



YUSEI HOLDINGS LIMITED

友成控股有限公司*

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



* for identification only

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COMPANY SECRETARY

Mr. Shum Shing Kei CPA

COMPLIANCE OFFICER

Mr. Xu Yong

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

AUTHORISED REPRESENTATIVES

Mr. Xu Yong
Mr. Shum Shing Kei

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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STOCK CODE

96

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BUSINESS REVIEW

During the year ended 31 December 2016, the Group is principally engaged in the design, development and fabrication of precision plastic injection moulds, and the manufacture of plastic components in the Peoples' Republic of China (the "PRC"). The Group also provides services for certain assembling and further processing of plastic components for its customers. The Group's customers are mainly the manufacturers of branded auto parts and components, office equipment and plastic components in the PRC.

2016 was a challenging year to the Group. Most of the time this year, the global economy was affected by the unstable factors in relation to the international political unrest and economic slowdown. With the transformation of China's economy, some of the Group's customers have transferred their production lines to Southeast Asian countries where the labour costs are lower. Having perceived this trend before, the Group had focused its main business on the automotive industry. With the steady development of PRC's auto industry in 2016, the Group has maintained a sustainable business development by virtue of its competitive advantages in moulding and production of auto parts and components.

The Group continues to carry out research and development of moulding as the core, actively consolidate the technological advantages, and continue to strengthen the automated production, and improve the production processes so as to improve production efficiency. In addition, to enhance the cost advantage, the Group consider constructing production plants near to the main customers for providing fast and efficient services to the main customers. Meanwhile, in order to maintain the competitive advantage in the market segment, the Group continues to invest in purchasing more advanced equipment. In addition, we continue to put effort to develop the existing business and to explore new business. In 2016, we made contracts with two new well-known customers in the auto industry and believe that these customers will secure the Group's business growth in coming year.

FINANCIAL REVIEW

REVENUE

The Group's revenue for the year ended 31 December 2016 increased by 10.6% to approximately RMB1,218,555,000 as compared to that of approximately RMB1,101,340,000 for the year ended 31 December 2015 which was mainly benefited from the steady growth in the PRC's auto industry during the year.

GROSS PROFIT

The Group achieved a gross profit of approximately RMB185,633,000 for the year ended 31 December 2016, representing an increase of approximately 12.3% as compared to that of approximately RMB165,302,000 for the year ended 31 December 2015.

Increase in gross profit was mainly due to the increase in the Group's revenue during the year. During the year, the overall gross profit margin of the Group was stable.

DISTRIBUTION COSTS

Distribution costs for the year ended 31 December 2016 increased by approximately 23.5% to approximately RMB44,322,000 as compared to that of approximately RMB35,877,000 for the year ended 31 December 2015. Such increase was mainly due to the effect of (i) increase in sales, (ii) the increase in purchase of new packing materials, and (iii) increase in transportation cost.

MANAGEMENT DISCUSSION AND ANALYSIS

NET FOREIGN EXCHANGE (LOSS) GAIN

Net foreign exchange (loss) gain mainly represented the gain/loss arising from translation of sales and purchases denominated in United State dollars (“US\$”). Net foreign exchange loss is resulted from the appreciation of the foreign currencies against RMB.

ADMINISTRATIVE EXPENSES

Administrative expenses for the year ended 31 December 2016 increased approximately by 10.3% to RMB57,355,000 as compared to that of approximately RMB51,990,000 for the year ended 31 December 2015. Such increase was mainly attributable to (i) the increase in staff cost, (ii) increase in other taxes and (iii) the increase in impairment loss for interest in associates during the year.

FINANCE COSTS

Finance costs for the year ended 31 December 2016 decreased approximately by 14.5% to RMB15,024,000 as compared to that of approximately RMB17,576,000 for the year ended 31 December 2015. It was resulted from the decrease in interest rates of bank and other borrowings during the year.

PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company increased by approximately 4.0% from approximately RMB61,793,000 for the year ended 31 December 2015 to approximately RMB64,272,000 for the year ended 31 December 2016.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2016, the equity amounted to approximately RMB434,160,000. Current assets amounted to approximately RMB719,618,000, of which bank balances, deposits and cash and pledged bank deposits totaling approximately RMB62,570,000. The Group had non-current assets of approximately RMB461,068,000 and its current liabilities amounted to approximately RMB727,135,000, comprising mainly its creditors and accrued charges and bank borrowings. The net asset value per share was RMB1.07. The Group expresses its gearing ratio as a percentage of finance leases and borrowings over total assets. As at 31 December 2016, the Group had a gearing ratio of 23.1% (2015: 24.2%).

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 2016, the total number of the Group’s staff was approximately 2,600. The total staff costs (including directors’ remuneration) amounted to approximately RMB177,480,000 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 2016, the Group's bank loans are secured by land use rights and property, plant and equipment of the Group with an aggregate net carrying values of approximately RMB17,157,000 (2015: RMB15,226,000) and RMB119,268,000 (2015: RMB78,013,000), respectively.

As at 31 December 2016, bank deposits amounting to approximately RMB5,000,000 and RMB574,000 (2015: RMB5,000,000 and RMB709,000) have been pledged for short-term bills payables and custom of import and export of trading requested by the local government. The pledged deposits were classified as current assets as the deposits will be released upon the settlement of relevant bills payables or upon the end of contract.

FOREIGN CURRENCY RISK

The Group carries on business in RMB, US\$ and Japanese Yen ("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 trade and bills receivables, deposits and other receivables; bank balances, deposits and cash; trade and other payables 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 2016, the Group had capital expenditure contracted for but not provided in the financial statements of approximately RMB66,582,000 (2015: RMB41,046,000) in respect of the acquisition of property, plant and equipment and construction of new production plants.

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 photocopiers and printers must meet a high standard of precision in order to ensure the machine work effectively; (ii) emphasis on production efficiency to shorten the production cycle; and (iii) active participation in production process of the suppliers to ensure the product quality and the mutual communication to improve the suppliers' production efficiency. In addition, to deliver the parts and components of high precision to the customers, the Group put much efforts in acquisition of advanced production machineries which were made by the international well-known branded manufacturers.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

Based on the great potential of the PRC market, in particular, in order to keep up with the development of China's auto industry and to further meet customer demand, the Group had incorporated Wuhu Yusei Plastic Mold Co., Ltd. ("Wuhu Yusei") in Anhui Province (a wholly-owned subsidiary of the Group) and Hubei Yusei Plastic Mould Co., Limited in Hubei Province ("Hubei Yusei") (another wholly-owned subsidiary of the Group). Both companies are already running stable. Meanwhile, the Group has incorporated a wholly-owned subsidiary in Tianjin in 2017, and plans to lease a plant of about 6,000 square feet in Phase I. Depending on the business development, the Group will consider whether to purchase land for construction of plants to meet the customers' growing demand.

In order to meet the increasing customers' orders, Wuhu Yusei leases production plant in Wuhu with area of about 4,000 square meters, and Hubei Yusei leases production plant in Xiaogan City, Hubei Province with area of about 410,000 square meters, and purchases a piece of land of about 100 mu. The Phase I Construction of a plant commenced in 2016, and it is scheduled to be completed in the second half of 2017. Guangzhou Yusei Phase II plant will also be completed in the first half of 2017 and put into use. In addition, for future development, the Group is expected to set up new subsidiaries in Guangdong Province and Liaoning Province in the next 3 to 5 years, which are closely related to the development pace of its customers.

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 2016.

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.

BUSINESS REVIEW

The business review of the Group during the year, the description of the future business development, and the risks and uncertainties that the Group faces are set out in the Management Discussion and Analysis in this report. The particulars of financial risk management of the Group are set out in note 6(b) to the consolidated financial statements. A discussion and analysis of the Group's performance during the year is provided in the Management Discussion and Analysis in this report.

RESULTS AND DIVIDENDS

The profit for the year ended 31 December 2016 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 30 to 92.

The Directors recommended the payment of a final dividend of RMB1.98 cents per share in respect of the year ended 31 December 2016 subject to the approval from the forthcoming annual general meeting.

REPORT OF THE DIRECTORS

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

	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000
Revenue	1,218,555	1,101,340	952,531	892,968	984,776
Cost of sales	(1,032,922)	(936,038)	(804,535)	(775,993)	(881,855)
Gross profit	185,633	165,302	147,996	116,975	102,921
Other income	12,937	7,305	7,770	6,911	42,342
Net foreign exchange (loss) gain	(2,661)	1,595	1,056	8,388	6,512
Distribution costs	(44,322)	(35,877)	(23,993)	(27,594)	(27,147)
Administrative expenses	(57,355)	(51,990)	(55,368)	(50,754)	(53,941)
Loss caused by fire accident	–	–	–	(21,650)	–
Finance costs	(15,024)	(17,576)	(21,402)	(23,217)	(30,203)
Share of profits of associates	2,426	4,736	933	143	3,438
Profit before tax	81,634	73,495	56,992	9,202	43,922
Income tax expense	(17,362)	(11,702)	(6,653)	(3,598)	(2,477)
Profit for the year	64,272	61,793	50,339	5,604	41,445
ASSETS AND LIABILITIES					
Total assets	1,180,686	1,000,512	906,176	873,175	985,335
Total liabilities	(746,526)	(622,360)	(580,301)	(612,497)	(731,935)
	434,160	378,152	325,875	260,678	253,400

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 29 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year or subsisted at the end of the year.

REPORT OF THE DIRECTORS

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 36 to the consolidated financial statements and the consolidated statement of changes in equity and note 30 to the consolidated financial statements, 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.

RELATIONSHIP OF STAKEHOLDERS

To the best knowledge of the Group, employees, customers and business partners are the key to have continuous sustainable development. We commit to be people oriented and build up good relationship with employees, and work together with our business partners to provide high quality products and services to achieve the goal of sustainable development and contribution to the society.

ENVIRONMENTAL POLICY AND PERFORMANCE

The Group paid high attention to environmental protection and energy conservation to enhance the capacity of sustainable development and undertake relative social responsibility.

COMPLIANCE WITH RELATED LAW AND REGULATIONS

As far as the Board and management are aware, the Group has complied all related laws and regulations in all material aspects which may have significant impact on the operation of the Group.

REMUNERATION POLICY

As at 31 December 2016, the total number of the Group's staff was approximately 2,600. The total staff costs (including directors' remuneration) amounted to approximately RMB177,480,000 for the year. The Group remunerates its employees (including directors and senior management) 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.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 53% of the total sales for the year and sales to the largest customer included therein amounted to 17%. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

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. Shimabayashi Manabu

Non-executive directors:

Mr. Katsutoshi Masuda

Mr. Toshimitsu Masuda

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 Hisaki Takabayashi, Xu Yong, Shimabayashi Manabu 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 22 to 23 of the annual report.

DIRECTORS' SERVICE CONTRACTS

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

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

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

REPORT OF THE DIRECTORS

DIRECTORS' REMUNERATION

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

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in notes 20, 21, 24, 25, 27 and 33 to the consolidated 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.

