# YUSEI HOLDINGS LIMITED
# 友成控股有限公司*

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

# 2018 ANNUAL REPORT

* For identification only

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# CORPORATE INFORMATION

## REGISTERED OFFICE

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

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Lin Gang Industrial Zone
Henggengtou Village, Guali Town
Xiaoshan District, Hangzhou City,
Zhejiang Province,
The PRC

## BUSINESS ADDRESS IN HONG KONG

Unit D6B,17/F.,
TML Tower
3 Hoi Shing Road
Tsuen Wan
N.T. Hong Kong

## COMPANY SECRETARY

Mr. Shum Shing Kei CPA

## COMPLIANCE OFFICER

Mr. Xu Yong

## AUDIT COMMITTEE

Mr. Lo Ka Wai
Mr. Fan Xiaoping
Mr. 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

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House,
24 Shedden Road, George Town
KY1-1110
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shop 1712-1716, 17th Floor,
Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

## STOCK CODE

96

## AUDITOR

SHINEWING (HK) CPA Limited

## PRINCIPAL BANKERS

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

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

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

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

During the year ended 31 December 2018, the Group is principally engaged in the design, development and fabrication of precision plastic injection moulds, and the manufacture of plastic components in the People's 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.

The Group is facing challenges from the global economy which was affected by the unstable factors in relation to the international political unrest, in particular the trade friction between China and US, and economic instability most of the time during 2018. With the transformation and upgrading of business model of the Chinese enterprises, some of the Group's customers in manufacturing office equipment industry have transferred their production lines to Southeast Asian countries where the labour costs are lower. Having perceived this trend in prior year, the Group had focused its main business on the automotive industry. With the steady development of PRC's auto industry in recent years, the Group has maintained a sustainable business development by virtue of its competitive advantages in moulding and production of auto parts and components.

During 2018, 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.

## FINANCIAL REVIEW

### REVENUE

The Group's revenue for the year ended 31 December 2018 increased by 2.2% to approximately RMB1,274,993,000 as compared to that of approximately RMB1,247,392,000 for the year ended 31 December 2017 which was mainly benefited from the steady growth in the demand on the Group's products during the year.

### GROSS PROFIT

The Group achieved a gross profit of approximately RMB183,385,000 for the year ended 31 December 2018, representing a decrease of approximately 9.2% as compared to that of approximately RMB201,942,000 for the year ended 31 December 2017.

Decrease in gross profit was mainly due to (i) increase in costs of materials for production; (ii) increase in direct labour costs and (iii) increase in the research and development cost (which were accounted for as cost of sales) as the Group increased effort to carry out research and development of moulding technology during the year.

### DISTRIBUTION COSTS

Distribution costs for the year ended 31 December 2018 increased by approximately 11.7% to approximately RMB52,217,000 as compared to that of approximately RMB46,747,000 for the year ended 31 December 2017. Such increase was mainly due to (i) increase in sales and (ii) increase in costs of packing materials consumed.

# MANAGEMENT DISCUSSION AND ANALYSIS

## NET FOREIGN EXCHANGE GAIN/LOSS

Net foreign exchange gain/loss mainly represented the loss arising from foreign currency translation of sales and purchases denominated in Japanese Yen, Euro Dollars and United State Dollars ("US$") into RMB.

## ADMINISTRATIVE EXPENSES

Administrative expenses for the year ended 31 December 2018 decreased approximately by 21.9% to RMB49,435,000 as compared to that of approximately RMB63,278,000 for the year ended 31 December 2017. Such decrease was mainly attributable to the Group's strengthened the controls over the expenses so as to enhance operating efficiency during the year.

## FINANCE COSTS

Finance costs for the year ended 31 December 2018 decreased approximately by 3.6% to RMB15,259,000 as compared to that of approximately RMB15,836,000 for the year ended 31 December 2017.

## PROFIT FOR THE YEAR

The profit for the year increased by approximately 9.5% from approximately RMB83,495,000 for the year ended 31 December 2017 to approximately RMB91,421,000 for the year ended 31 December 2018.

## FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2018, the equity amounted to approximately RMB665,297,000. Current assets amounted to approximately RMB915,616,000, of which bank balances, deposits and cash and pledged bank deposits totaling approximately RMB115,075,000. The Group had non-current assets of approximately RMB570,268,000 and its current liabilities amounted to approximately RMB809,582,000, comprising mainly its creditors and accrued charges and bank borrowings. The net asset value per share was RMB1.35. The Group expresses its gearing ratio as a percentage of finance leases, amount due to ultimate holding company and borrowings over total assets. As at 31 December 2018, the Group had a gearing ratio of 20.9% (2017: 23.6%).

## BONUS SHARES ISSUE

As set out in the Company's circular dated 24 May 2018, the Directors proposes a bonus issue of shares on the basis of one bonus share for every five existing shares held by Shareholders whose names appear on the register of members of the Company on 29 June 2018. The relevant resolution was approved by the shareholders in the annual general meeting of the Company held on 23 June 2018. The share certificates for the bonus shares were dispatched to Shareholders on 9 July 2018.

# MANAGEMENT DISCUSSION AND ANALYSIS

## SUBSCRIPTION OF NEW SHARES UNDER GENERAL MANDATE

On 8 August 2018, the Company entered into the Subscription Agreements with the Subscribers. Pursuant to the Subscription Agreements, the Company has conditionally agreed to allot and issue, and the Subscribers have conditionally agreed to subscribe for a total of 14,698,000 Subscription Shares. The Subscription Shares would be issued at the Subscription Price of HK$1.435 per Subscription Share. Such issue of shares was completed on 12 October 2018.

The aggregate gross proceeds of the Subscriptions were approximately HK$21,091,630 and the aggregate net proceeds of the Subscriptions, after deduction of expenses, were approximately HK$20,891,630, representing a net issue price of approximately HK$1.421 per Subscription Share. Out of the net proceeds from the Subscriptions, it was expected that HK$19,000,000 would be used for Construction of a new factory in Hubei Province, the People's Republic of China and purchase of factory machineries (including CNC Gantry 5 axes high speed machinery centre and injection moulding machines) and the remaining HK$1,891,630 would be used for general working capital of the Group. Up to 31 December 2018, out of the net proceeds of the Subscriptions, approximately RMB7 million (equivalent to HK$8.2 million approximately) was applied for construction of new factory in Hubei and HK$1,891,630 was used for general working capital of the Group.

On 19 November 2018, the Company entered into seven Subscription Agreements with the Subscribers. Pursuant to the Subscription Agreements, the Company has conditionally agreed to allot and issue, and the Subscribers have conditionally agreed to subscribe for, a total of 30,000,000 Subscription Shares. The Subscription Shares would be issued at the Subscription Price of HK$2.005 per Subscription Share. Such issue of shares was completed on 31 December 2018.

The aggregate gross proceeds of the Subscriptions were HK$60,150,000 and the aggregate net proceeds of the Subscriptions, after deduction of expenses, were approximately HK$59,950,000, representing a net issue price of approximately HK$1.998 per Subscription Share. Out of the net proceeds from the Subscriptions, it was expected that HK$30,000,000 would be used for construction of a new factory in Tianjin, the PRC and the remaining HK$29,950,000 would be used for repayment of bank borrowings of the Group. As at 31 December 2018, the net proceeds have not yet been used and are deposited into the banks.

