB'000	RMB'000
Cost of investment in associates – unlisted	27,671	27,671
Share of post-acquisition losses and reserves	(7,640)	(8,588)
Interests in associates	20,031	19,083

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

19. INTERESTS IN ASSOCIATES (CONTINUED)

As at 31 December 2011 and 2010, the Group had interests in the following associates:

Name of entity	Form of entity	Place of incorporation/ Principal place of operation	Class of shares held	Proportion of nominal value of issued capital held by the Group	Proportion of voting power held	Principal activities
杭州友成實業有限公司 Hangzhou Yusei Industrial Company Limited* ("Yusei Industrial") (Note a)	Incorporated	PRC	Registered capital	30%	30%	Moulding fabrication
吉林東光友成機工有限公司 Jilin Dong Guang Yusei Manufacturing Co., Ltd.* ("Jilin Yusei") (Note b)	Incorporated	PRC	Registered capital	40%	40%	Manufacturing and trading of plastic components

Notes:

(a) On 15 December 2008, the Company entered into an agreement with Yusei Japan pursuant to which the Company agreed to acquire from Yusei Japan 30% equity interests in Yusei Industrial for a consideration of US\$3,000,000 (equivalent to approximately RMB20,471,000), which will be satisfied by way of an issue of a 3-year non-interest bearing redeemable convertible note. Immediately prior to the acquisition, Yusei Industrial was owned as to 70% by a brother of the Company's director, Mr. Xu Yong and as to 30% by Yusei Japan. The acquisition was approved by the Company's shareholders at an extraordinary general meeting held on 19 January 2009 and completed on 13 July 2009.

(b) On 15 November 2008, Zhejiang Yusei entered into an agreement with independent third parties to establish Jilin Yusei in Jilin in the PRC with total registered capital of RMB18,000,000, of which Zhejiang Yusei was required to contribute RMB7,200,000, representing 40% equity interests in Jilin Yusei, to the registered capital of Jilin Yusei. Jilin Yusei was established on 6 January 2009.

* The English names are for identification purposes only.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

19. INTERESTS IN ASSOCIATES (CONTINUED)

The following table illustrates the summarized financial information of the Group's associates extracted from their management accounts:

	2011 RMB'000	2010 RMB'000
Total assets	209,245	212,245
Total liabilities	158,377	158,371
Net assets	50,868	53,874
Group's share of net assets of associates	20,031	19,083
Revenue	169,488	132,137
Loss for the year	(2,688)	(17,638)
Group's share of profits (loss) and reserve of associates for the year	948	(6,205)

The Group has discontinued recognition of its share of loss of Jilin Yusei in the year ended 31 December 2010. The amount of unrecognised share of those associates, extracted from the relevant management accounts of associate, both for the year and cumulatively, is as follow:

	2011 RMB'000	2010 RMB'000
Unrecognised share of losses of associates for the year	2,340	534
Accumulated unrecognised share of loss of an associate	2,874	534

20. DEPOSITS PAID TO ACQUIRE NON-CURRENT ASSETS

	2011 RMB'000	2010 RMB'000
Deposits paid for: Acquisition of machinery	57	1,378

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

21. INVENTORIES

	2011	2010
	RMB'000	RMB'000
Raw materials	31,528	27,998
Work-in-progress	89,525	31,267
Finished goods	42,364	55,173
	163,417	114,438

22. DEBTORS, DEPOSITS AND PREPAYMENTS

	2011	2010
	RMB'000	RMB'000
Trade debtors and bills receivables	266,573	304,088
Less: allowance for doubtful debts	(2,231)	(2,419)
	264,342	301,669
Other debtors, deposits and prepayments	46,205	12,056
	310,547	313,725

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 receivables based on the invoice date net of impairment loss recognised is as follows:

	2011	2010
	RMB'000	RMB'000
1 – 30 days	172,480	210,689
31 – 60 days	56,819	44,801
61 – 90 days	21,661	28,893
91 – 180 days	12,468	14,882
Over 180 days	914	2,404
Trade debtors and bills receivables	264,342	301,669

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

22. DEBTORS, DEPOSITS AND PREPAYMENTS (CONTINUED)

Impairment losses in respect of trade debtors 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 loss on trade debtors is as follows:

	2011	2010
	RMB'000	RMB'000
Balance at beginning of the year	2,419	1,618
Reversal of impairment loss	(188)	-
Additional provision	-	801
Balance at end of the year	2,231	2,419

At the end of each reporting period, 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.