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

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		
		Personal Interests	Family Interests	Corporate Interests	Long Position	Short Position	Approximate Percentage of interests
Company	Katsutoshi Masuda ("Mr. Masuda") (Note 1)	-	-	161,920,000 shares	161,920,000 shares	-	40.00%
Company	Toshimitsu Masuda (Note 2)	-	-	161,920,000 shares	161,920,000 shares	-	40.00%
Company	Xu Yong	62,560,000 shares	-	-	62,560,000 shares	-	15.45%
Company	Manabu Shimabayashi	1,320,000 shares	220,400 shares	-	1,540,400 shares	-	0.38%
Company	Fan Xiaoping	39,600 shares	-	-	39,600 shares	-	0.01%
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 40% 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 161,920,000 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 40% in the issued share capital of the Company. By virtue of SFO, Mr. Toshimitsu Masuda is deemed to be interested in 161,920,000 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

So far as the Directors are aware, the following persons (other than the Directors or chief executive of the Company) had an interest and/or a short position in the shares or underlying shares in respect of equity derivatives of the Company that would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO (including interests and/or short positions which they are taken or deemed to have under such provisions of the SFO), or be recorded in the register of the Company or who are directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying right to vote in all circumstances at general meetings of any other member of the Group are as follows:

Name of Company	Number of shareholder	Capacity	Number of shares		Approximate percentage of interests
			Long Position	Short Position	
Company	Yusei Japan	Beneficial Owner	161,920,000 shares	–	40.00%
Company	Conpri (Note 1)	Corporate Interest	161,920,000 shares	–	40.00%
Company	Mrs. Echiko Masuda (Note 2)	Family Interests	161,920,000 shares	–	40.00%
Company	Superview International Investment Limited (Note 3)	Beneficial Owner	77,444,000 shares	–	19.13%
Company	Ding Hong Guang	Beneficial Owner	24,628,000 shares	–	6.08%

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 161,920,000 shares held by Yusei Japan.
2. Mrs. Echiko Masuda is the spouse of Mr. Masuda and is deemed to be interested in 161,920,000 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.

REPORT OF THE DIRECTORS

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles of Association of the Company, each Director or other officers of the Company shall be indemnified out of the assets and profits of the Company against all losses or liabilities which he or she may sustain or incur in or about the execution of the duties of his or her office or otherwise in relation thereto.

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 2016.

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 2016, 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

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 2016, 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 40% 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;
- (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;

REPORT OF THE DIRECTORS

- (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.

AUDITOR

A resolution for the re-appointment of SHINEWING (HK) CPA Limited as auditor of the Company will be proposed at the forthcoming annual general meeting of the Company.

ON BEHALF OF THE BOARD

Katsutoshi Masuda
Chairman

PRC
31 March 2017

CORPORATE GOVERNANCE PRACTICES

It is our long standing belief that a high standard of corporate governance is the key to the Group's stable and effective operation and is in the interests of the Group and its shareholders in long term. Throughout the year ended 31 December 2016, the Group has complied with the relevant regulations in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), save for the deviation from the code provision A.1.8 of the Code. The Board and the senior management of the Group have earnestly appraised the requirements of the Code and reviewed the practices of the Group to ensure full compliance with the Code.

DIRECTORS' SECURITIES TRANSACTIONS

During the year ended 31 December 2016, 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, two non-executive directors and three independent non-executive directors. All independent non-executive directors complied with the guidelines on independence set out under Rule 3.13 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 22 to 23.

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.

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. 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.

CORPORATE GOVERNANCE REPORT

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 in meetings of the Board in 2016	Attendance in annual general meeting in 2016
Katsutoshi Masuda (Chairman and non-Executive Director)	4/4	1/1
Xu Yong (Executive Director)	4/4	1/1
Shimabayashi Manabu (Executive Director)	4/4	1/1
Toshimitsu Masuda (Non-Executive Director)	4/4	1/1
Lo Ka Wai (Independent Non-Executive Director)	4/4	1/1
Fan Xiao Ping (Independent Non-Executive Director)	4/4	1/1
Hisaki Takabayashi (Independent Non-Executive Director)	4/4	1/1

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.

RETIREMENT OF DIRECTORS BY ROTATION AND RE-ELECTION

Each of Directors has entered into a service contract or 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.

If an Independent Non-executive Director serves more than 9 years, his further appointment should be subject to a separate resolution to be approved by shareholders. The papers to shareholders accompanying that resolution should include the reasons why the Board believes he is still independent and should be re-elected.

INDEMNITIES OF DIRECTORS AND CHIEF EXECUTIVES

Under the code provision A.1.8, the Group should arrange appropriate insurance cover in respect of legal action against its directors. However, as the Group's businesses are relatively unitary, the Directors can easily comprehend these businesses. At the same time, the Directors are equipped with the adequate spirit and expertise in making corporate decisions. Furthermore, the Directors consider that the Management has placed emphasis on control over corporate risks from time to time, and has strictly complied with the Listing Rules and the relevant regulations. Therefore it is not necessary to purchase insurance for the Directors and Chief Executives.

DIRECTORS' TRAINING AND PROFESSIONAL DEVELOPMENT

During the year, the Directors are provided with monthly updates on the Group's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties. In addition, all Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company updates Directors on the latest development regarding the Listing Rules and other applicable regulatory requirements from time to time, to ensure compliance and enhance their awareness of good corporate governance practices.

All Directors have participated in appropriate continuous professional development activities either by attending training courses or by reading materials relevant to the Company's business or to the Directors' duties and responsibilities.

REMUNERATION COMMITTEE

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 was published on the Group's website.

The Remuneration Committee has held one meeting during the year with all members of the Committee attended.

During the year under review, the Remuneration Committee has assessed performance of the executive Directors and reviewed and determined their remuneration packages. The remuneration of Directors comprises basic salary, pensions and discretionary bonus. The Remuneration Committee has also reviewed the remuneration of existing non-executive Directors. Details of the amount of emoluments of Directors for the year ended 31 December 2016 are set out in Note 12 to the consolidated financial statements.

NOMINATION COMMITTEE

The Company has set up nomination committee comprising all independent non-executive directors. 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 term of reference of Nomination Committee was published on the Group's website.

The Nomination Committee has held one meeting during the year with all members of the Committee attended.

During the year, the work performed by the Nomination Committee included the followings:

- the recommendation of the retiring directors for re-election at the annual general meeting;
- the review of composition of the Board; and
- the assessment of independence of the independent Non-executive Directors.

The Board had adopted the Board Diversity Policy which sets the approach to achieve and maintain diversity of the Board to enhance quality of its performance. The Policy aims to achieve diversity through the consideration of number of factors including but not limited to skills, regional and industry experience, background, age, race, gender and other qualities. These differences will be taken into account in determining the optimum composition of the Board. All Board appointments are based on merit, in the content of the talents, skills and experience, and taking into account diversity.

The Nomination Committee will report annually on the composition of the Board under diversified perspective, and monitor the implementation of this policy to ensure its effectiveness. It will discuss any revisions that may be required and recommend such revisions to the Board for consideration and approval.

AUDITORS' REMUNERATION

SHINEWING (HK) CPA Limited ("SHINEWING") were appointed as the auditor of the Company pursuant to the shareholders' resolution passed in the Annual General Meeting held on 23 June 2016. Auditing fees in respect of annual audit and non-audit services for the year ended 31 December 2016 amounted to RMB920,000 and RMB5,000, respectively.

The consolidated financial statements for the years ended 31 December 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015 and 2016 were audited by SHINEWING.

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 published on the Group's website. 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 held two meetings during the year with a 100% attendance by all the committee members to review the Group's 2015 annual results and 2016 interim results.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for determining the policy for the corporate governance of the Company and performing the corporate governance duties as below:

1. To develop and review the Group's policies and practices on corporate governance and make recommendations;
2. To review and monitor the training and continuous professional development of directors and senior management;
3. To review and monitor the Group's policies and practices on compliance with all legal and regulatory requirements;
4. To develop, review and monitor the code of conduct and compliance manual (if any) applicable to the employees and directors of the Group; and
5. To review the Group's compliance with the Code and disclosure requirements in the Corporate Governance Report.

ACCOUNTABILITY AND AUDIT

FINANCIAL REPORTING

The Directors acknowledge their responsibility to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Group and in presenting the interim and annual financial statements, and announcements to shareholders in a timely manner. The Directors are responsible for ensuring that the Group maintains accounting records which disclose with reasonable accuracy the financial position of the Group and which enable the preparation of financial statements in accordance with the disclosure requirements of the Hong Kong Companies Ordinance ("Companies Ordinance"), the Hong Kong Financial Reporting Standards ("HKFRSs") and all applicable disclosure provisions of the Listing Rules. In preparing the financial statements for the year ended 31 December 2016, the Directors have selected suitable accounting policies and have applied them consistently, adopted appropriate HKFRSs which are pertinent to its operations and relevant to the financial statements, made judgements and estimates that are prudent and reasonable.

The Board is committed to providing a balanced, clear and comprehensible assessment of the financial performance and prospects of the Group in all the disclosures made to the stakeholders and the regulatory authorities.

Timely release of interim and annual results announcements reflects the Board's commitment to provide transparent and up-to-date disclosures of the results of the Group.

CORPORATE GOVERNANCE REPORT

The Board, assisted by the Audit Committee, oversees the financial reporting process and the quality of the financial reporting of the Group. The Audit Committee reviews and monitors the integrity of the Group's annual and interim financial statements. It also reviews the appropriateness of the Group's accounting policies and the changes to these policies as well as ensures these financial statements comply with accounting standards and regulatory requirements.

The responsibilities of the external auditor with respect to financial reporting are set out in the Independent Auditors' Report attached to the Company's 2016 Annual Report.

COMPANY SECRETARY

Company Secretary: Mr. Shum Shing Kei (fellow member of the Hong Kong Institute of Certified Public Accountants). During the year ended 31 December 2016, Mr. Shum has taken no less than 15 hours of relevant professional trainings to update his skills and knowledge.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board has overall responsibility for the risk management and internal control system of the Group. The Board has developed its systems of risk management and internal controls and is also responsible for reviewing and maintaining an adequate risk management and internal control system to safeguard the interests of the shareholders and the assets of the Group. The executive directors and senior management of the Group have been granted corresponding authorizations to manage and monitor all operating systems of the entity and to handle the related affairs pursuant to the principles of trust and impartiality. The Audit Committee supervises the risk management and internal control system of the Group and reviews the internal audit report presented by the senior management, as well as reports any major issues and makes recommendations to the Board.

During the year under review and as of the date hereof, the Board considered that the prevailing risk management and internal control system of the Group is steady and is adequate to protect the interests of the shareholders, customers and employees as well as the assets of the Group. The Group has engaged sufficient employees in the accounting and finance functions, who have the resources, qualifications and experiences as well as the necessary training and budget.

SHAREHOLDER RIGHTS

GENERAL MEETING

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. The Chairman of the Board as well as chairmen of the Audit Committee, Remuneration Committee and Nomination Committee, or in their absence, their duly appointed delegates are available to answer questions at the shareholders' meetings. Auditor of the Company is also invited to attend the Company's AGM and is available to assist the directors in addressing queries from shareholders relating to the conduct of the audit and the preparation and contents of the Independent Auditor's Report. Separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors.

Notice of AGM together with related papers are sent to the shareholders at least 20 clear business days before the meeting, setting out details of each proposed resolution, voting procedures and other relevant information. All votes of shareholders at the general meeting will be decided by poll. The Chairman will demand that all resolutions put to the vote at the AGM will be taken by poll and will explain such rights and procedures during the AGM before voting on the resolutions. An independent scrutineer will be appointed to count the votes and the poll results will be posted on the websites of the Company and the Stock Exchange after the AGM.