On 24 January 2018, approximately 15.18% of the then total issued share capital of the Company were held by the public based on the then DI form, which was below the minimum prescribed level of 25% of the then total issued share capital of the Company as required under Rule 8.08(1)(a) of the Listing Rules. However, the public float of the Company has been restored on 31 December 2018 upon completion of the above subscription.

## 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 2018, the total number of the Group's staff was approximately 2,500 (2017: 2,980). The total staff costs (including directors' remuneration) amounted to approximately RMB227,340,000 for the year. The Group remunerates its employees based on their performance, experience and prevailing industry practice. The Group provides retirement benefit for its employees in Hong Kong in form of mandatory provident fund and provides similar schemes for its employees in the PRC.

### CHARGE ON GROUP ASSETS

As at 31 December 2018, 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 RMB16,210,000 (2017: RMB16,576,000) and RMB117,208,000 (2017: RMB112,794,000), respectively.

As at 31 December 2018, bank deposits amounting to approximately RMB9,459,000 and nil (2017: nil and RMB831,000) have been pledged for short-term bills payables and custom of import and export of trading requested by the local government, respectively. 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.

## OUTLOOK

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

As a service provider to the well-known international branded manufacturers, the management believes that the Group possesses the managerial characteristics which our major customers may appreciate, including: (i) high-level demand on the quality of the products, particularly in the automotive parts and components, office automation machines like assembling parts of photocopies and printers must meet a high standard of precision in order to ensure the machine work effectively; (ii) emphasis on production efficiency to shorten the production cycle; (iii) active participation in production process of the suppliers to ensure the product quality and the mutual communication to improve the suppliers' production efficiency; and (iv) from 2018, the Group constructs the factories of automation with automation machineries based on our own needs. It enhances the production efficiency and reduces the labour costs. In addition, to deliver the parts and components of high precision to the customers, the Group put much efforts in acquisition of advanced production machineries which were made by the international well-known branded manufacturers.

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

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

In order to keep up with the development of auto industry and to further meet customer demand, the Group is expected to increase the investment in the next 3 to 5 years, which are closely related to the development pace of its customers and will acquire land for construction of factories when appropriate.

# 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 2018.

## 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 30(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 2018 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 33 to 110.

The Directors recommended the payment of a final dividend of RMB1.60 cents per share in respect of the year ended 31 December 2018 subject to the approval from the forthcoming annual general meeting.

The Directors proposes a bonus issue of shares on the basis of one bonus share for every five existing shares held by shareholders whose names appear on the register of members of the Company on the record date subject to the approval from the forthcoming annual general meeting of the Company and upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of and permission to deal in such new shares.

The bonus shares will rank pari passu in all respects with the existing shares in issue from the date of issue except that they will not rank for the final dividend in respect of the year ended 31 December 2018.

## 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

| | 2018 RMB'000 | 2017 RMB'000 (Restated) | 2016 RMB'000 | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|---|---|---|
| **Revenue** | **1,274,993** | 1,247,392 | 1,218,555 | 1,101,340 | 952,531 |
| Cost of sales | **(1,091,608)** | (1,045,450) | (1,032,922) | (936,038) | (804,535) |
| Gross profit | **183,385** | 201,942 | 185,633 | 165,302 | 147,996 |
| Other income | **35,515** | 20,938 | 12,937 | 7,305 | 7,770 |
| Net foreign exchange gain (loss) | **1,640** | (1,331) | (2,661) | 1,595 | 1,056 |
| Distribution costs | **(52,217)** | (46,747) | (44,322) | (35,877) | (23,993) |
| Administrative expenses | **(49,435)** | (63,278) | (57,355) | (51,990) | (55,368) |
| Finance costs | **(15,259)** | (15,836) | (15,024) | (17,576) | (21,402) |
| Share of profits of associates | **1,832** | 2,485 | 2,426 | 4,736 | 933 |
| **Profit before tax** | **105,461** | 98,173 | 81,634 | 73,495 | 56,992 |
| Income tax expense | **(14,040)** | (14,678) | (17,362) | (11,702) | (6,653) |
| Profit for the year | **91,421** | 83,495 | 64,272 | 61,793 | 50,339 |
| ASSETS AND LIABILITIES | | | | | |
| **Total assets** | **1,485,884** | 1,236,305 | 1,180,686 | 1,000,512 | 906,176 |
| **Total liabilities** | **(820,587)** | (726,323) | (746,526) | (622,360) | (580,301) |
| | **665,297** | 509,982 | 434,160 | 378,152 | 325,875 |

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the consolidated financial statements.

## SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 28 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.

## 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 37 to the consolidated financial statements and the consolidated statement of changes in equity and note 29 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 2018, the total number of the Group's staff was approximately 2,500. The total staff costs (including directors' remuneration) amounted to approximately RMB227,340,000 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 45% 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 Xu Yong, Shimabayashi Manabu and Fan Xiaoping 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 24 to 25 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.

## 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 note 35 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:

| | | | Capacity | | Number of Shares | | |
|---|---|---|---|---|---|---|---|
| Name of Company | Name of Director | Personal Interests | Family Interests | Corporate Interests | Long Position | Short Position | Approximate Percentage of Interests |
| Company | Katsutoshi Masuda ("Mr. Masuda") (Note 1) | – | – | 194,304,000 shares | 194,304,000 shares | – | 36.63% |
| Company | Toshimitsu Masuda (Note 2) | – | – | 194,304,000 shares | 194,304,000 shares | – | 36.63% |
| Company | Xu Yong | 75,072,000 shares | – | – | 75,072,000 shares | – | 14.15% |
| Company | Manabu Shimabayashi | 1,320,000 shares | 264,480 shares | – | 1,584,480 shares | – | 0.30% |
| Company | Fan Xiaoping | 47,520 shares | – | – | 47,520 shares | – | 0.01% |
| Yusei Machinery Corporation ("Yusei Japan") | Mr. Masuda (Note 3) | 21,960 shares | 2,100 shares | 25,760 shares | 49,820 shares | – | 49.80% |
| Yusei Japan | Toshimitsu Masuda (Note 4) | 1,700 shares | – | 25,760 shares | 27,460 shares | – | 27.50% |

Notes:

1. Mr. Masuda is deemed to be interested in 49.80% of the issued share capital in Yusei Japan pursuant to the SFO. Yusei Japan is interested in 36.63% 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 194,304,000 Shares held by Yusei Japan.

2. Mr. Toshimitsu Masuda, (son of Mr. Masuda) holds 50.00% of the issued share capital of Conpri. Conpri is interested in 25.80% in the issued share capital of Yusei Japan which in turn is interested in 36.63% in the issued share capital of the Company. By virtue of SFO, Mr. Toshimitsu Masuda is deemed to be interested in 194,304,000 Shares through his shareholding in Conpri.