Receivables of approximately RMB250,960,000 (2010: RMB284,383,000) were neither past due nor impaired and related to a wide range of customers for whom there was no history of default. The Group does not hold any collateral over these balances.

Receivables of approximately RMB13,382,000 (2010: RMB17,286,000) 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. The Group does not hold any collateral over these balances.

Debtors, deposits and other receivables the Group that are denominated in currencies other than the functional currency of the relevant group entities are set out below:

	2011	2010
	RMB'000	RMB'000
US\$	37,690	24,020
JPY	26	1,671

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

23. AMOUNTS DUE FROM ASSOCIATES

Amounts due from associates:

Name of company	2011 RMB'000	Maximum amount outstanding during 2011 RMB'000	2010 RMB'000	Maximum amount outstanding during 2010 RMB'000
Yusei Industrial	2,638	6,785	4,088	11,032
杭州友成进出口有限公司 Hangzhou Yusei Import and Export Limited Company* ("Yusei Import and Export")	1,644	3,775	-	-
Jilin Yusei	5,248	5,248	3,413	3,413
	9,530		7,501	

* Yusei Import and Export was a wholly-owned subsidiary of Yusei Industrial. The English name are for identification purpose only.

The amounts are unsecured, interest-free and repayable on demand.

24. PLEDGED BANK DEPOSITS

At 31 December 2011, bank deposits amounting to approximately RMB45,172,000 (2010: RMB23,131,000) have been pledged for short-term bills payables and short-term bank loans. The pledged deposits were classified as current assets as the deposits will be released upon the settlement of relevant bank loans and bills payables. In additions, an amount of RMB1,800,000 bank deposit has been pledged to the PRC customs authorities (2010: RMB1,800,000).

The pledged bank deposits carry fixed interest rates ranging from 0.36% to 1.98% per annum (2010: 0.36% to 1.98% per annum).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

25. BANK BALANCES, DEPOSITS AND CASH

At 31 December 2011, bank balances, deposits and cash of approximately RMB18,731,000 (2010: RMB67,673,000) 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 held by the Group are with maturity of three months or less and carry interest at prevailing market rate for both years.

Bank balances, deposits and cash of the Group that are denominated in currencies other than the functional currency of the relevant group entities are set out below:

	2011	2010
	RMB'000	RMB'000
US\$	17,436	23,495
JPY	181	1,326
HK\$	220	-
EURO	7	-
	17,644	24,821

26. CREDITORS AND ACCRUED CHARGES

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

	2011	2010
	RMB'000	RMB'000
1 - 30 days	130,865	136,049
31 - 60 days	55,103	66,708
61 - 90 days	42,763	46,337
91 - 180 days	49,819	29,006
Over 180 days	1,387	3,552
	279,937	281,652
Trade creditors and bills payables	279,937	281,652
Other creditors and accrued charges	77,387	41,103
	357,324	322,755

The average credit period on purchase of goods is 30 to 120 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

The Group's bank deposits of approximately RMB35,000,000 (2010: RMB24,931,000) were pledged to the banks to secure the bills payables as at 31 December 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

26. CREDITORS AND ACCRUED CHARGES (CONTINUED)

Creditors and accrued charges of the Group that are denominated in currencies other than the functional currency of the relevant group entities are set out below:

	2011	2010
	RMB'000	RMB'000
US\$	54,776	36,633
JPY	936	1,210

27. AMOUNTS DUE TO A DIRECTOR

The amount due to Toshinobu Ito was unsecured, interest-free and was fully settled during the year ended 31 December 2011.

28. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

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

29. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payment	
	2011	2010	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts payable under finance leases:				
Within one year	16,121	16,139	15,131	14,362
More than one year, but not exceeding two years	9,160	17,508	8,961	16,496
More than two years, but not exceeding five years	-	7,799	-	7,622
	25,281	41,446	24,092	38,480
Less: Future finance charges	(1,189)	(2,966)	N/A	N/A
Present value of lease obligations	24,092	38,480	24,092	38,480
Less: Amounts due within one year shown under current liabilities			(15,131)	(14,362)
Amounts due after one year			8,961	24,118

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

29. OBLIGATIONS UNDER FINANCE LEASES (CONTINUED)

It is the Group's policy to lease certain of its machinery and equipment under finance leases. The average lease term is 5 years. For the year ended 31 December 2011, the average effective borrowing rate was 4.86% per annum (2010: 3.86% 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.

Amount of approximately RMB13,539,000 (2010: RMB22,255,000) of finance leases obligations are denominated in Japanese Yen.