CORPORATE GOVERNANCE REPORT

Shareholders of the Company can make a requisition to convene an extraordinary general meeting (“EGM”) pursuant to Article 58 of the Company’s Articles of Association. The procedures for the shareholders to convene an EGM are as follows:

1. One or more shareholders (“Requisitionist”) holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings shall have the right, by written notice, to require an EGM to be called by the directors for the transaction of any business specified in such requisition.
2. Such requisition shall be made in writing to the directors or the company secretary of the Company at all of the following addresses:

Principal place of business of the Company in Hong Kong

Address: Unit D6B, 17/F., TML Tower, 3 Hoi Shing Road, Tsuen Wan, NT, Hong Kong

Email: zl-chen@yusei.cn

Attention: Company Secretary

Head office of the Company

Address: Lin Gang Industrial Zone, Henggengtou Village, Guali Town, Xiaoshan District, Hangzhou City, Zhejiang Province, the People’s Republic of China

Attention: Company Secretary

Registered office of the Company

Address: Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands

Attention: Company Secretary

3. The EGM shall be held within two months after the deposit of such requisition.
4. If the directors fail to proceed to convene such meeting within 21 days of such deposit, the Requisitionist himself may do so in the same manner, and all reasonable expenses incurred by the Requisitionist as a result of the failure of the directors shall be reimbursed to the Requisitionist by the Company.

INVESTORS RELATIONS

The Board and senior management recognize their responsibility to represent the interests of all shareholders and to maximize shareholder’s value and have made the following commitments to the Group:

- continuing effort to maintain long-term stability and growth in shareholder value and return on investment;
- responsible planning, establishment and operation of the Group’s core businesses;
- responsible management of the Group’s investment and business risks; and
- true, fair and detailed disclosure of the financial position and operating performance of the Group.

The Group believes that shareholders’ rights should be well respected and protected. The Group endeavors to maintain good communications with shareholders on its performance through interim reports, annual reports, general meetings and public disclosure on the Company’s website, so that they may make an informed assessment of their investments and exercise their rights as shareholders. The Group also encourages shareholders’ participation through general meetings or other means.

For the purpose of promoting the mutual communication between the Group, its shareholders and potential investors on a regular basis, the Group has set up an investor relations office to respond to the questions and enquiries from shareholders and the general public. For any enquiries, investors may write directly to the Group at its place of business in the PRC. They may also call us directly by phone.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Mr. Katsutoshi MASUDA (増田勝年先生), aged 72, 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 54, is an executive Director and the general manager of 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 43, is an executive director and deputy general manager of 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 of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). 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 48, son of Mr. Katsutoshi Masuda, was appointed as a non-executive Director on 2 June 2005. Mr. Toshimitsu Masuda graduated from Kogakuin University and obtained Bachelor Degree in engineering 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. FAN Xiaoping (范曉屏先生), aged 58, 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 47, 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 an executive director of National United Resources Holdings Limited and of Han Tang International Holdings Limited (previously known as Pearl River Tyre (Holdings) Limited) and is an independent non-executive director of Sheng Yuan Holdings Limited, all of which are listed on the Main Board of the Stock Exchange.

Mr. Hisaki TAKABAYASHI (高林久記先生), aged 56, 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. SHEN Jinjiang (沈錦江先生), aged 63, joined the Group in 2013. He is currently the Group's deputy general manager. Before joining the Group, Mr. Shen served as senior management positions in a number of large enterprises. Currently, Mr. Shen is responsible for the financial management of the Group, upgrading the management and optimizing business operations.

Mr. CHEN Gang (陳剛先生), aged 49, joined the Group in September 1992 and has worked in various positions including technician, mould fabrication technical division head and mould fabrication department head, and head of operation technical department. Mr Chen is currently the deputy general meeting of Hangzhou Yusei.

Mr. WANG Dehong (王德洪先生), aged 47, 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 technician, chief of quality control department, head of production department and production controller. Mr. Wang is currently the deputy general meeting of Suzhou Yusei.

Mr. SHUM Shing Kei (沈成基先生), aged 45, 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., Lee Garden One
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)

OPINION

We have audited the consolidated financial statements of Yusei Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) set out on pages 30 to 92, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSA”) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA’s Code of Ethics for Professional Accountants (“the Code”) and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to Note 1 in the consolidated financial statements, which indicates that as at 31 December 2016, the Group’s current liabilities exceeded its current assets by approximately RMB7,517,000. As stated in Note 1 to the consolidated financial statements, this condition indicates that a material uncertainty exists that may cast significant doubt on the Group’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Impairment assessment of property, plant and equipment

Refer to Note 15 to the consolidated financial statements and the accounting policies on pages 52.

The key audit matter	How the matter was addressed in our audit
<p>The carrying value of Group's property, plant and equipment as at 31 December 2016 was approximately RMB384 million.</p> <p>The management of the Group would determine the recoverable amount of the property, plant and equipment if there is indication that those assets may be impaired. The recoverable amount is determined based on value-in-use calculations which required the use of estimates such as future revenue and discount rate. The use of these estimates involves a significant degree of management judgement and therefore could have a material impact on any impairment recorded for the year.</p> <p>We have identified the impairment assessment of property, plant and equipment as a key audit matter because of its significance to the consolidated financial statements and because the impairment assessment involves a significant degree of judgment by management which may affect the carrying value of the Group's property, plant and equipment for the current year.</p>	<p>In order to address this matter in our audit, we obtained management's assessment and challenged the reasonableness of the selection of valuation model, adoption of key assumptions and input data. In particular, we tested the future cash flow forecast on whether it is agreed to the budget and compared the budget with actual results available up to the report date. We also challenged the appropriateness of the assumption, including the sales growth rates and gross margin.</p> <p>We also challenged the discount rate employed in the calculation of value-in-use by reviewing its basis of calculation and comparing its inputs data to market sources.</p> <p>As any changes in these assumptions and input to valuation model may result in significant financial impact, we performed our own sensitivity analysis which included changes in the sales growth rate, gross margin and discount rate employed.</p>

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (CONTINUED)

Allowance for inventories

Refer to Note 19 to the consolidated financial statements and the accounting policies on page 49.

The key audit matter	How the matter was addressed in our audit
<p>The Group has inventories of approximately RMB205 million as at 31 December 2016. The directors of the Company review an ageing analysis at the end of each reporting period, and makes allowance on obsolete and slow-moving inventory items identified that are no longer suitable for use in production.</p> <p>During the year, the allowance for inventories of approximately RMB4.5 million has been recorded to reduce the costs of inventories to their net realisable values which are the estimated selling prices less the estimated costs of completion and the estimated costs necessary to make the sale. Significant management judgment is required.</p> <p>In making this judgment, 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 allowance on obsolete items.</p> <p>We have identified the valuation of inventories as a key audit matter because this involves a significant degree of management judgement on the valuation methods and assumptions for the estimation on the allowance for inventories.</p>	<p>Our audit procedures were designed to assess the methodology and assumptions used by the management in calculating the inventory allowance. We reviewed management's identification of slow-moving and obsolete inventories, attended physical inspection on stocktake for identifying slow-moving or obsolete inventories and critically assessed whether appropriate allowance had been established for slow-moving and obsolete items. When considering management's assessment, we have also taken into account the most recent prices achieved on sales across the product lines and the subsequent usage of the inventories.</p> <p>We considered whether we would expect a change to the methodology and assumptions based on any changes compared to those used in prior years. We also assessed the reliability of management's assessment by considering the utilisation or release of previously recorded allowance.</p>

INDEPENDENT AUDITOR'S REPORT

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors of the Company determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion, solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

As part of an audit in accordance with HKSAAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Chan Wing Kit.

SHINEWING (HK) CPA Limited

Certified Public Accountants

Chan Wing Kit

Practising Certificate Number: P03224

Hong Kong

31 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2016

	NOTES	2016 RMB'000	2015 RMB'000
Revenue	7	1,218,555	1,101,340
Cost of sales		(1,032,922)	(936,038)
Gross profit		185,633	165,302
Other income and gain	8	12,937	7,305
Net foreign exchange (loss) gain		(2,661)	1,595
Distribution costs		(44,322)	(35,877)
Administrative expenses		(57,355)	(51,990)
Finance costs	9	(15,024)	(17,576)
Share of profits of associates	18	2,426	4,736
Profit before tax		81,634	73,495
Income tax expense	10	(17,362)	(11,702)
Profit for the year attributable to owners of the Company	11	64,272	61,793
			(Restated)
Earnings per share			
Basic and diluted	14	RMB0.159	RMB0.153

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	2016 RMB'000	2015 RMB'000
Profit for the year	64,272	61,793
Other comprehensive expense: Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of financial statements of foreign operation	(269)	(1,521)
Total comprehensive income for the year attributable to owners of the Company	64,003	60,272

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	NOTES	2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment	15	383,548	363,853
Intangible assets	16	1,561	660
Land use rights	17	28,135	17,559
Prepayment	20	16,117	–
Interests in associates	18	31,707	33,487
		461,068	415,559
Current assets			
Inventories	19	204,796	139,326
Trade and bills receivables, deposits and prepayments	20	448,640	374,071
Amounts due from associates	21	3,612	11,725
Pledged bank deposits	22	5,574	5,709
Bank balances, deposits and cash	23	56,996	54,122
		719,618	584,953
Current liabilities			
Trade and other payables	24	429,951	340,846
Amount due to ultimate holding company	25	21,818	22,326
Amount due to an associate	21	–	3,699
Income tax liabilities		15,135	12,838
Obligations under finance leases			
– due within one year	26	40,581	27,049
Bank and other loans – due within one year	27	219,650	176,550
		727,135	583,308
Net current (liabilities) assets		(7,517)	1,645
Total assets less current liabilities		453,551	417,204

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	NOTES	2016 RMB'000	2015 RMB'000
Non-current liabilities			
Obligations under finance leases			
– due after one year	26	11,983	38,422
Deferred income	28	7,408	630
		19,391	39,052
		434,160	378,152
Capital and reserves			
Share capital	29	3,755	2,020
Reserves	30	430,405	376,132
		434,160	378,152

The consolidated financial statements on pages 30 to 92 were approved and authorised for issue by the board of directors on 31 March 2017 and are signed on its behalf by:

Mr. Katsutoshi Masuda
Director

Mr. Xu Yong
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Share capital RMB'000 (Note 29)	Share premium RMB'000	Special reserve RMB'000 (Note 30(i))	Reserve for shares issued with vesting conditions RMB'000 (Note 30(iv))	Translation reserve RMB'000	Capital reserve RMB'000 (Note 30(ii))	Statutory surplus reserve RMB'000 (Note 30(iii))	Retained profits RMB'000	Total RMB'000
At 1 January 2015	2,020	55,197	49,663	18,065	6,371	71	16,493	177,995	325,875
Profit for the year	-	-	-	-	-	-	-	61,793	61,793
Other comprehensive expense for the year	-	-	-	-	(1,521)	-	-	-	(1,521)
Total comprehensive (expense) income for the year	-	-	-	-	(1,521)	-	-	61,793	60,272
Dividend recognised as distribution (Note 13)	-	-	-	-	-	-	-	(7,995)	(7,995)
At 31 December 2015	2,020	55,197	49,663	18,065	4,850	71	16,493	231,793	378,152
Profit for the year	-	-	-	-	-	-	-	64,272	64,272
Other comprehensive expense for the year	-	-	-	-	(269)	-	-	-	(269)
Total comprehensive (expense) income for the year	-	-	-	-	(269)	-	-	64,272	64,003
Bonus issue (Note 29)	1,735	(1,735)	-	-	-	-	-	-	-
Increase in statutory surplus reserve	-	-	-	-	-	-	1,874	(1,874)	-
Dividend recognised as distribution (Note 13)	-	-	-	-	-	-	-	(7,995)	(7,995)
At 31 December 2016	3,755	53,462	49,663	18,065	4,581	71	18,367	286,196	434,160