3. Mr. Masuda holds 30.00% 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 50.00% of the issued share capital of Conpri. Conpri is interested in 25.80% 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:

| | | | Number of Shares | | |
|---|---|---|---|---|---|
| Name of Company | Number of Shareholder | Capacity | Long Position | Short Position | Approximate Percentage of Interests |
| Company | Yusei Japan | Beneficial Owner | 194,304,000 shares | – | 36.63% |
| Company | Conpri (Note 1) | Corporate Interest | 194,304,000 shares | – | 36.63% |
| Company | Superview International Investment Limited (Note 2) | Beneficial Owner | 92,400,000 shares | – | 17.42% |
| Company | Ding Hong Guang | Beneficial Owner | 50,087,200 shares | – | 9.44% |

Notes:

1. Conpri is interested in 25.80% in the issued share capital of Yusei Japan. By virtue of SFO, Conpri is deemed to be interested in 194,304,000 shares held by Yusei Japan.

2. 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.

## 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 2018.

## 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 2018, 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 he required standard of dealings and its code of conduct regarding securities transactions by directors.

## AUDIT COMMITTEE

The Company has established an audit committee comprising of the three independent non-executive directors, namely Mr. Hisaki Takabayashi, Mr. Fan Xiaoping and Mr. Lo Ka Wai, with written terms of reference in compliance with Rules 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 2018, 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 36.63% 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 director.

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

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

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

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

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

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

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

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

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

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

## 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
29 March 2019

## 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 2018, 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 2018, 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 he required standard of dealings and its code of conduct regarding securities transactions by directors.

## BOARD OF DIRECTORS

The Directors, with relevant and sufficient experience and qualification have exercised due care, fiduciary duties to the significant issues of the Company and its subsidiaries (the "Group"). The Board of the Company is comprised of two executive directors, 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 24 to 25.

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.

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.

During the year, the chairman annually hold a meeting with the independent non-executive directors without the presence of other directors.

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 2018 | Attendance in annual general meeting in 2018 |
|---|---|---|
| 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 2018 are set out in Note 11 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 2018. Auditing fees in respect of annual audit and non-audit services for the year ended 31 December 2018 amounted to RMB950,000 and RMB6,000, respectively.

The consolidated financial statements for the years ended 31 December 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017 and 2018 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 2017 annual results and 2018 interim results.

## DIVIDEND POLICY

The Company adopted the Dividend Policy with effect from January 2019 whereby the Board is committed to maintaining an optimal capital structure. This is pursued to deliver returns to shareholders and ensure that adequate capital resources are available for business growth. Subject to business conditions, the Board aims to deliver a sustainable dividend that is in line with the earnings improvements and long-term growth of the Company.

## 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 to the Board;
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 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 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 2018, 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.

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 2018 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 2018, 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.

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 (增田勝年先生), aged 74, 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 56, 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 45, 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 (增田敏光先生), aged 50, 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 60, 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. LO Ka Wai (羅嘉偉先生), aged 49, 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 58, 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 65, 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 51, 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 49, 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 47, 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.

**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 33 to 110, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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 ("HKSAs") 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 the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## 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.

### Impairment allowance on trade and bills receivables from selling of goods

Refer to note 19 to the consolidated financial statements and the accounting policies on page 57.

| The key audit matter | How the matter was addressed in our audit |
|---|---|
| As at 31 December 2018, the Group had trade and bill receivables from selling of goods with carrying amount of approximately RMB422 million. The Group has identified loans based on significant increases in the likelihood or risk of a default occurring since initial recognition.<br><br>We have assessed whether the credit risk has increased significantly since initial recognition, we have compared the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition projected by the Group. | Our audit procedures were designed to challenge the assumptions and critical judgements of the Group's forward-looking expected credit losses ("ECL") model on impairment assessment of trade and bills receivables.<br><br>We have assessed the provision matrix used in the model by reference to the historical information together with other external available information. In particular, we have challenged the appropriateness of the default rate of various debtors that have similar loss patterns by taking into account the ageing at year end. We have also challenged the appropriateness of the assumptions used in forward-looking information by comparing credit worthiness of each debtor and macro economy and industry performance and checking historical and subsequent settlement records of and other correspondence with the customers. |

## KEY AUDIT MATTERS (CONTINUED)

### Impairment assessment of property, plant and equipment

Refer to Note 14 to the consolidated financial statements and the accounting policies on pages 52.

| The key audit matter | How the matter was addressed in our audit |
|---|---|
| The carrying value of Group's property, plant and equipment as at 31 December 2018 was approximately RMB481 million.<br><br>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.<br><br>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. | 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.<br><br>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.<br><br>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. |

## KEY AUDIT MATTERS (CONTINUED)

### Allowance for inventories

Refer to Note 18 to the consolidated financial statements and the accounting policies on page 55.

| The key audit matter | How the matter was addressed in our audit |
|---|---|
| The Group has inventories of approximately RMB326 million as at 31 December 2018. 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.<br><br>During the year, the allowance for inventories of approximately RMB2 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 sales. Significant management judgment is required.<br><br>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.<br><br>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. | 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.<br><br>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. |

## 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 OF THE COMPANY 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.

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

As part of an audit in accordance with HKSAs, 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 of the Company.
- conclude on the appropriateness of the Company's 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.

## 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
29 March 2019

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

| | NOTES | **2018**<br>**RMB'000** | 2017<br>RMB'000<br>(Restated) |
|---|---|---|---|
| Revenue | 6 | **1,274,993** | 1,247,392 |
| Cost of sales | | **(1,091,608)** | (1,045,450) |
| Gross profit | | **183,385** | 201,942 |
| Other income and gain | 7 | **35,515** | 20,938 |
| Net foreign exchange gain (loss) | | **1,640** | (1,331) |
| Distribution costs | | **(52,217)** | (46,747) |
| Administrative expenses | | **(49,435)** | (63,278) |
| Finance costs | 8 | **(15,259)** | (15,836) |
| Share of profits of associates | 17 | **1,832** | 2,485 |
| Profit before tax | | **105,461** | 98,173 |
| Income tax expense | 9 | **(14,040)** | (14,678) |
| Profit for the year | 10 | **91,421** | 83,495 |

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

| | NOTES | **2018**<br>**RMB'000** | 2017<br>RMB'000 |
|---|---|---|---|
| Profit for the year | | **91,421** | 83,495 |
| Other comprehensive income: | | | |
| Item that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences arising on translation of financial statements of foreign operation | | **602** | 322 |
| Total comprehensive income for the year | | **92,023** | 83,817 |
| Profit for the year attributable to: | | | |
| Owners of the Company | | **91,303** | 83,495 |
| Non-controlling interest | | **118** | – |
| | | **91,421** | 83,495 |
| Total comprehensive income for the year attributable to: | | | |
| Owners of the Company | | **91,905** | 83,817 |
| Non-controlling interest | | **118** | – |
| | | **92,023** | 83,817 |
| Earnings per share | | | |
| Basic and diluted (Cents) | 13 | **RMB0.186** | RMB0.172 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