30. BANK AND OTHER LOANS

	2011 RMB'000	2010 RMB'000
Bank loans	378,898	373,574
Other loans	31,000	-
	409,898	373,574
Secured bank loans (Note a)	108,803	95,800
Unsecured bank loans (Note b)	270,095	277,774
Unsecured other loans (Note c)	31,000	-
	409,898	373,574
The maturity profile of the above loans is as follows:		
On demand or within one year	352,682	276,686
More than one year but not exceeding two years	26,777	46,900
More than two years but not more than five years	23,464	39,522
	402,923	363,108
Carrying amount of bank loans that are not repayable within one year from the end of the reporting period but contain a repayment on demand clause	6,975	10,466
	409,898	373,574
Less: Amounts due within one year shown under current liabilities	(359,657)	(287,152)
Amounts shown under non-current liabilities	50,241	86,422

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

30. BANK AND OTHER LOANS (CONTINUED)

The Group's bank and other loans are interest-bearing as follows:

	2011	2010
	RMB'000	RMB'000
Fixed-rate loans	110,302	57,300
Floating-rate loans	299,596	316,274
	409,898	373,574

The ranges of effective interest rates per annum of the Group's loans are as follows:

	2011	2010
	RMB'000	RMB'000
Fixed-rate loans	4.02% to 10%	5.31% to 6.39%
Floating-rate loans	1.73% to 7.36%	1.73% to 6.39%

The secured bank loans were secured by the Group's land use rights, property, plant and equipment and pledged bank deposits with an aggregate net carrying amount of approximately RMB20,440,000 (2010: RMB10,037,000), RMB69,960,000 (2010: RMB74,360,000) and RMB10,000,000 (2010: Nil) respectively.

Bank and other loans of the Group that are denominated in currencies other than the functional currency of the relevant group entities are set out below:

	2011	2010
	RMB'000	RMB'000
US\$	18,903	6,599
JPY	79,947	103,776

31. GOVERNMENT GRANTS

During the year ended 31 December 2007, the Group received government grants of approximately 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 other income amounted to approximately RMB85,000 (2010: RMB85,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

32. REDEEMABLE CONVERTIBLE NOTE

For the purpose of the acquisition of Yusei Industrial as set out in Note 19, on 13 July 2009, the Company issued a 3-year zero coupon redeemable convertible note denominated in US\$ of US\$3,000,000 (equivalent to approximately RMB20,471,000) to Yusei Japan (the "RC Note"). The RC Note will mature on the third anniversary of the date of issue of the RC Note, 13 July 2012 (the "Maturity Date"). If the RC Note is not converted or early redeemed, it will be redeemed at par on 13 July 2012.

Yusei Japan is entitled to convert the whole or part of the principal amount of the RC Note into ordinary share capital of the Company on any business day and from time to time, after the issue date up to and including the Maturity Date, at an initial conversion price of HK\$2 per share, subject to anti-dilutive adjustment and fixed exchange rate of US\$1 to HK\$7.75.

The Company is entitled at any time to redeem the RC Note at any time prior to the Maturity Date. On 25 November 2009, the Company early redeemed part of the RC Note of US\$1,100,000 (equivalent to approximately RMB7,506,000). The early redemption gave rise to a debt extinguishment loss of approximately US\$200,000 (equivalent to approximately RMB1,363,000). On 22 January 2010, the Company early redeemed the remaining part of the RC Note of US\$1,900,000 (equivalent to approximately RMB12,967,000). The early redemption gave rise to a debt extinguishment loss of approximately US\$11,000 (equivalent to approximately RMB73,000).

The RC Note contains the following components that are required to be separately accounted for:

- (i) Liability component for the RC Note represents the present value of the contractually determined stream of future cash flows discounted at the rate of interest at the date of issue with reference to the market rate for instruments of comparable credit status taking into account the credit risk of the Company as well as the amount of the RC Note, but without the conversion option. The effective interest rate of the liability component is 10.38%.
- (ii) Embedded derivative comprises of the fair value of redemption option represents the Company's option to early redeem all or part of the RC Note. The amount payable for any early redemption shall be the relevant amount of the principal amount of the RC Note so redeemed. In the opinion of an independent qualified professional valuers not connected with the Group, the fair value of the embedded redemption option was nil.
- (iii) The equity component represents the difference between the gross proceeds of the issue of the RC Note and the fair values assigned to the liability and early redemption option components respectively.