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	2016 RMB'000	2015 RMB'000
OPERATING ACTIVITIES		
Profit before tax	81,634	73,495
Adjustments for:		
Bank interest income	(226)	(313)
Depreciation and amortisation	67,773	50,712
Finance costs	15,024	17,576
Government subsidies	(1,513)	(56)
Impairment loss on trade receivables	53	603
Allowance for inventories	4,529	6,419
Loss on disposal of property, plant and equipment	45	357
Impairment loss recognised in respect of interest in an associate	4,206	1,394
Release of deferred loss on sale and leaseback of property, plant and equipment	2,958	3,008
Release of deferred gain from sale and leaseback of property, plant and equipment	(163)	(163)
Release of government grants for land use rights	(168)	(85)
Reversal of impairment loss on trade receivables	(214)	(616)
Reversal of allowance for inventories	(2,959)	–
Share of profits of associates	(2,426)	(4,736)
Operating cash flows before movements in working capital	168,553	147,595
Increase in trade receivables, deposits and prepayments	(77,135)	(48,495)
(Increase) decrease in inventories	(67,040)	25,221
Decrease in amounts due from associates	8,113	2,468
Decrease in amounts due to associates	(3,699)	(1,123)
Decrease in amount due to ultimate holding company	–	(1,198)
Increase in trade and other payables	95,604	30,086
Cash generated from operations	124,396	154,554
Income taxes paid	(15,065)	(8,277)
NET CASH FROM OPERATING ACTIVITIES	109,331	146,277

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	2016 RMB'000	2015 RMB'000
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(100,059)	(102,147)
Advance to an associate	(16,117)	–
Purchase of land use right	(11,561)	–
Placement of pledged bank deposits	(5,574)	(5,000)
Purchase of intangible assets	(1,224)	(96)
Proceeds from disposal of property, plant and equipment	7,045	97
Release of pledged bank deposits	5,709	688
Interest received	226	313
Additional interest in an associate	–	(1,773)
NET CASH USED IN INVESTING ACTIVITIES	(121,555)	(107,918)
FINANCING ACTIVITIES		
Repayment of bank and other loans	(226,269)	(345,727)
Repayment of obligations under finance leases	(36,058)	(16,243)
Interest paid	(15,024)	(17,576)
Dividend paid	(7,995)	(7,995)
Repayment to ultimate holding company	(508)	–
New bank and other loans raised	269,369	306,825
Net proceeds of sale and leaseback transactions	23,151	53,739
Government subsidies received	8,569	56
NET CASH FROM (USED IN) FINANCING ACTIVITIES	15,235	(26,921)
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,011	11,438
CASH AND CASH EQUIVALENTS AT 1 JANUARY	54,122	42,249
Effect of foreign exchange rate changes	(137)	435
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, Representing by bank balances, deposits and cash	56,996	54,122

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. CORPORATE INFORMATION

Yusei Holdings Limited (the “Company”) is a public limited company incorporated in Cayman Islands as an exempted company with limited liability on 4 April 2005. 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 Group adopted RMB as its presentation currency as the directors of the Company consider that the major operations are in the PRC and it is appropriate to present the consolidated financial statements in RMB.

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.

Basis of preparation

The consolidated financial statements have been prepared on a going concern basis notwithstanding the net current liabilities of approximately RMB7,517,000 as at 31 December 2016. In the opinion of the directors of the Company, the Group should be able to maintain itself as a going concern in the coming year as the Group is anticipated to generate positive cash flows from its businesses.

On the basis that the continuing availability of the banking facilities provided by its banks, 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 within the next twelve months from the end of the reporting period. 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 2016

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS(s)”)

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 – 2014 Cycle
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations

The application of the new and revised HKFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and revised HKFRSs issued but not yet effective

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

HKFRS 9 (2014)	Financial Instruments ²
HKFRS 15	Revenue from Contracts with Customers (and the related Clarifications) ²
HKFRS 16	Leases ³
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014-2016 Cycle ⁵
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ²
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
Amendments to HKAS 7	Disclosure Initiative ¹
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses ¹

¹ Effective for annual periods beginning on or after 1 January 2017.

² Effective for annual periods beginning on or after 1 January 2018.

³ Effective for annual periods beginning on or after 1 January 2019.

⁴ Effective date not yet been determined.

⁵ Amendments to HKFRS 12 are effective for annual periods beginning on or after 1 January 2017, and Amendments to HKFRS 1 and Amendments to HKAS 28 are effective for annual periods beginning on or after 1 January 2018.

The directors of the Company anticipate that, except as described below, the application of other new and 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 2016

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS(s)”) (CONTINUED)

HKFRS 9 (2014) Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was amended in 2010 and includes the requirements for the classification and measurement of financial liabilities and for derecognition. In 2013, HKFRS 9 was further amended to bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements. A finalised version of HKFRS 9 was issued in 2014 to incorporate all the requirements of HKFRS 9 that were issued in previous years with limited amendments to the classification and measurement by introducing a “fair value through other comprehensive income” (“FVTOCI”) measurement category for certain financial assets. The finalised version of HKFRS 9 also introduces an “expected credit loss” model for impairment assessments.

Key requirements of HKFRS 9 are described as follows:

- 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. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value 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.
- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 (2014) requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes 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. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- in the aspect of impairment assessments, the impairment requirements relating to the accounting for an entity’s expected credit losses on its financial assets and commitments to extend credit were added. Those requirements eliminate the threshold that was in HKAS 39 for the recognition of credit losses. Under the impairment approach in HKFRS 9 (2014) it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, expected credit losses and changes in those expected credit losses should always be accounted for. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition and, consequently, more timely information is provided about expected credit losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS(s)”) (CONTINUED)

HKFRS 9 (2014) Financial Instruments (Continued)

- HKFRS 9 (2014) introduces a new model which is more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risk exposures. As a principle-based approach, HKFRS 9 (2014) looks at whether a risk component can be identified and measured and does not distinguish between financial items and non-financial items. The new model also enables an entity to use information produced internally for risk management purposes as a basis for hedge accounting. Under HKAS 39, it is necessary to exhibit eligibility and compliance with the requirements in HKAS 39 using metrics that are designed solely for accounting purposes. The new model also includes eligibility criteria but these are based on an economic assessment of the strength of the hedging relationship. This can be determined using risk management data. This should reduce the costs of implementation compared with those for HKAS 39 hedge accounting because it reduces the amount of analysis that is required to be undertaken only for accounting purposes.

HKFRS 9 (2014) will become effective for annual periods beginning on or after 1 January 2018 with early application permitted.

The directors of the Company anticipate that the adoption of HKFRS 9 (2014) in the future may have significant impact on amounts reported and disclosures made 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.

HKFRS 15 Revenue from Contracts with Customers

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Thus, HKFRS 15 introduces a model that applies to contracts with customers, featuring a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. The five steps are as follows:

- i) Identify the contract with the customer;
- ii) Identify the performance obligations in the contract;
- iii) Determine the transaction price;
- iv) Allocate the transaction price to the performance obligations; and
- v) Recognise revenue when (or as) the entity satisfies a performance obligation.

HKFRS 15 also introduces extensive qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

HKFRS 15 will become effective for annual periods beginning on or after 1 January 2018 with early application permitted. The directors of the Company anticipate that the application of HKFRS 15 may result in the identification of separate performance obligations which could affect the timing of the recognition of revenue. Certain costs incurred in fulfilling a contract which are currently expensed may need to be recognised as an asset under HKFRS 15. At this stage, the Group is in the process of assessing the impact of HKFRS 15 on the Group’s consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS(s)”) (CONTINUED)

HKFRS 16 Leases

HKFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees.

In respect of the lessee accounting, the standard introduces a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases with the lease term of more than 12 months, unless the underlying asset has a low value.

At the commencement date of the lease, the lessee is required to recognise a right-of-use asset at cost, which consists of the amount of the initial measurement of the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee. A lease liability is initially recognised at the present value of the lease payments that are not paid at that date.

Subsequently, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability. Lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payment made, and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments. Depreciation and impairment expenses, if any, on the right-of-use asset will be charged to profit or loss following the requirements of HKAS 16 *Property, Plant and Equipment*, while interest accrual on lease liability will be charged to profit or loss.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

HKFRS 16 will supersede the current lease standards including HKAS 17 *Leases* and the related Interpretations when it becomes effective.

HKFRS 16 will be effective for annual periods beginning on or after 1 January 2019. HKFRS 16 will affect primarily the accounting for the Group’s operating leases. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised in the consolidated statement of financial position. The directors of the Company are in the process of assessing to what extent the operating lease commitment as disclosed in note 31 will result in the recognition of an asset and a liability for future payments and how this will affect the Group’s profit and classification of cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. 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 of Hong Kong Limited (the “Stock Exchange”) and by the Hong Kong Companies Ordinance.

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

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (i.e. its subsidiaries). Control is achieved where the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control stated above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Investments in subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

In the Company's statement of financial position, the investments in subsidiaries are stated at cost less accumulated impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates

An associate is an entity over which the Group has significant influence. 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 the consolidated financial statements using the equity method. Under the equity method, an investment in an associate is 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 the associate. When the Group's share of losses of an associate exceeds the Group's 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 the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The financial statements of associate used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances.

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 of disposal) 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.

When a group entity transacts with an associate of the Group, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivables for goods sold and services rendered 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.

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 subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to allocate 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (Continued)

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.

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.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Sale and leaseback transactions

When a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is deferred and amortised over the lease term. If the fair value at the time of a sale and leaseback transaction is less than the carrying amount of the asset, no adjustment is necessary unless there has been an impairment in value, in which case the carrying amount is reduced to recoverable amount in accordance with HKAS 36.

Leasehold land and buildings

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. 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 at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the 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.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Employee benefits

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.

Short-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 on a systematic and rational basis 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.

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 before tax as reported in the consolidated statement of profit or loss because of income or expense that are taxable or deductible in other years and 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 bases 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 differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (Continued)

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

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised 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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are 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, deposits 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 bank balances, deposits and cash 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument 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 debt instrument, 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 trade and bills receivables and deposits, amounts due from associates, pledged bank deposits and bank balances, deposits and cash) are measured at amortised cost using the effective interest method, less any identified impairment loss (see accounting policy on impairment of financial assets below).

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 when 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 financial assets, objective evidence of impairment could include:

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

For certain categories of financial assets, such as trade and bills receivables, 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 recognised is 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and bills receivables 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 trade and bills receivable, or amounts due from associates are 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 the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

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 an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Other financial liabilities

Other financial liabilities, including trade and other payables, amount due to ultimate holding company, amount due to an associate, obligations under finance leases and bank and other loans, are subsequently measured at amortised cost, using the effective interest method.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

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 recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset 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.