| | NOTES | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 14 | **481,052** | 427,964 |
| Intangible assets | 15 | **4,342** | 1,372 |
| Land use rights | 16 | **41,200** | 27,286 |
| Amount due from an associate | 20 | **–** | 21,318 |
| Goodwill | 38 | **5,385** | – |
| Deferred tax asset | 39 | **2,265** | – |
| Interests in associates | 17 | **36,024** | 34,192 |
| | | **570,268** | 512,132 |
| **Current assets** | | | |
| Inventories | 18 | **325,760** | 224,762 |
| Trade and bills receivables, deposits and prepayments | 19 | **473,639** | 439,465 |
| Amount due from ultimate holding company | 24 | **1,142** | – |
| Amounts due from associates | 20 | **–** | 3,096 |
| Pledged bank deposits | 21 | **9,459** | 831 |
| Bank balances, deposits and cash | 22 | **105,616** | 56,019 |
| | | **915,616** | 724,173 |
| **Current liabilities** | | | |
| Trade and other payables | 23 | **478,804** | 406,330 |
| Amount due to ultimate holding company | 24 | **287** | 1,762 |
| Amounts due to associates | 20 | **4,795** | – |
| Income tax liabilities | | **19,310** | 19,139 |
| Obligations under finance leases – due within one year | 25 | **50,653** | 26,335 |
| Bank and other loans – due within one year | 26 | **255,733** | 245,057 |
| | | **809,582** | 698,623 |
| **Net current assets** | | **106,034** | 25,550 |
| **Total assets less current liabilities** | | **676,302** | 537,682 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

| | NOTES | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Amount due to ultimate holding company | 24 | **4,101** | 20,572 |
| Deferred income | 27 | **6,904** | 7,128 |
| | | **11,005** | 27,700 |
| | | **665,297** | 509,982 |
| **Capital and reserves** | | | |
| Share capital | 28 | **4,853** | 3,755 |
| Reserves | 29 | **658,031** | 506,227 |
| | | **662,884** | 509,982 |
| Non-controlling interest | | **2,413** | – |
| | | **665,297** | 509,982 |

The consolidated financial statements on pages 33 to 110 were approved and authorised for issue by the board of directors on 29 March 2019 and are signed on its behalf by:

| | |
|---|---|
| **Mr. Katsutoshi Masuda** | **Mr. Xu Yong** |
| *Director* | *Director* |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

| | Share capital RMB'000 (Note 28) | Share premium RMB'000 | Special reserve RMB'000 (Note 29(i)) | Reserve for shares issued with vesting conditions RMB'000 (Note 29(iv)) | Translation reserve RMB'000 | Capital reserve RMB'000 (Note 29(ii)) | Statutory surplus reserve RMB'000 (Note 29(iii)) | Retained profits RMB'000 | Sub total RMB'000 | Non-Controlling interest RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2017 | 3,755 | 53,462 | 49,663 | 18,065 | 4,581 | 71 | 18,367 | 286,196 | 434,160 | – | 434,160 |
| Profit for the year | – | – | – | – | – | – | – | 83,495 | 83,495 | – | 83,495 |
| Other comprehensive income for the year | – | – | – | – | 322 | – | – | – | 322 | – | 322 |
| Total comprehensive income for the year | – | – | – | – | 322 | – | – | 83,495 | 83,817 | – | 83,817 |
| Dividend recognised as distribution (Note 12) | – | – | – | – | – | – | – | (7,995) | (7,995) | – | (7,995) |
| At 31 December 2017 | 3,755 | 53,462 | 49,663 | 18,065 | 4,903 | 71 | 18,367 | 361,696 | 509,982 | – | 509,982 |
| **At 31 December 2017** | **3,755** | **53,462** | **49,663** | **18,065** | **4,903** | **71** | **18,367** | **361,696** | **509,982** | **–** | **509,982** |
| Effect of change in accounting policy (Note 2) | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(2,946)** | **(2,946)** | **–** | **(2,946)** |
| At 1 January 2018 (Restated) | **3,755** | **53,462** | **49,663** | **18,065** | **4,903** | **71** | **18,367** | **358,750** | **507,036** | **–** | **507,036** |
| Profit for the year | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **91,303** | **91,303** | **118** | **91,421** |
| Other comprehensive income for the year | **–** | **–** | **–** | **–** | **602** | **–** | **–** | **–** | **602** | **–** | **602** |
| Total comprehensive income for the year | **–** | **–** | **–** | **–** | **602** | **–** | **–** | **91,303** | **91,905** | **118** | **92,023** |
| Issue of shares (Note 28) | **1,098** | **70,861** | **–** | **–** | **–** | **–** | **–** | **–** | **71,959** | **–** | **71,959** |
| Acquisition of a subsidiary (Note 40) | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **2,295** | **2,295** |
| Transfer to statutory reserve | **–** | **–** | **–** | **–** | **–** | **–** | **777** | **(777)** | **–** | **–** | **–** |
| Dividend recognised as distribution (Note 12) | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(8,016)** | **(8,016)** | **–** | **(8,016)** |
| At 31 December 2018 | **4,853** | **124,323** | **49,663** | **18,065** | **5,505** | **71** | **19,144** | **441,260** | **662,884** | **2,413** | **665,297** |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Profit before tax | **105,461** | 98,173 |
| Adjustments for: | | |
| Bank interest income | **(3,434)** | (203) |
| Depreciation and amortisation | **77,272** | 79,164 |
| Finance costs | **15,259** | 15,836 |
| Government subsidies | **(9,134)** | (7,904) |
| Impairment loss on trade and bills receivables | **2,448** | – |
| Gain on deemed disposal of an associate | **(7,130)** | – |
| Allowance for inventories | **2,277** | 3,420 |
| Loss on disposal of property, plant and equipment | **–** | 38 |
| Release of deferred loss on sale and leaseback of property, plant and equipment | **–** | 739 |
| Release of deferred gain from sale and leaseback of property, plant and equipment | **–** | (27) |
| Release of government grants for land use rights | **(224)** | (224) |
| Reversal of allowance for inventories | **(3,151)** | (3,639) |
| Share of profits of associates | **(1,832)** | (2,485) |
| Operating cash flows before movements in working capital | **177,812** | 182,888 |
| Decrease in trade receivables, deposits and prepayments | **2,986** | 8,341 |
| Increase in inventories | **(67,913)** | (19,747) |
| Decrease (increase) in amounts due from associates | **7,891** | (4,685) |
| Increase (decrease) in trade and other payables | **14,052** | (25,926) |
| Cash generated from operations | **134,828** | 140,871 |
| Income taxes paid | **(15,477)** | (10,674) |
| NET CASH FROM OPERATING ACTIVITIES | **119,351** | 130,197 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