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For the year ended 31 December 2011

32. REDEEMABLE CONVERTIBLE NOTE (CONTINUED)

The movements of the liability component of the RC Note are set out below:

	Liability component	
	US\$'000	RMB'000
At 31 December 2009	1,474	10,060
Effective interest charged (Note 10)	9	61
Early redemption	(1,483)	(10,121)
At 31 December 2010 and at 31 December 2011	-	-

33. SHARE CAPITAL OF THE COMPANY

	Number of shares '000	Amount HK\$'000	Shown in the consolidated financial statements as RMB'000
Ordinary shares of HK\$0.01 each			
Authorised			
At 1 January 2010, 31 December 2010 and 31 December 2011	1,500,000	15,000	N/A
Issued and fully paid			
At 1 January 2010	160,000	1,600	1,674
Bonus issue of shares (Note)	16,000	160	136
At 31 December 2010 and 31 December 2011	176,000	1,760	1,810

Note: On 28 May 2010, 16,000,000 ordinary shares of the Company of HK\$0.01 each has issued on the basis of one bonus share for every ten existing shares by way of capitalisation of part of the share premium of the Company. Further details of the bonus issues were set out in the circular of the Company dated 23 April 2010.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

34. 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 scheme was terminated upon the shares of the Company were withdrawn from the GEM and listed on the Main Board on 15 October 2010. No further options may be affected or granted under the scheme.

35. RESERVES

(i) Basis of appropriations to reserves

The transfers to statutory surplus reserve are based on the profit after tax 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 (allotted on 12 October 2005) subsequently vested.

(v) Redeemable convertible note reserve

The convertible note reserve represents the value of the equity component of the RC Note issued by the Company recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

35. RESERVES (CONTINUED)

(vi) 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.

36. COMMITMENT

Operating leases

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating lease which fall due as follows:

	2011 RMB'000	2010 RMB'000
Within one year	217	763
In the second to fifth years inclusive	-	640
	217	1,403

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.

Capital commitments

	2011 RMB'000	2010 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
- acquisition of property, plant and equipment	5,700	13,676

37. 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.

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37. RETIREMENT BENEFITS SCHEMES (CONTINUED)

The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions. During the year ended 31 December 2011, the total retirement benefits scheme contributions charged to the consolidated income statement amounted to approximately RMB2,189,000 (2010: RMB2,602,000).

38. RELATED PARTY TRANSACTIONS

(a) Details of the balances with related parties are set out in the consolidated statement of financial position and Notes 23, 27 and 28 respectively.

(b) During the year ended 31 December 2011, the Group had the following material transactions with its related companies:

Name of related party	Nature of transactions	2011 RMB'000	2010 RMB'000
Yusei Japan	Purchase of raw materials	289	634
	Sales of finished goods	475	1,276
	Technical fee paid	-	3,200
Yusei Industrial	Rental fee paid	1,661	1,158
	Sales of moulds	19,724	22,272
	Purchase of plant, property and equipment	1,749	3,024
Jilin Yusei	Sales of finished goods	-	885
Yusei Import and Export	Sales of moulds	<u>8,738</u>	<u>-</u>

The above transactions were made on terms mutually agreed between both parties.

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

	2011 RMB'000	2010 RMB'000
Short-term benefits	<u>3,445</u>	<u>3,770</u>

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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39. SUBSIDIARIES

Particulars of the subsidiaries of the Company as at 31 December 2011 established and operating in the PRC are as follows:

Name of subsidiary	Fully paid registered capital		Class of share	Attributable interests directly held by the Company		Principal activities
	2011	2010		2011	2010	
	US\$'000	US\$'000				
Zhejiang Yusei	US\$3,000	US\$3,000	Registered capital	100%	100%	Moulding fabrication, manufacturing and trading of plastic components
Hangzhou Yusei	US\$8,000	US\$8,000	Registered capital	100%	100%	Moulding fabrication, manufacturing and trading of plastic components
Hangzhou Yusei Moulding	US\$500	US\$500	Registered capital	100%	100%	Moulding fabrication
Yusei China (Note a)	US\$15,300	US\$15,300	Registered capital	100%	100%	Moulding fabrication
Suzhou Yusei (Note b)	US\$3,500	US\$3,500	Registered capital	100%	100%	Moulding fabrication, manufacturing and trading of plastic components
Guangzhou Yusei (Note c)	US\$1,622	US\$1,000	Registered capital	100%	100%	Moulding fabrication, manufacturing and trading of plastic components

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

39. SUBSIDIARIES (CONTINUED)

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. Up to 31 December 2008, the registered capital of Yusei China was US\$10,000,000 (equivalent to RMB69,981,000) 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. Pursuant to a verification report dated 27 October 2008, the remaining balance of US\$8,000,000 (equivalent to RMB54,680,000), representing 80% of the total registered capital, has been fully paid up by the Company as of 23 October 2008.