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

Impairment on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives 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 groups of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal 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 (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, 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 associated assumptions are reviewed on an on-going 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 accounting policies

The followings 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 Group's accounting policies and that have the most significant effect on the amounts recognised in the 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 1.

Ownership of land use rights

As detailed in Note 17, certain of the Group's land use rights have not yet been granted legal title from the relevant government authorities. Despite the fact that the Group has not obtained the relevant legal title, the directors of the Company recognised the land use rights on the ground that they expect the legal title being obtained in the near future should have no major difficulties and the Group is in substance controlling these land use rights. In the opinion of the directors of the Company, the absence of formal title to these land use rights does not impair the value of the relevant assets to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Key sources of estimation uncertainty

The followings 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 depreciation and 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 or useful lives suggested by State Administration of Taxation of the PRC. 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. The carrying amounts of the property, plant and equipment as at 31 December 2016 amounted to approximately RMB383,548,000 (2015: RMB363,853,000).

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

In considering the impairment losses that may be required for certain of the Group's assets which include property, plant and equipment and land use rights, recoverable amount of the asset needs to be determined if there is indication that those assets may be impaired. 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. The carrying amounts of the property, plant and equipment and land use rights as at 31 December 2016 amounted to approximately RMB383,548,000 (2015: RMB363,853,000) and approximately RMB28,983,000 (2015: RMB18,176,000) respectively. No accumulated impairment loss was recognised for property, plant and equipment and land use rights as at 31 December 2016 and 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Key sources of estimation uncertainty (Continued)

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 in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. The carrying amounts of the interests in associates as at 31 December 2016 amounted to approximately RMB31,707,000 (2015: RMB33,487,000), net of accumulated impairment losses of approximately RMB16,800,000 (2015: RMB12,594,000).

Estimated allowance for inventories

The directors of the Company review an ageing analysis at the end of each reporting period, and makes allowance 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 allowance for obsolete items. As at 31 December 2016, the carrying amount of inventories is approximately RMB204,796,000 (2015: RMB139,326,000). During the year ended 31 December 2016, the Group recognised on the allowance for inventories of RMB4,529,000 (2015: RMB6,419,000) and reversal of allowance for inventories of RMB2,959,000 (2015: Nil).

Estimated impairment loss on trade and bills receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2016, the carrying amount of trade and bills receivables is approximately RMB425,697,000 (net of allowance for doubtful debts of RMB3,124,000) (2015: carrying amount of RMB344,942,000, net of allowance for doubtful debts of RMB3,285,000). During the year ended 31 December 2016, a total of approximately RMB53,000 (2015: RMB603,000) impairment of trade and bills receivables and a total of approximately RMB214,000 (2015: RMB616,000) reversal of trade and bills receivables were recognised for the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

5. 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 years.

The capital structure of the Group consists of net debt, which includes obligations under finance leases and bank and other loans as disclosed in Notes 26 and 27 respectively and amount due to ultimate holding company and amount due to an associate as disclosed in Notes 25 and 21 respectively, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Group reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. Based on the recommendations of the directors of the Company, 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.

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2016 RMB'000	2015 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	512,413	421,433
Financial liabilities		
At amortised cost	690,291	579,430

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and bills receivables, deposits and other receivables, amounts due from associates, pledged bank deposits, bank balances, deposits and cash, trade and other payables, amount due to ultimate holding company, amount due to an associate, obligations under finance leases and bank and other loans. Details of the 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 2016

6. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

Market risk

(i) *Currency risk*

The Group's major exposure to currency risk is attributable to the trade and bills receivables, deposits and other receivables, bank balances, deposits and cash, and trade and other payables of the Group which are mainly 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	
	2016	2015
	RMB'000	RMB'000
Monetary assets		
US\$		
Trade and bills receivables, deposits and other receivables	42,323	18,196
Bank balances, deposits and cash	32,356	28,687
	74,679	46,883
JPY		
Trade and bills receivables, deposits and other receivables	289	142
Bank balances, deposits and cash	391	1,167
	680	1,309

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

6. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

(i) Currency risk (Continued)

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Monetary liabilities		
US\$		
Trade and other payables	32,201	32,942
JPY		
Trade and other payables	515	4,897

Sensitivity analysis

The Group is mainly exposed to currency risk in JPY and US\$. The following table details the Group's sensitivity to a 10% (2015: 10%) increase and decrease in RMB or HK\$ against JPY and 5% (2015: 5%) increase and decrease in RMB or HK\$ against US\$ with all other variables held constant. 10% and 5% (2015: 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 an increase in the post-tax profit where RMB or HK\$ strengthen 5% (2015: 5%) against US\$ and strengthen 10% (2015: 10%) against JPY. For a 5% and 10% (2015: 5% and 10%) weakening of RMB or HK\$ against US\$ and JPY respectively, there would be an equal and opposite impact on the post-tax profit.

	2016	2015
	RMB'000	RMB'000
US\$	(1,593)	(523)
JPY	(12)	269

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

6. 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, amount due to ultimate holding company, obligations under finance leases and fixed-rate bank and other loans (see Notes 22, 25, 26 and 27 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 balances (see Note 23 for details). The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of RMB Benchmark Interest Rate arising from the Group's RMB denominated bank balances.

Sensitivity analysis

As at 31 December 2016, it is estimated that a general increase or decrease of 5% (2015: 5%) in interest rates, with all other variables held constant, would increase (2015: increase) or decrease (2015: decrease) the Group's post-tax profit for the year ended 31 December 2016 by approximately RMB4,000 (2015: RMB4,000).

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 balances in existence at the end of the reporting period. The 5% (2015: 5%) 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 receivables will default on their obligations to repay the amounts owing to the Group, resulting in a loss to the Group. As at 31 December 2016, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligations by the counterparties is arising from 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 2016

6. 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 2016, the Group has concentration of credit risk as 17% (2015: 16%) and 42% (2015: 39%) of the total trade receivables was due from the Group's largest customer and the five largest customers, respectively.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 99.99% (2015: 99.98%) of the total receivables as at 31 December 2016.

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

The credit quality of counterparty in respect of amounts due from associates are assessed by taking into account their financial positions and other factors. The directors of the Group is of the opinion that the risk of default by the counterparty is low.

Liquidity risk

As at 31 December 2016, the Group has net current liabilities of approximately RMB7,517,000. The directors of the Company believe that the Company will be able to meet in full its financial obligations as they fall due.

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

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. As at 31 December 2016, banking facilities in an aggregate amount of approximately RMB180,000,000 (2015: RMB245,840,000) were available from the Group's principal bankers, of which approximately RMB139,100,000 (2015: RMB135,000,000) has been utilised and included in bank and other loans. The Group's management monitors the utilisation of bank and other loans and ensures compliance with existing loan covenants.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

6. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of the non-derivative 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 following 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.

As at 31 December 2016

	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	Total contractual undiscounted cash flows RMB'000	Carrying amount RMB'000
Trade and other payables	396,259	-	-	396,259	396,259
Amount due to ultimate holding company	22,721	-	-	22,721	21,818
Obligations under finance leases	42,578	12,231	-	54,809	52,564
Bank and other loans	224,480	-	-	224,480	219,650
	686,038	12,231	-	698,269	690,291

As at 31 December 2015

	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	Total contractual undiscounted cash flows RMB'000	Carrying amount RMB'000
Trade and other payables	311,384	-	-	311,384	311,384
Amount due to ultimate holding company	23,478	-	-	23,478	22,326
Amount due to an associate	3,699	-	-	3,699	3,699
Obligations under finance leases	29,921	28,602	11,511	70,034	65,471
Bank loans	181,705	-	-	181,705	176,550
	550,187	28,602	11,511	590,300	579,430

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

6. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

(c) Fair value

The directors of the Company consider the fair values of current financial assets and current financial liabilities recorded at amortised cost in the consolidated financial statements approximate their carrying amounts due to short term maturities.

The directors of the Company consider the fair values of non-current financial assets and non-current financial liabilities recorded at amortised cost in the consolidated financial statements approximate their carrying amounts.

7. REVENUE AND SEGMENT INFORMATION

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

HKFRS 8 “Operating Segments” requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (“CODM”) (i.e. the chief executive) in order to allocate resources to segments and to assess their performance.

The Group’s operating activities are attributable to a single operating segment focusing on the moulding fabrication, manufacturing and trading of moulds and plastic components. This operating segment has been identified on the basis of internal management reports prepared in accordance with accounting policies which conform to HKFRSs, that are regularly reviewed by the CODM. The CODM monitors the revenue from moulding fabrication, manufacturing and trading of moulds and plastic components for the purpose of making decisions about resources allocation and performance assessment. However, no revenue analysis, operating results and other discrete financial information are available for the resource allocation and performance assessment. The CODM reviews the profit for the year of the Group as a whole for performance assessment. No analysis of segment assets or segment liabilities is presented as they are not regularly provided to the CODM.

Geographical information

During the years ended 31 December 2016 and 2015, the Group’s operations were located in the PRC.

During the year ended 31 December 2016, 99.98% (2015: 99.99%) of the Group’s revenue from external customers was generated in the PRC while as at 31 December 2016, 100% (2015: 100%) of the Group’s non-current assets was located in the PRC. Hence, no geographical information is presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

7. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Information about major customers

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

	2016 RMB'000	2015 RMB'000
Customer A	202,632	165,938
Customer B	156,375	136,907
Customer C	128,860 ¹	N/A
Customer D	N/A	139,627 ¹

All revenue generated from the major customers shown above relate to the sales of moulds and plastic components.

¹ The corresponding revenue did not contribute over 10% of the total revenue of the Group.

8. OTHER INCOME AND GAIN

	2016 RMB'000	2015 RMB'000
Gain on sales of materials	4,418	3,134
Quality inspection income	744	687
Bank interest income	226	313
Rental income received	213	211
Management services income	1,694	1,200
Government subsidies (Note)	1,513	56
Release of government grants for land use rights (Note 28)	168	85
Reversal of impairment loss on trade receivables	214	616
Reversal of allowance for inventories	2,959	–
Release of deferred gain from sale and leaseback of property, plant and equipment (Note 28)	163	163
Processing fee income	393	422
Others	232	418
	12,937	7,305

Note: Government subsidies of approximately RMB1,513,000 (2015: RMB56,000) have been recognised during the year ended 31 December 2016 which were designated for the encouragement of business development and high technology development incentive. All conditions in respect of these grants had been fulfilled and such government grants were recognised in other income for the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

9. FINANCE COSTS

	2016 RMB'000	2015 RMB'000
Interest on:		
bank and other loans	11,141	13,002
finance leases	2,988	3,422
amount due to ultimate holding company	895	1,152
	15,024	17,576

10. INCOME TAX EXPENSE

	2016 RMB'000	2015 RMB'000
PRC Enterprise Income Tax (the "EIT")		
Current year	17,325	12,342
Under (over) – provision in prior year	37	(640)
	17,362	11,702

(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's income neither arises in, nor is derived from, Hong Kong during both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

10. INCOME TAX EXPENSE (CONTINUED)

(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 subsidiaries, 杭州友成機工有限公司 Hangzhou Yusei Machinery Co., Ltd.* (“Hangzhou Yusei”) and 蘇州友成機工有限公司 Suzhou Yusei Machinery Co., Ltd.* (“Suzhou Yusei”) for the years ended 31 December 2016 and 2015 was 15%.