| | **2018** **RMB'000** | 2017 RMB'000 |
|---|---|---|
| INVESTING ACTIVITIES | | |
| Acquisition of a subsidiary, net of cash acquired (Note 40) | **(787)** | – |
| Purchase of property, plant and equipment | **(115,350)** | (138,074) |
| Advance to ultimate holding company | **(1,142)** | – |
| Purchase of land use right | **(15,183)** | – |
| Placement of pledged bank deposits | **(8,926)** | (831) |
| Purchase of intangible assets | **(3,166)** | (102) |
| Proceeds from disposal of property, plant and equipment | **–** | 15,784 |
| Release of pledged bank deposits | **298** | 5,574 |
| Interest received | **3,434** | 203 |
| NET CASH USED IN INVESTING ACTIVITIES | **(140,822)** | (117,446) |
| FINANCING ACTIVITIES | | |
| Issue of shares | **71,959** | – |
| Repayment of bank and other loans | **(234,744)** | (168,650) |
| Repayment of obligations under finance leases | **(41,463)** | (63,436) |
| Interest paid | **(14,152)** | (12,372) |
| Dividend paid | **(8,016)** | (7,995) |
| New bank and other loans raised | **239,733** | 194,247 |
| Net proceeds of sale and leaseback transactions | **65,781** | 37,207 |
| Government subsidies received | **9,134** | 7,904 |
| Repayment to ultimate holding company | **(18,736)** | (581) |
| NET CASH FROM (USED IN) FINANCING ACTIVITIES | **69,496** | (13,676) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | **48,025** | (925) |
| CASH AND CASH EQUIVALENTS AT 1 JANUARY | **56,019** | 56,996 |
| Effect of foreign exchange rate changes | **1,572** | (52) |
| CASH AND CASH EQUIVALENTS AT 31 DECEMBER Representing by bank balances, deposits and cash | **105,616** | 56,019 |

## 1. CORPORATE INFORMATION

Yusei Holdings Limited (the "Company") is a public limited company incorporated in the 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 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.

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.

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

In the current year, the Group has applied the following new and revised HKFRSs, which include HKFRSs, Hong Kong Accounting Standards ("HKAS(s)"), amendments and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

| | |
|---|---|
| HKFRS 9 | Financial Instruments |
| HKFRS 15 | Revenue from Contracts with Customers and related Amendments |
| Amendments to HKFRS 2 | Classification and Measurement of Share-based Payment Transactions |
| Amendments to HKFRS 4 | Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts |
| Amendments to HKAS 28 | As part of Annual Improvement to HKFRSs 2014 – 2016 Cycle |
| Amendments to HKAS 40 | Transfers of Investment Property |
| HK(IFRIC) – Interpretation 22 | Foreign Currency Transactions and Advance Consideration |

The impact of the adoption of HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with customers have been summarised below. The application of other new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and position for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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

### HKFRS 15 Revenue from Contracts with Customers

HKFFRS 15 superseded HKAS 11 Construction Contracts, HKAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard established a five-step model for determining whether, how much and when revenue is recognised.

The Group has elected to adopt the modified retrospective approach for contracts with customers that are not completed as at the date of initial application (i.e. 1 January 2018) with the cumulative effect of initially applying HKFRS 15 as an adjustment to the opening balance of retained earnings and comparative information is not restated. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 Revenue.

The Group's accounting policies for its revenue recognition are disclosed in detail in note 3.

***Summary of effects arising from initial application of HKFRS 15***

The following table summarises the impact of transition to HKFRS 15 on the retained earnings at 1 January 2018:

| | **Retained earnings** RMB'000 |
|---|---|
| Closing balance as 31 December 2017 | 361,696 |
| Revenue recognised a point of time for sale of moulds | (940) |
| Related deferred tax impact | 145 |
| Total change as a result of adoption of HKFRS 15 on 1 January 2018 | 360,901 |

The amount of adjustment for each financial statement line item of the consolidated statement of financial position at 1 January 2018 affected by the application of HKFRS 15 is illustrated below. Line items that were not affected by the changes have not been included.

| | **Carrying amount previously reported as 31 December 2017** RMB'000 | **Impact on adoption of HKFRS 15 – Reclassification** RMB'000 | **Impact on adoption of HKFRS 15 – Remeasurement** RMB'000 | **Carrying amount as restated at 1 January 2018** RMB'000 |
|---|---|---|---|---|
| Deposit received | 3,903 | (3,903) | – | – |
| Contract liabilities | – | 3,903 | 11,658 | 15,561 |
| Inventories | 224,762 | – | (10,719) | 214,043 |
| Deferred tax assets | – | – | 145 | 145 |
| Retained earnings | 361,696 | – | (795) | 360,901** |

** The amounts in this column are before the adjustments from the application of HKFRS 9.

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

### HKFRS 15 Revenue from Contracts with Customers (Continued)

***Summary of effects arising from initial application of HKFRS 15 (Continued)***

The following tables summarise the estimated impact of applying HKFRS 15 on the consolidated financial statements for the year ended 31 December 2018, by comparing the amounts reported under HKAS 11, HKAS 18 and related interpretations that were in effect before the change. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of profit or loss for the year ended 31 December 2018 and consolidated statement of financial position at 31 December 2018.

| | As reported<br>RMB'000 | Impact on adoption of HKFRS 15<br>RMB'000 | Amounts excluding impacts of adopting HKFRS 15<br>RMB'000 |
|---|---|---|---|
| Contract liabilities | (58,316) | 46,658 | (11,658) |
| Inventories | 325,760 | (41,927) | 283,833 |
| Deferred tax assets | 2,265 | (712) | 1,553 |
| Retained earnings | (441,260) | (4,019) | (445,279) |
| Revenue | 1,274,993 | 46,658 | 1,321,651 |
| Cost of sales | (1,091,608) | (41,927) | (1,133,535) |
| Income tax expenses | (14,040) | (712) | (14,752) |

### HKFRS 9 Financial Instruments

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment loss of financial assets and hedge accounting. The Group has applied HKFRS 9 retrospectively to financial instruments that have not been derecognised at the date of initial application (i.e. 1 January 2018) in accordance with the transition provisions under HKFRS 9, and chosen not to restate comparative information. Differences in the carrying amounts of financial assets and financial liabilities on initial application are recognised in retained earnings and other components of equity as at 1 January 2018.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 Financial Instruments: Recognition and Measurement.

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

### HKFRS 9 Financial Instruments (Continued)

The Group's accounting policies for the classification and measurement of financial instruments and the impairment loss of financial assets are disclosed in detail in note 3 below.

***(i) Classification and measurement of financial instruments***

At the initial application of HKFRS 9 and the reporting date, the directors of the Company reviewed and assessed the Group's existing financial assets and liabilities as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that all recognised financial assets and financial liabilities that are within the scope of HKFRS 9 are continued to measure at amortised cost as were previously measured under HKAS 39.

***(ii) Loss allowance for ECL***

The adoption of HKFRS 9 has changed the Group's accounting for loss allowance for financial assets by replacing HKAS 39's incurred loss model with a forward-looking ECL model. As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment loss using reasonable and supportable information that is available without undue cost or effort in accordance with the requirement HKFRS 9.