On 24 November 2009, the registered capital of Yusei China was increased to US\$15,300,000 (equivalent to RMB106,167,000) by the Company. Pursuant to a verification report dated 25 November 2009, the amount of US\$5,300,000 (equivalent to RMB36,186,000) has been fully paid up by the Company as of 24 November 2009.

- (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 35% owned by the Company and 65% owned by Zhejiang Yusei, a fully owned subsidiary of 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. Pursuant to a verification report dated 23 October 2008, US\$1,500,000 (equivalent to RMB10,246,000), representing 15% of the total registered capital, has been fully paid up by the Company as of 21 October 2008.

Pursuant to the verification report on 31 March 2010, Zhejiang Yusei injected US\$6,500,000 as 65% of the total registered capital.

- (c) Guangzhou Yusei was established as a wholly-owned foreign-enterprise liability on 4 May 2008 with an operating period of 30 years. The registered capital of Guangzhou Yusei was USD1,000,000 (equivalent to RMB6,859,000) and wholly owned by the Company. Pursuant to a verification report dated 15 July 2008, the initial registered capital of US\$1,000,000 (equivalent to RMB6,859,000), representing 100% of the total registered capital, has been fully paid up by the Company as of 15 July 2008.

On 24 January 2011, the registered capital of Guangzhou Yusei was increased to US\$4,000,000 (equivalent to RMB19,766,000) by Zhejiang Yusei. Pursuant to the verification report dated 24 January 2011, the newly increased register capital of US\$622,000 (equivalent to RMB4,100,000), representing 15.56% of the total registered capital, has been fully paid up by Zhejiang Yusei as of 24 January 2011.

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

40. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2011, there was a penalty of approximately RMB279,000 was paid by the Group due to the early cancellation of a rental agreement of a factory premise. The penalty of RMB279,000 was partly settled by transfer of a building of RMB171,000 and the remaining penalty of RMB108,000 was settled by the rental deposit paid in relation to the lease of the factory premise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

41. EVENT AFTER THE REPORTING PERIOD

On 18 February 2012, Guangzhou Yusei obtained a new loan from Yusei Japan of approximately RMB20,572,000. The loan was unsecured, carried interest at 7.3% per annum and repayable once in February 2013.

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2011 RMB'000	2010 RMB'000
Non-current assets			
Investments in subsidiaries		227,717	248,891
Interest in an associate		20,471	20,471
		248,188	269,362
Current assets			
Deposits, prepayments and other receivables		1,786	1,878
Amount due from ultimate holding company	(a)	629	539
Amounts due from subsidiaries	(a)	2,066	2,168
Bank balances and cash		1,276	854
		5,757	5,439
Current liabilities			
Other payables and accruals		3,775	3,939
Amounts due to subsidiaries	(a)	11,691	6,946
Amount due to a director	(a)	-	111
Bank and other loans - due within one year		16,482	23,038
		31,948	34,034
Net current liabilities		(26,191)	(28,595)
		221,997	240,767
Non-current liabilities			
Bank and other loans - due after one year		42,082	58,410
Net assets		179,915	182,357
Capital and Reserves			
Share capital		1,810	1,810
Reserves	(b)	178,105	180,547
Total equity		179,915	182,357

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42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

(a) The amounts due from ultimate holding company, due from (to) subsidiaries/a director are unsecured, interest-free and repayable on demand.

(b) Reserves of the Company

	Share premium RMB'000	Reserve for shares issued with vesting conditions RMB'000	Redeemable convertible reserve RMB'000	Capital reserve RMB'000	Translation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2010	40,003	18,065	3,004	73,854	(832)	47,563	181,657
Total comprehensive income for the year	-	-	-	-	2,844	(1,045)	1,799
Transfer to retained profits upon early redemption of redeemable convertible note	-	-	(231)	-	-	231	-
Effect of early redemption of redeemable convertible note	-	-	(2,773)	-	-	-	(2,773)
Bonus issue of share	(136)	-	-	-	-	-	(136)
At 31 December 2010 and 1 January 2011	39,867	18,065	-	73,854	2,012	46,749	180,547
Total comprehensive income for the year	-	-	-	-	4,044	5,834	9,878
Dividend paid	-	-	-	-	-	(12,320)	(12,320)
At 31 December 2011	39,867	18,065	-	73,854	6,056	40,263	178,105