On 17 September 2015, Hangzhou Yusei was approved by Science and Technology Department of Zhejiang Province as high technology enterprise and therefore is subject to EIT at a concession rate of 15% for three years, effective from 1 January 2015.

On 5 August 2014, Suzhou Yusei was approved by Science and Technology Department of Suzhou Province as high technology enterprise and therefore is subject to EIT at a concession rate of 15% for three years, effective from 1 January 2014.

The applicable PRC EIT rate of 浙江友成塑料模具有限公司 Zhejiang Yusei Plastics & Mould Co., Ltd.* (“Zhejiang Yusei”), 友成(中國)模具有限公司 Yusei (China) Mould Co., Ltd.* (“Yusei China”), 廣州友成機工有限公司 Guangzhou Yusei Machinery Co., Ltd.* (“Guangzhou Yusei”), 杭州友成模具技術研究有限公司 Hangzhou Yusei Mould Technology Research Co., Ltd.* (“Hangzhou Yusei Moulding”), 蕪湖友成塑料模具有限公司 Wuhu Yusei Plastic Moulding Co., Ltd.* (“Wuhu Yusei”) and 湖北友成塑料模具有限公司 Hubei Yusei Plastic Moulding Co., Ltd.* (“Hubei Yusei”) is 25% for the years ended 31 December 2016 and 2015.

* The English names are for identification purposes only.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

10. INCOME TAX EXPENSE (CONTINUED)

The income tax expense for the year can be reconciled to the profit before tax in the consolidated statement of profit or loss as follows:

	2016 RMB'000	2015 RMB'000
Profit before tax	81,634	73,495
Tax at the income tax rate at 25% (2015: 25%)	20,409	18,374
Tax effect of share of profits of associates	(606)	(1,184)
Tax effect of expenses not deductible for tax purpose	3,270	4,074
Tax effect of income not taxable for tax purpose	(668)	(3,764)
Tax effect of tax losses not recognised	1,522	551
Under (over) – provision in prior year	37	(640)
Utilisation of tax losses previously not recognised	–	(994)
Tax effect attributable to tax concessions granted to the PRC subsidiaries	(6,529)	(4,798)
Effect of different tax rates	(73)	83
Income tax expense for the year	17,362	11,702

As at 31 December 2016, the Group has estimated unused tax losses of approximately RMB25,499,000 (2015: RMB19,412,000). No deferred tax asset has been recognised in the consolidated financial statements due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of approximately RMB941,000 (2015: RMB333,000) that can be carried forward for five years from the year in which the respective loss arose. Other losses may be carried forward indefinitely.

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 RMB296,354,000 (2015: RMB227,949,000) 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 2016

11. PROFIT FOR THE YEAR

	2016 RMB'000	2015 RMB'000
Profit for the year has been arrived at after charging: Directors' and the chief executive's remuneration (Note 12)	3,042	3,017
Salaries, wages and other benefits	165,656	139,050
Retirement benefits scheme contributions	8,782	8,673
Other staff costs	174,438	147,723
Total staff costs	177,480	150,740
Depreciation of property, plant and equipment	66,696	49,899
Amortisation of intangible assets (included in administrative expenses)	323	194
Amortisation of land use rights (included in administrative expenses)	754	619
Total depreciation and amortisation expenses	67,773	50,712
Auditor's remuneration	920	900
Impairment loss on trade receivables (included in administrative expenses)	53	603
Allowance for inventories (included in cost of sales)	4,529	6,419
Impairment loss recognised in respect of interest in an associate	4,206	1,394
Loss on disposal of property, plant and equipment	45	357
Operating lease charges on leased premises	9,156	6,434
Release of deferred loss from sale and leaseback of property, plant and equipment	2,958	3,008

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

12. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND EMPLOYEES' EMOLUMENTS

(a) Directors and Chief Executive

Details of remuneration paid and payable to each of the seven (2015: seven) directors and the chief executive of the Company for the years ended 31 December 2016 and 2015 are as follows:

2016

Name of director	Emoluments paid or receivable in respect of a person's services as a director of the Company					Total RMB'000
	Fees RMB'000	Salaries RMB'000	Discretionary bonus RMB'000 (Note i)	Salaries and other benefits subtotal RMB'000	Retirement benefits scheme contributions RMB'000	
Executive directors						
Xu Yong	630	120	450	570	37	1,237
Shimabayashi Manabu	630	120	-	120	-	750
Non-executive directors						
Katsutoshi Masuda	857	-	-	-	-	857
Toshimitsu Masuda	43	-	-	-	-	43
Independent non-executive directors						
Lo Ka Wai	103	-	-	-	-	103
Fan Xiaoping	26	-	-	-	-	26
Hisaki Takabayashi	26	-	-	-	-	26
	2,315	240	450	690	37	3,042

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

12. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND EMPLOYEES' EMOLUMENTS (CONTINUED)

(a) Directors and Chief Executive (Continued)

2015

Name of director	Emoluments paid or receivable in respect of a person's services as a director of the Company					Total RMB'000
	Fees RMB'000	Salaries RMB'000	Discretionary bonus RMB'000 (Note i)	Salaries and other benefits subtotal RMB'000	Retirement benefits scheme contributions RMB'000	
Executive directors						
Xu Yong	630	120	450	570	37	1,237
Shimabayashi Manabu	630	120	-	120	-	750
Non-executive directors						
Katsutoshi Masuda	838	-	-	-	-	838
Toshimitsu Masuda	42	-	-	-	-	42
Independent non-executive directors						
Lo Ka Wai	100	-	-	-	-	100
Fan Xiaoping	25	-	-	-	-	25
Hisaki Takabayashi	25	-	-	-	-	25
	2,290	240	450	690	37	3,017

Note i: The discretionary bonus is determined with reference to the individual performance during the years ended 31 December 2016 and 2015.

Note ii: Mr. Xu Yong is also the chief executive of the Company and his emoluments disclosed above include those for services rendered by him as the chief executive.

Note iii: During the years ended 31 December 2016 and 2015, no emoluments were paid by the Group to the directors and chief executive of the Company as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors and the chief executive has waived or agreed to waive any remuneration during the years ended 31 December 2016 and 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

12. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND EMPLOYEES' EMOLUMENTS (CONTINUED)

(b) Employees

Of the five individuals with the highest emoluments in the Group, three (2015: three) were directors and the chief executive of the Company whose emoluments are included in the disclosures above. The aggregate emoluments of the remaining two (2015: two) individuals were attributable to two members of senior management, as follows:

	2016 RMB'000	2015 RMB'000
Salaries, wages and other benefits	1,094	892
Retirement benefits scheme contributions	49	47
	1,143	939

The emoluments paid to the members of senior management (excluding directors) were within the following bands:

	Number of employees	
	2016	2015
Nil to HK\$1,000,000 (equivalent to approximately RMB857,150 (2015: RMB837,780))	2	2

During the years ended 31 December 2016 and 2015, no remuneration were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

13. DIVIDENDS

	2016 RMB'000	2015 RMB'000
Dividends recognised as distribution during the year:		
2015 Final – RMB3.95 cents (2015: 2014 final dividend RMB3.95 cents) per share	7,995	7,995

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2016 of RMB 8,000,000, representing RMB1.98 cents (2015: final dividend in respect of the year ended 31 December 2015 of RMB3.95 cents) per share has been proposed by the directors of the Company and is subject to approval by the shareholders of the Company in the forthcoming annual general meeting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

14. 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:

	2016 RMB'000	2015 RMB'000 (Restated)
Earnings		
Earnings for the purpose of basic and diluted earnings per share	64,272	61,793
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	404,800,000	404,800,000

Diluted earnings per share is same as basic earnings per share for the years ended 31 December 2016 and 2015 as there is no potential ordinary shares outstanding.

The weighted average number of ordinary shares for the year ended 31 December 2015 have been adjusted for the new bonus shares issued on 5 July 2016 (Note 29) as if such bonus issue had occurred at the beginning of the earliest period presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Moulds RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
At 1 January 2015	156,162	403,069	4,861	7,979	14,113	1,283	587,467
Additions	7,398	116,967	1,046	358	846	36,011	162,626
Transfer	21,237	10,800	-	-	645	(32,682)	-
Disposals	(7)	(59,795)	(1,058)	(7)	-	-	(60,867)
At 31 December 2015	184,790	471,041	4,849	8,330	15,604	4,612	689,226
Additions	585	94,746	751	395	-	20,155	116,632
Transfer	1,676	8,861	-	-	-	(10,537)	-
Disposals	-	(36,290)	(842)	(32)	-	-	(37,164)
At 31 December 2016	187,051	538,358	4,758	8,693	15,604	14,230	768,694
DEPRECIATION AND IMPAIRMENT							
At 1 January 2015	39,626	224,061	3,159	6,435	8,867	-	282,148
Provided for the year	8,256	40,258	712	468	205	-	49,899
Eliminated on disposals	(7)	(5,708)	(952)	(7)	-	-	(6,674)
At 31 December 2015	47,875	258,611	2,919	6,896	9,072	-	325,373
Provided for the year	10,545	54,255	896	641	359	-	66,696
Eliminated on disposals	-	(6,085)	(807)	(31)	-	-	(6,923)
At 31 December 2016	58,420	306,781	3,008	7,506	9,431	-	385,146
CARRYING VALUES							
At 31 December 2016	128,631	231,577	1,750	1,187	6,173	14,230	383,548
At 31 December 2015	136,915	212,430	1,930	1,434	6,532	4,612	363,853

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

Buildings	12 – 20 years
Machinery and equipment	3 – 20 years
Motor vehicles	3 – 5 years
Office equipment	3 – 5 years
Moulds	3 – 5 years

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

As at 31 December 2015, the Group had not obtained building ownership certificates for buildings with carrying values of approximately RMB44,026,000. All the building ownership certificates was subsequently obtained during the year ended 31 December 2016.

As at 31 December 2016 and 2015, certain of the property, plant and equipment were pledged to obtain bank loans granted to the Group, details of which are set out in Note 27.

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

	2016 RMB'000	2015 RMB'000
Machinery and equipment	56,710	56,502

16. INTANGIBLE ASSETS

	Software RMB'000
COST	
At 1 January 2015	5,226
Additions	96
At 31 December 2015	5,322
Additions	1,224
At 31 December 2016	6,546
AMORTISATION	
At 1 January 2015	4,468
Provided for the year	194
At 31 December 2015	4,662
Provided for the year	323
At 31 December 2016	4,985
CARRYING VALUES	
At 31 December 2016	1,561
At 31 December 2015	660

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

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For the year ended 31 December 2016

17. LAND USE RIGHTS

	2016 RMB'000	2015 RMB'000
COST		
At beginning of the year	23,748	23,748
Additions	11,561	–
At end of the year	35,309	23,748
AMORTISATION		
At beginning of the year	5,572	4,953
Charge for the year	754	619
At end of the year	6,326	5,572
CARRYING VALUES		
At end of the year	28,983	18,176
Analysed for reporting purposes as:		
Current assets (included in other receivables, deposits and prepayments)	848	617
Non-current assets	28,135	17,559
	28,983	18,176

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

As at 31 December 2016 and 2015, certain of the land use rights were pledged to obtain bank loans granted to the Group, details of which are set out in Note 27.