***(iii) Summary of effects arising from initial application of HKFRS 9***

The table below illustrates the classification and measurement of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

| | Financial assets at amortised cost (previously classified as loans and receivables) | Deferred tax assets | Retained earnings |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| Closing balance as 31 December 2017 | 439,465 | – | 361,696 |
| Remeasurement: | | | |
| Loss allowance under ECL model | (2,868) | – | (2,868) |
| Related deferred tax impact | – | 717 | 717 |
| Total change as a result of adoption of HKFRS 9 on 1 January 2018 | 436,597 | 717 | 359,545 |

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

### 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.

| | |
|---|---|
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2015-2017 Cycle[1] |
| Amendments to HKFRS 3 | Definition of a Business[4] |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation[1] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |
| Amendments to HKAS 1 and HKAS 8 | Definition of Material[5] |
| Amendment to HKAS 19 | Plan Amendment, Curtailment or Settlement[1] |
| Amendment to HKAS 28 | Long-term Interests in Associates and Joint Ventures[1] |
| HKFRS 16 | Leases[1] |
| HKFRS 17 | Insurance Contracts[2] |
| HK(IFRIC) – Interpretation 23 | Uncertainty over Income tax treatments[1] |

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

2 Effective for annual periods beginning on or after 1 January 2021

3 Effective for annual periods beginning on or after a date to be determined

4 Effective for business combinations and assets acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

5 Effective for annual periods beginning on or after 1 January 2020.

Except for the new and revised HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

### 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.

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

### HKFRS 16 Leases (Continued)

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 Leases. 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 become effective for annual periods beginning on or after 1 January 2019 with early application permitted provided that the entity has applied HKFRS 15 Revenue from Contracts with Customers at or before the date of initial application of HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB10,714,000 as disclosed in Note 33. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in the measurement, presentation and disclosure as indicated above. The directors of the Company are in the process to determine the amounts of right-of-use assets and lease liabilities to be recognised in the consolidated statement of financial position, after taking into account all practical expedients and recognition exemption under HKFRS 16. The directors of the Company expect that the adoption of HKFRS 16 will not have material impact on the Group's result but certain portion of these lease commitments will be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities.

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

### Amendments to HKAS 28 Long-term Interests in Associates and Joint Venture

The amendments clarify that an entity applies HKFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

Amendments to HKAS 28 will become effective for annual periods beginning on or after 1 January 2019 with early application permitted. The amendments should be applied retrospectively.

The directors of the Company anticipate that the application of Amendments to HKAS 28 will not have material impact in the Group's consolidated financial statements.

### Annual Improvements to HKFRSs 2015-2017 Cycle

The Annual Improvements to HKFRSs 2015-2017 Cycle include a number of amendments to various HKFRSs, which are summarised below.

Amendments to HKFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. Amendments to HKFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

Amendments to HKAS 12 clarify that the income tax consequences of dividends as defined in HKFRS 9 (i.e. distribution of profits) should be recognised when a liability to pay a dividend is recognised. The income tax consequences should be recognised in profit or loss, other comprehensive income or equity according to where the past transactions or events that generated distributable profits were originally recognised.

Amendments to HKAS 23 clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

The amendments apply to annual periods on or after 1 January 2019 with earlier application permitted.

The directors of the Company anticipate that the application of the amendments included in the Annual Improvements to HKFRSs 2015-2017 Cycle will not have material impact in the Group's consolidated financial statements.

## 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 in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. Details of fair value measurement are explained in the accounting policies set out below.

The principal accounting policies are set out below.

### Basis of consolidation

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

Control is achieved where the Group has: (i) the power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect the amount of the Group's returns. When the Group has less than a majority of the voting rights of an investee, power over the investee may be obtained through: (i) a contractual arrangement with other vote holders; (ii) rights arising from other contractual arrangements; (iii) the Group's voting rights and potential voting rights; or (iv) a combination of the above, based on all relevant facts and circumstances.

The Group reassesses whether 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.

Income and expenses of subsidiaries 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.

Profit or loss and each component of other comprehensive income of subsidiaries are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Investments in subsidiaries

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.

### Goodwill

Goodwill arising from a business combination is carried at cost less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

The Group's policy for goodwill relating to an associate that included in the carrying amount of the investment is set out in "Investment in associates" below.

### 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Investments in associates (Continued)

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.

After application of the equity method, including recognising the associate's losses (if any), the Group determines whether it is necessary to recognise any additional impairment loss with respect to its investment in the associate. Goodwill that forms part of the carrying amount of an investment in an associate is not separately recognised. The entire carrying amount of the investment (including goodwill) is tested for impairment 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 in the associate. Any reversal of that impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

When the investment ceases to be an associate upon the Group losing significant influence over the associate, the Group discontinues to apply equity method and any retained interest is measured at fair value at that date which is regarded as its fair value on initial recognition as a financial asset in accordance with the applicable standard. Any difference between the fair value of any retained interest and any proceeds from disposing of a part interest in the associate and the carrying amount of the investment at the date the equity method was discontinued is recognised in profit or loss. Any amount previously recognised in other comprehensive income in relation to that investment is reclassified to profit or loss or retained earnings on the same basis as it would have been required if the investee had directly disposed of the related assets or liabilities.

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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Revenue recognition

Revenue is recognised to depict the transfer of promised goods and services to customers at an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services to a customer. Specifically, the Group uses a five-step approach to recognise revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation.

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligations is transferred to customer.

A performance obligation represents a good (or a bundle of goods) that is distinct or a series of distinct goods that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

***Contract liabilities***

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract liabilities of unrelated contracts are not presented on a net basis.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Revenue recognition (Continued)

***Contract liabilities (Continued)***

Descriptions of the Group's performance obligations in contracts with customers and significant judgments applied in revenue recognition are as follows:

*(a) Sales of plastic components and moulds*

The Group produces and sells plastic components and moulds. Revenue from the sales of plastic components is recognised when control of the product has transferred to the customer. Control of the product is considered transferred to the customer when the goods are delivered.

A receivable is recognised when the products are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. Payment of the transaction price is usually due within 90 days of the date when control of the products is transferred to the customer.

Revenue from sales of moulds is recognised at a point of time when control over the moulds is transferred to our customers.

*(b) Other income*

Other income from the sales of raw materials and scrap materials is recognised when control of the product has transferred to the customer. Control of the product is considered transferred to the customer when the goods are delivered.

Service income including quality inspection income and processing fee income is recognised when services are provided.

### 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Property, plant and equipment (Continued)

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

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the differences between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

### 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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.

### 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.

## 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.

## 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, and financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

***Under HKFRS 9 (applicable on or after 1 January 2018)***

*Financial assets*

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets. Financial assets are classified, at initial recognition, as subsequently measured at amortised cost.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial instruments (Continued)

***Under HKFRS 9 (applicable on or after 1 January 2018) (Continued)***

*Financial assets (Continued)*

Financial assets at amortised cost (debt instruments)

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment.

Amortised cost and 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.

For financial instruments other than purchased or originated credit-impaired financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (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) excluding ECL, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. On the other hand, the gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset. Interest income is recognised in profit or loss and is included in the “other income” line item.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial instruments (Continued)

***Under HKFRS 9 (applicable on or after 1 January 2018) (Continued)***

*Financial assets (Continued)*

Loss allowance of financial assets

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and bills receivables, other receivables, amounts due from associates, pledged bank deposits and bank balances and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

The Group applies the simplified approach to provide for ECL prescribed by HKFRS 9 for trade and bill receivables, which permit the use of the lifetime expected loss provision for all trade and bill receivables.

For other receivables, the management of the Group makes periodic collective as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience with available reasonable and supportive forward-looking information. Based on assessment by the management of the Group, it was considered the ECL for other receivables is insignificant.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

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.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial instruments (Continued)

***Under HKFRS 9 (applicable on or after 1 January 2018) (Continued)***

*Financial assets (Continued)*

Significant increase in credit risk (Continued)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if (i) the financial instrument has a low risk of default, (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations. The Group considers a financial asset to have low credit risk when it has an internal or external credit rating of "investment grade" as per globally understood definition or if an external rating is not available, the asset has an internal rating of "performing". Performing means that the counterparty has a strong financial position and there is no past due amounts.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial instruments (Continued)

***Under HKFRS 9 (applicable on or after 1 January 2018) (Continued)***

*Financial assets (Continued)*

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 60 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
- it is becoming probable that the borrower will enter into bankruptcy or other financial reorganisation.

Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over one year past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial instruments (Continued)

***Under HKFRS 9 (applicable on or after 1 January 2018) (Continued)***

*Financial assets (Continued)*

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12m ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

*Financial liabilities and equity instruments*

Classification as debt or equity

Debt 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 companies comprising the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial liabilities including trade and bill payables, other payables and accruals, bank and other loans, and obligation under finance leases are subsequently measured at amortised cost, using the effective interest method.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial instruments (Continued)

***Under HKFRS 9 (applicable on or after 1 January 2018) (Continued)***

*Financial liabilities and equity instruments (Continued)*

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not (1) contingent consideration of an acquirer in a business combination, (2) held-for-trading, or (3) designated as at FVTPL, are subsequently measured at amortised cost using the 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 amortised cost of a financial liability.

*Derecognition*

A financial asset is derecognised 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 of the asset 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.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

***Financial assets (accounting policy applicable before 1 January 2018)***

The Group assets classified into 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial instruments (Continued)

***Financial assets (accounting policy applicable before 1 January 2018) (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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial instruments (Continued)

***Financial assets (accounting policy applicable before 1 January 2018) (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, amounts due to ultimate holding company, 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Financial instruments (Continued)

***Financial assets (accounting policy applicable before 1 January 2018) (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 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 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 cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately in profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Fair value measurement

When measuring fair value of an asset or a liability 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, 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.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Specifically, the Group categorised the fair value measurements into three levels, based on the characteristics of inputs, as follow:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

At the end of the reporting period, the Group determines whether transfer occur between levels of the fair value hierarchy for assets and liabilities which are measured at fair value on recurring basis by reviewing their respective fair value measurement.

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

### 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.

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.

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

### Key sources of estimation uncertainty (Continued)

***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 2018 amounted to approximately RMB481,052,000 (2017: RMB427,964,000).

***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 2018 amounted to approximately RMB481,052,000 (2017: RMB427,964,000) and approximately RMB42,350,000 (2017: RMB28,134,000) respectively. No accumulated impairment loss was recognised for property, plant and equipment and land use rights as at 31 December 2018 and 2017.

***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 2018 amounted to approximately RMB36,024,000 (2017: RMB34,192,000), no accumulated impairment losses were recognised (2017: approximately RMB16,800,000).

***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 2018, the carrying amount of inventories is approximately RMB325,760,000 (net of allowance for inventories of RMB9,667,000) (2017: RMB224,762,000, net of allowance for inventories of RMB10,541,000). During the year ended 31 December 2018, the Group recognised an allowance for inventories of RMB2,277,000 (2017: RMB3,420,000) and reversal of allowance for inventories of RMB3,151,000 (2017: approximately RMB3,639,000).

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

### Key sources of estimation uncertainty (Continued)

***Estimated loss allowance on trade and bills receivables***

The loss allowance for trade and bills receivables are based on assumptions about ECL. The Group uses judgement in making these assumptions and selecting the inputs to the loss allowance calculation, bases on the number of days that an individual receivable is outstanding as well as the Group's historical experience and forward-looking information at the end of the reporting period. Changes in these assumptions and estimates could materially affect the result of the assessment and it may be necessary to make additional impairment loss charge to the consolidated statement of profit or loss and other comprehensive income.

As at 31 December 2018, the carrying amount of trade and bills receivables is RMB422,416,000, (net of loss allowance of RMB8,440,000).

***Impairment of goodwill***

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

As at 31 December 2018, the carrying amount of goodwill is approximately RMB5,385,000. Details of the recoverable amount calculation are disclosed in Note 38.

### Critical judgements in applying accounting policies

The following is the critical judgement, 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 and disclosures made in the consolidated financial statements.

***Judgments in determining the timing of satisfaction of performance obligation***

Judgement is required to assess whether control over the moulds is transferred to our customers. We consider that customers will only obtain the legal tittle of the completed moulds after they have issued the final acceptance report, for which we have present right to the payment and the collection of the consideration is probable. The Group manufactures moulds that are highly customised for the particular customer with no alternative use for others, but has no enforceable right to our customer's payment for our performance completed to date. We consider that the control over the sales of moulds are transferred at a point of time, instead of overtime, when our customers issue the final acceptance report.

## 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 25 and 26 respectively and amounts due to ultimate holding company and amount due from associates as disclosed in notes 24 and 20 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 review 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. 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.

## 6. REVENUE AND SEGMENT INFORMATION (CONTINUED)

The Group derives and recognises all of its revenue from the transfer of goods at a point of time in the following major product types.

| | Year ended 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Plastic components | **1,139,093** | 1,147,601 |
| Moulds | **135,900** | 99,791 |
| | **1,274,993** | 1,247,392 |

### Geographical information

During the years ended 31 December 2018 and 2017, the Group's operations were located in the PRC.

During the year ended 31 December 2018, 99.72% (2017: 99.99%) of the Group's revenue from external customers was generated in the PRC while as at 31 December 2018, 100% (2017: 100%) of the Group's non-current assets was located in the PRC. Hence, no geographical information is presented.

### Information about major customers

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

| | **2018** | 2017 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Customer A | **210,786** | 171,695 |
| Customer B | **N/A**[1] | 142,004 |

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.

## 7. OTHER INCOME AND GAIN

| | 2018<br>RMB'000 | 2017<br>RMB'000<br>(Restated) |
|---|---|---|
| Sale of raw and scrap materials | 112,145 | 10,724 |
| Cost of raw and scrap materials | (101,202) | (5,024) |
| Gain on sales of raw and scrap materials | 10,943 | 5,700 |
| Quality inspection income | 676 | 120 |
| Bank interest income | 3,434 | 203 |
| Rental income received | 38 | 630 |
| Management services income | 1,666 | 1,700 |
| Government subsidies (Note) | 9,134 | 7,904 |
| Release of government grants for land use rights (Note 27) | 224 | 224 |
| Release of deferred gain from sale and leaseback of property, plant and equipment | – | 27 |
| Processing fee income | 722 | 469 |
| Technical supporting fee | – | 3,437 |
| Gain on deemed disposal of an associate | 7,130 | – |
| Others | 1,548 | 524 |
| | 35,515 | 20,938 |

Note: Government subsidies of approximately RMB9,134,000 (2017: RMB7,904,000) have been recognised during the year ended 31 December 2018 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.