As at 31 December 2016, the Group has not obtained land use right certificates for land use rights with carrying values of approximately RMB11,427,000 (2015: Nil).

18. INTERESTS IN ASSOCIATES

	2016 RMB'000	2015 RMB'000
Cost of investments in associates – unlisted	37,271	37,271
Share of post-acquisition profits	11,236	8,810
Less: impairment loss recognised	(16,800)	(12,594)
Interests in associates	31,707	33,487

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For the year ended 31 December 2016

18. INTERESTS IN ASSOCIATES (CONTINUED)

During the year ended 31 December 2016, the Group had no additional investment cost (2015: RMB5,600,000).

Included in the cost of investments in associates is goodwill of approximately RMB2,111,000 (2015: RMB2,111,000) arising on acquisition of associates.

Due to deficit financial position of an associate, an impairment loss of RMB4,206,000 (2015: RMB1,394,000) was made for the year ended 31 December 2016 on an interest in an unlisted associate with reference to the Group's share of the present value of the estimated future cash flows expected to be generated by the associate less its carrying amount. The recoverable amount of the interest in an unlisted associate was nil and is based on value-in-use method (2016: nil).

As at 31 December 2016 and 2015, 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
				2016	2015	2016	2015	
杭州友成實業有限公司 Hangzhou Yusei Industrial Company Limited* ("Yusei Industrial")	Incorporated	PRC	Registered capital	30%	30%	30%	30%	Moulding fabrication
杭州友成進出口有限公司 Hangzhou Yusei Import and Export Company Limited* ("Yusei Import and Export")	Incorporated	PRC	Registered capital	30%	30%	30%	30%	Trading of plastic components and moulds
吉林東光友成機工有限公司 Jilin Dong Guang Yusei Manufacturing Co., Limited* ("Jilin Yusei") (Note)	Incorporated	PRC	Registered capital	50%	50%	50%	50%	Manufacturing and trading of plastic components

* The English names are for identification purposes only.

Yusei Import and Export was a wholly-owned subsidiary of Yusei Industrial.

Note: The Group has 50% ownership interest in Jilin Yusei as at 31 December 2016 and 2015. However, the directors of the Company considered that the Group has no control over Jilin Yusei as the Group has not dominated the board of directors of Jilin Yusei and no ability to direct the relevant activities of Jilin Yusei. As a result, the directors of the Company regarded Jilin Yusei as an associate.

Summarised financial information of material associate

Yusei Industrial is the only material associate of the Group for both years. Summarised financial information in respect of the Group's material associate is set out below, which represents amounts shown in the associate's consolidated financial statements are prepared in accordance with HKFRSs.

The associates are accounted for using the equity method in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

18. INTERESTS IN ASSOCIATES (CONTINUED)

Summarised financial information of material associate (Continued)

Yusei Industrial and its subsidiary (Yusei Import and Export) (“Yusei Industrial Group”)

	2016 RMB'000	2015 RMB'000
Current assets	117,780	106,295
Non-current assets	110,445	113,159
Current liabilities	(91,572)	(90,886)
Non-current liabilities	(38,000)	(38,000)

	2016 RMB'000	2015 RMB'000
Revenue	207,998	236,249
Profit for the year	8,085	15,788
Other comprehensive expense for the year	-	-
Total comprehensive income for the year	8,085	15,788

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2016 RMB'000	2015 RMB'000
Net assets of Yusei Industrial Group	98,653	90,568
Proportion of the Group's ownership interest in Yusei Industrial Group	30%	30%
Goodwill	2,111	2,111
Carrying amount of the Group's interest in Yusei Industrial Group	31,707	29,281

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For the year ended 31 December 2016

18. INTERESTS IN ASSOCIATES (CONTINUED)

Summarised financial information of material associate (Continued)

Yusei Industrial Group (Continued)

The Group's immaterial associate only includes Jilin Yusei. The Group has discontinued recognition of its share of loss of Jilin Yusei commencing from the year ended 31 December 2010 since the carrying amount of its interest reduced to nil. The amount of unrecognised share of profit of this associate, extracted from the relevant management accounts, both for the year and cumulatively, is as follow:

	2016 RMB'000	2015 RMB'000
Unrecognised share of (losses) profits and total comprehensive (expense) income of an associate for the year	(2,719)	1,621
Accumulated unrecognised share of losses and total comprehensive expense of an associate	(5,269)	(2,550)

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19. INVENTORIES

	2016 RMB'000	2015 RMB'000
Raw materials	75,523	50,098
Work-in-progress	54,963	40,714
Finished goods	74,310	48,514
	204,796	139,326

During the year ended 31 December 2016, allowance for slow-moving inventories of approximately RMB4,529,000 (2015: RMB6,419,000) has been recognised and included in the cost of sales and a reversal of allowance for inventories of approximately RMB2,959,000 (2015: Nil) has been recognised and included in other income since the relevant inventories were sold in the ordinary course of business during the year ended 31 December 2016.

20. TRADE AND BILLS RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2016 RMB'000	2015 RMB'000
Trade receivables and bills receivables	428,821	348,227
Less: impairment loss recognised	(3,124)	(3,285)
	425,697	344,942
Advance to suppliers	6,882	7,575
Other receivables, deposits and prepayments (Notes a and b)	32,178	21,554
	464,757	374,071
Less: Prepayment, non-current portion	(16,117)	-
	448,640	374,071

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 be extended to the range from 90 days to 270 days. The Group does not hold any collateral over these balances.

Note a: Included in the balance of other receivables, there are approximately RMB739,000 deferred loss (2015: RMB3,697,000) arising from sale and leaseback transactions as at 31 December 2016 and release of deferred loss of approximately RMB2,958,000 was recognised for the year ended 31 December 2016 (2015: RMB3,008,000).

Note b: Included in the balance of prepayments, there is approximately RMB16,117,000 prepayment for capital injection into Jilin Yusei as at 31 December 2016 (2015: nil) and is classified as prepayment, non-current portion.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

20. TRADE AND BILLS RECEIVABLES, DEPOSITS AND PREPAYMENTS (CONTINUED)

The ageing analysis of trade receivables and bills receivables net of impairment loss recognised presented based on the invoice date, which is approximated to revenue recognition date, net of impairment loss recognised is as follows:

	2016 RMB'000	2015 RMB'000
Within 30 days	258,549	217,644
31 to 60 days	77,372	59,770
61 to 90 days	56,899	36,684
91 to 180 days	29,044	28,008
181 to 365 days	2,933	2,836
Over 365 days	900	–
Trade and bills receivables	425,697	344,942

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

	2016 RMB'000	2015 RMB'000
Balance at beginning of the year	3,285	3,298
Reversal of impairment loss	(214)	(616)
Recognised during the year	53	603
Balance at end of the year	3,124	3,285

At the end of each reporting period, the Group's trade and bills receivables 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.

Included in the allowance for impairment of trade and bills receivables are individually impaired trade and bills receivables with an aggregate balance of approximately RMB3,124,000 (2015: RMB3,285,000) which are due to long outstanding. The Group does not hold any collateral over these balances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

20. TRADE AND BILLS RECEIVABLES, DEPOSITS AND PREPAYMENTS (CONTINUED)

The ageing analysis of trade and bills receivables based on invoice date which are past due but not impaired:

	2016 RMB'000	2015 RMB'000
61 to 90 days	258	465
91 to 180 days	22,263	20,717
181 to 365 days	2,933	2,836
Over 365 days	900	–
Total	26,354	24,018

Included in the Group's trade and bills receivables balance are debtors with aggregate carrying amount of approximately RMB26,354,000 (2015: RMB24,018,000) which are past due as at the end of the reporting period for which the Group has not provided for impairment loss.

Trade and bills receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past experience, the management believes that no impairment loss 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.

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

	2016 RMB'000	2015 RMB'000
US\$	42,323	18,196
JPY	289	142

21. AMOUNTS DUE FROM/TO ASSOCIATES

(a) Amounts due from associates

Name of company	2016 RMB'000	2015 RMB'000
Yusei Industrial	1,246	7,520
Yusei Import and Export	1,773	4,205
Jilin Yusei	593	–
	3,612	11,725

The balances are unsecured, interest-free and repayable under credit term of 90 days.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

21. AMOUNTS DUE FROM/TO ASSOCIATES (CONTINUED)

(b) Amount due to an associate

Name of company	2016 RMB'000	2015 RMB'000
Jilin Yusei	-	3,699

The amount is unsecured, interest-free and repayable under credit term of 90 days.

22. PLEDGED BANK DEPOSITS

As at 31 December 2016, bank deposits amounting to approximately RMB5,000,000 and RMB574,000 (2015: RMB5,000,000 and RMB709,000) have been pledged for short-term bills payables and custom of import and export of trading requested by the local government. The pledged deposits were classified as current assets as the deposits will be released upon the settlement of relevant bills payables or upon the end of contract.

The pledged bank deposits carry fixed interest rates ranging from 0.35% to 1.3% (2015: 0.35% to 3.30%) per annum.

23. BANK BALANCES, DEPOSITS AND CASH

As at 31 December 2016, bank balances, deposits and cash of approximately RMB24,126,000 (2015: RMB24,111,000) 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 is denominated in currencies other than the functional currency of the relevant group entities are set out below:

	2016 RMB'000	2015 RMB'000
US\$	32,356	28,687
JPY	391	1,167
HK\$	111	145
EURO	11	11
Korean Won	1	1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

24. TRADE AND OTHER PAYABLES

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

	2016 RMB'000	2015 RMB'000
Within 30 days	134,813	138,990
31 to 60 days	92,097	49,119
61 to 90 days	50,965	25,319
91 to 180 days	24,715	7,052
181 to 365 days	4,186	2,814
Over 365 days	3,407	2,668
Trade payables and bills payables	310,183	225,962
Value added tax payables	26,873	21,647
Deposits received	3,825	7,294
Amounts due to directors (Note a)	616	441
Other payables and accrued charges (Note b)	88,454	85,502
	429,951	340,846

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.

As at 31 December 2016, the Group's bank deposits of approximately RMB5,000,000 (2015: RMB5,000,000) were pledged to the banks to secure bills payables.

Note a: The above balance is unsecured, non-interest bearing and repayable on demand.

Note b: Included in these balances mainly represented accrued salaries and wages, accrued interests. In addition, there were payables for acquisition of property, plant and equipment and construction payable of approximately RMB4,715,000 and RMB3,687,000 (2015: RMB11,169,000 and RMB3,811,000) included in these balances respectively.

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

	2016 RMB'000	2015 RMB'000
US\$	32,201	32,942
JPY	515	4,897

25. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

Included in the amount due to ultimate holding company of approximately RMB20,572,000 (2015: RMB20,572,000) is unsecured, carrying interest rate of 4.35% (2015: 5.60%) per annum and repayable within 12 months, the remaining balance is unsecured, interest-free and repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

26. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts payable under finance leases:				
Within one year	42,578	29,921	40,581	27,049
More than one year, but not exceeding two years	12,231	28,602	11,983	27,174
More than two years, but not exceeding five years	-	11,511	-	11,248
	54,809	70,034	52,564	65,471
Less: Future finance charges	(2,133)	(4,563)	N/A	N/A
Present value of lease obligations	52,676	65,471	52,564	65,471
Less: Amounts due within one year shown under current liabilities			(40,581)	(27,049)
Amounts due after one year			11,983	38,422

During the year ended 31 December 2016, the Group entered into sales and leaseback arrangements. Pursuant to which certain of the Group's property, plant and equipment with an aggregate carrying value of approximately RMB23,151,000 (2015: RMB53,739,000) have been sold at a consideration of RMB23,151,000 (2015: RMB53,739,000) and have been leaseback for lease terms of one year (2015: three years).

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

It is the Group's policy to lease certain of its machinery and equipment under finance leases. The average lease term is three (2015: three) years. For the year ended 31 December 2016, the average effective borrowing rate was 5.55% (2015: 6.90%) 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.

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For the year ended 31 December 2016

27. BANK AND OTHER LOANS

	2016 RMB'000	2015 RMB'000
Bank loans	179,650	176,550
Other loans (Note a)	40,000	–
	219,650	176,550
Analysed as:		
Secured bank loans	179,650	161,550
Unsecured bank loans	–	15,000
Unsecured other loans	40,000	–
	219,650	176,550
The maturity profile of the above loans is as follows:		
Carrying amount repayable (Note b):		
On demand or within one year	219,650	176,550
Less: amounts due within one year shown under current liabilities	(219,650)	(176,550)
Amounts shown under non-current liabilities	–	–

Note a: The loans were advanced from a company in which Mr. Xu Yue, the shareholder of the Company, has direct equity interest.

Note b: The amounts due are based on scheduled repayment dates set out in the loan agreements.

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

	2016 RMB'000	2015 RMB'000
Fixed-rate loans	219,650	176,550

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For the year ended 31 December 2016

27. BANK AND OTHER LOANS (CONTINUED)

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

	2016	2015
Fixed-rate bank loans	3.73% to 5.34%	5.29% to 8.16%
Fixed-rate other loans	5.00%	N/A

The secured bank loans were secured by the Group's land use rights, property, plant and equipment with aggregate net carrying values of approximately RMB17,157,000 (2015: RMB15,226,000) and RMB119,268,000 (2015: RMB78,013,000) respectively.

During the year ended 31 December 2016, the Group obtained new bank and other loans with an aggregate amount of approximately RMB269,369,000 (2015: RMB306,825,000). The proceeds were used to finance the general working capital of the Group.

28. DEFERRED INCOME

	2016 RMB'000	2015 RMB'000
Current liabilities (included in other payables)		
Deferred income – government grants (Note a)	168	85
Deferred income – sales and leaseback transactions (Note b)	27	163
	195	248
Non-current liabilities		
Deferred income – government grants (Note a)	7,408	603
Deferred income – sales and leaseback transactions (Note b)	–	27
	7,408	630
	7,603	878

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

28. DEFERRED INCOME (CONTINUED)

Note a: During the year ended 31 December 2007 and 2016, the Group received government grants of approximately RMB1,297,000 and RMB7,056,000 respectively, 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 ended 31 December 2016, government grants released to the consolidated profit or loss as other income amounted to approximately RMB168,000 (2015: RMB85,000).

Note b: During the year ended 31 December 2012, the Group sold property, plant and equipment and leased back with a lease term of 5 years under sale and finance leaseback arrangement. A gain of approximately RMB815,000 on the sale and finance leaseback transaction which were amortised over its lease term. During the year ended 31 December 2016, a gain on sale and leaseback of property, plant and equipment released to the consolidated profit or loss as other income amounted to approximately RMB163,000 (2015: RMB163,000).

29. SHARE CAPITAL OF THE COMPANY

	Number of shares '000	Amount HK\$'000	Shown in the consolidated financial statements RMB'000
Ordinary shares of HK\$0.01 each			
Authorised			
At 1 January 2015, 31 December 2015 and 31 December 2016	1,500,000	15,000	N/A
Issued and fully paid			
At 1 January 2015 and 31 December 2015	202,400	2,024	2,020
Bonus issue (Note)	202,400	2,024	1,735
At 31 December 2016	404,800	4,048	3,755

Note: On 20 May 2016, the directors of the Company proposed a bonus issue of shares, credited as fully paid by way of capitalisation of the Company's share premium account, on the basis of one bonus share for every one existing share on 30 June 2016. The proposed bonus issue of shares had been approved by the shareholders of the Company on 23 June 2016.

On 5 July 2016, 202,400,000 bonus shares were issued and since then, the Company's total number of issued shares was increased to 404,800,000 shares accordingly. The bonus shares was credited as fully paid by way of capitalisation of an amount of approximately HK\$2,024,000 (equivalent to RMB1,735,000) out of the Company's share premium account in July 2016. The new shares rank pari passu with the existing shares in all respects.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

30. RESERVES

(i) 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.

(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 tax 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.

31. COMMITMENTS

Operating leases

As lessee

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:

	2016 RMB'000	2015 RMB'000
Within one year	1,506	402
In the second to fifth year inclusive	173	597
	1,679	999

Operating lease payments represent rentals payable by the Group for its leased factories 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.

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31. COMMITMENTS (CONTINUED)

Capital commitment

	2016 RMB'000	2015 RMB'000
Capital expenditure contracted for but not provided for in the consolidated financial statements in respect of:		
– acquisition of plant and equipment	31,650	1,593
– construction of new production plant	34,932	39,453
	66,582	41,046

32. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund Scheme (the “MPF Scheme”) for all qualifying employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Scheme Ordinance. The assets of the Scheme are held separately from those of the Group in funds under the control of trustees. The Group contributed 5% at relevant payroll costs to the MPF Scheme, which contribution is matched by employees. The mandatory contributions from each of the employer and employees are subject to a cap of HK\$1,500 per month.

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

The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions. During the year ended 31 December 2016, the total retirement benefits scheme contributions charged to the consolidated profit or loss amounted to approximately RMB8,819,000 (2015: RMB8,710,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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33. RELATED PARTY TRANSACTIONS

- (a) Details of the balances with related parties are set out in the consolidated statement of financial position and Notes 20, 21, 24, 25 and 27 respectively.
- (b) During the year ended 31 December 2016, the Group had the following material transactions with its related parties:

Name of related party	Relationship	Nature of transactions	2016 RMB'000	2015 RMB'000
Yusei Japan	Ultimate holding company	Sales of finished goods	124	656
		Interest expense	895	1,152
Yusei Industrial	Associate	Rental fee paid	1,218	2,332
		Sales of moulds	2,325	31,749
		Mould designing fee paid	-	917
Jilin Yusei	Associate	Sales of raw materials	8,511	-
		Sales of machines	3,786	-
Yusei Import and Export	Subsidiary of an associate	Sales of moulds	-	28,687
Hangzhou Suo Kai Industrial Co., Ltd.	Related party	Management services income received (Note b)	581	255

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

Note b: Mr. Xu Yue, the shareholder of the Company, has direct equity interest in the company.

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

	2016 RMB'000	2015 RMB'000
Short-term benefits	4,359	4,222
Retirement benefits scheme contributions	102	102
	4,461	4,324

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.

34. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2015, addition of investment cost in an associate of approximately RMB3,827,000 (2016: Nil) was settled through the current account with the associate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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35. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Particulars of all subsidiaries of the Company as at 31 December 2016 and 2015 established and operating in the PRC are as follows:

Name of subsidiary	Fully paid registered capital	Class of share	Proportion ownership interest held by the Company				Principal activities
			Directly		Indirectly		
			2016	2015	2016	2015	
Zhejiang Yusei	US\$3,000,000	Registered capital	100%	100%	-	-	Moulding fabrication, manufacturing and trading of plastic components
Hangzhou Yusei	US\$8,000,000	Registered capital	100%	100%	-	-	Moulding fabrication, manufacturing and trading of plastic components
Hangzhou Yusei Moulding	US\$500,000	Registered capital	100%	100%	-	-	Moulding fabrication
Yusei China	US\$15,300,000	Registered capital	34.64%	34.64%	65.36%	65.36%	Moulding fabrication
Suzhou Yusei	US\$10,000,000	Registered capital	35%	35%	65%	65%	Moulding fabrication, manufacturing and trading of plastic components
Guangzhou Yusei	US\$4,000,000	Registered capital	25%	25%	75%	75%	Moulding fabrication, manufacturing and trading of plastic components
Wuhu Yusei	RMB1,000,000	Registered capital	25%	25%	75%	75%	Moulding fabrication, manufacturing and trading of plastic components
Hubei Yusei (Note b)	RMB36,000,000	Registered capital	-	-	100%	100%	Moulding fabrication, manufacturing and trading of plastic components

Note a: None of the subsidiaries had any debt securities outstanding as at the end of both years or at any time during both years.

Note b: The registered capital of Hubei Yusei is US\$10,000,000 (equivalent to RMB61,707,000) was paid up to RMB36,000,000 (equivalent to US\$5,561,716) as at 31 December 2016 (2015: RMB10,000,000 (equivalent to US\$1,944,551)). According to the revised PRC Companies Law which became effective on 1 March 2014, the time requirement of the registered capital contribution has been abolished. As such, the Group has its own discretion to consider the timing of the remaining registered capital contributions.

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36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2016 RMB'000	2015 RMB'000
Non-current assets		
Investments in subsidiaries	186,098	186,098
Investment in an associate	20,471	20,471
	206,569	206,569
Current assets		
Deposits, prepayments and other receivables	13	12
Amount due from ultimate holding company	694	659
Amounts due from subsidiaries	31,630	30,067
Bank balances and cash	662	3,125
	32,999	33,863
Current liabilities		
Other payables and accruals	2,698	2,402
Amounts due to subsidiaries	66,334	53,072
	69,032	55,474
Net current liabilities	(36,033)	(21,611)
Total assets less current liabilities	170,536	184,958
Capital and reserves		
Share capital	3,755	2,020
Reserves (Note)	166,781	182,938
Total equity	170,536	184,958

Approved and authorised for issue by the board of directors on 31 March 2017 and are signed on its behalf by:

Mr. Katsutoshi Masuda
Director

Mr. Xu Yong
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

Note:

Reserves of the Company

	Share premium RMB'000	Reserve for shares issued with vesting conditions RMB'000	Capital reserve RMB'000 (Note)	Translation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2015	55,197	18,065	73,854	7,158	39,162	193,436
Loss for the year	-	-	-	-	(980)	(980)
Other comprehensive expense for the year	-	-	-	(1,523)	-	(1,523)
Total comprehensive income for the year	-	-	-	(1,523)	(980)	(2,503)
Dividend recognised as distribution (Note 13)	-	-	-	-	(7,995)	(7,995)
At 31 December 2015	55,197	18,065	73,854	5,635	30,187	182,938
Loss for the year	-	-	-	-	(4,623)	(4,623)
Other comprehensive expense for the year	-	-	-	(1,804)	-	(1,804)
Total comprehensive expense for the year	-	-	-	(1,804)	(4,623)	(6,427)
Bonus issue (Note 29)	(1,735)	-	-	-	-	(1,735)
Dividend recognised as distribution (Note 13)	-	-	-	-	(7,995)	(7,995)
At 31 December 2016	53,462	18,065	73,854	3,831	17,569	166,781

Note: The amount represents the excess capital contribution by the Company to the subsidiaries in prior years.