## 8. FINANCE COSTS

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Interest on: | | |
| bank and other loans | 12,992 | 12,866 |
| finance leases | 1,447 | 1,873 |
| amount due to ultimate holding company | 820 | 1,097 |
| | 15,259 | 15,836 |

## 9. INCOME TAX EXPENSE

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Current income tax: | | |
| PRC Enterprise Income Tax (the "EIT") | **15,618** | 17,116 |
| Over provision in prior years | **(311)** | (2,438) |
| Deferred tax asset: (Note 39) | | |
| Credit to current year | **(1,267)** | – |
| | **14,040** | 14,678 |

(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 Company did not have any assessable profits subject to Hong Kong Profits Tax for both years and the Company's subsidiaries' income neither arises in, nor is derived from, Hong Kong during both years.

(iii) PRC EIT

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

The applicable tax rate of the Company's subsidiaries, 杭州友成機工有限公司 Hangzhou Yusei Machinery Co., Ltd.* ("Hangzhou Yusei"), 廣州友成機工有限公司 Guangzhou Yusei Machinery Co., Ltd.* ("Guangzhou 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 2018 and 2017 was 15%.

On 9 December 2016, Guangzhou Yusei was approved by Science and Technology Department of Guangdong Province as high technology enterprise and therefore is subject to EIT at a concession rate of 15% for three years, with effective from 9 December 2016.

On 30 November 2018, 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, with effective from 30 November 2018.

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, with effective from 1 January 2014. Suzhou Yusei has further obtained the renewal of its high technology qualification on 7 December 2017 and is entitled to the concession rate of 15% from 2017 to 2020.

## 9. INCOME TAX EXPENSE (CONTINUED)

### (iii) PRC EIT (Continued)

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"), 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"), 湖北友成塑料模具有限公司 Hubei Yusei Plastic Moulding Co., Ltd.* ("Hubei Yusei"), 友成機工(天津)有限公司 Yusei Machinery (Tianjin) Co., Ltd* ("Tianjin Yusei") and 杭州友成科技有限公司 Hangzhou Yusei Technology Limited* ("Yusei Technology") is 25% for the years ended 31 December 2018 and 2017.

* The English names are for identification purposes only.

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:

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Profit before tax | **105,461** | 98,173 |
| Tax at the income tax rate at 25% (2017: 25%) | **26,365** | 24,543 |
| Tax effect of share of profits of associates | **(458)** | (621) |
| Tax effect of expenses not deductible for tax purpose | **1,517** | 1,257 |
| Tax effect of income not taxable for tax purpose | **(2,237)** | (910) |
| Tax effect of tax losses not recognised | **1,122** | 145 |
| Over provision in prior years | **(311)** | (2,438) |
| Tax effect attributable to tax concessions granted to the PRC subsidiaries | **(12,482)** | (7,369) |
| Effect of different tax rates | **524** | 71 |
| Income tax expense for the year | **14,040** | 14,678 |

## 10. PROFIT FOR THE YEAR

| | 2018 RMB'000 | 2017 RMB'000 (Restated) |
|---|---|---|
| Profit for the year has been arrived at after charging (crediting): | | |
| Directors' and the chief executive's remuneration (Note 11) | **3,025** | 3,012 |
| Salaries, wages and other benefits | **209,118** | 187,118 |
| Retirement benefits scheme contributions | **18,222** | 10,599 |
| Other staff costs | **227,340** | 197,717 |
| Total staff costs | **230,365** | 200,729 |
| Depreciation of property, plant and equipment | **76,109** | 78,024 |
| Amortisation of intangible assets (included in administrative expenses) | **196** | 291 |
| Amortisation of land use rights (included in administrative expenses) | **967** | 849 |
| Total depreciation and amortisation expenses | **77,272** | 79,164 |
| Auditor's remuneration | **950** | 920 |
| Loss allowance on trade and bills receivables (included in administrative expenses) | **2,448** | – |
| Allowance for inventories (included in cost of sales) | **2,277** | 3,420 |
| Reversal of allowance for inventories (included in cost of sales) | **(3,151)** | (3,639) |
| Research and development costs recognised as an expense | **50,333** | 44,176 |
| Loss on disposal of property, plant and equipment | **–** | 38 |
| Operating lease charges on leased premises | **9,345** | 9,073 |
| Cost of inventories recognised as an expense | **1,092,482** | 1,045,231 |
| Release of deferred loss from sale and leaseback of property, plant and equipment | **–** | 739 |

## 11. 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 (2017: seven) directors and the chief executive of the Company for the years ended 31 December 2018 and 2017 are as follows:

***For the year ended 31 December 2018***

| | Executive directors | | Non-executive directors | | Independent non-executive directors | | | |
|---|---|---|---|---|---|---|---|---|
| | Xu Yong (Note ii) | Manabu Shimabayashi | Katsutoshi Masuda | Toshimitsu Masuda | Lo Ka Wai | Fan Xiaoping | Hisaki Takabayashi | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Emoluments paid or receivable in respect of a person's services as a director, whether of the Company and its subsidiary undertakings | | | | | | | | |
| Fee | 630 | 630 | 845 | 42 | 101 | 25 | 25 | 2,298 |
| Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company and its subsidiary undertakings | | | | | | | | |
| Other emoluments | | | | | | | | |
| Salaries | 120 | 120 | - | - | - | - | - | 240 |
| Discretionary bonus (Note i) | 450 | - | - | - | - | - | - | 450 |
| Contributions to retirement benefits schemes | 37 | - | - | - | - | - | - | 37 |
| | 607 | 120 | - | - | - | - | - | 727 |
| Total emoluments | 1,237 | 750 | 845 | 42 | 101 | 25 | 25 | 3,025 |

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

### (a) Directors and Chief Executive (Continued)

***For the year ended 31 December 2017***

| | Executive directors | | Non-executive directors | | Independent non-executive directors | | | |
|---|---|---|---|---|---|---|---|---|
| | Xu Yong (Note ii) | Manabu Shimabayashi | Katsutoshi Masuda | Toshimitsu Masuda | Lo Ka Wai | Fan Xiaoping | Hisaki Takabayashi | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Emoluments paid or receivable in respect of a person's services as a director, whether of the Company and its subsidiary undertakings | | | | | | | | |
| Fee | 630 | 630 | 833 | 42 | 100 | 25 | 25 | 2,285 |
| Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company and its subsidiary undertakings | | | | | | | | |
| Other emoluments | | | | | | | | |
| Salaries | 120 | 120 | – | – | – | – | – | 240 |
| Discretionary bonus (Note i) | 450 | – | – | – | – | – | – | 450 |
| Contributions to retirement benefits schemes | 37 | – | – | – | – | – | – | 37 |
| | 607 | 120 | – | – | – | – | – | 727 |
| Total emoluments | 1,237 | 750 | 833 | 42 | 100 | 25 | 25 | 3,012 |

Note i: The discretionary bonus is determined with reference to the individual performance during the years ended 31 December 2018 and 2017.

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 2018 and 2017, 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 2018 and 2017.

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

### (b) Employees

Of the five individuals with the highest emoluments in the Group, three (2017: 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 (2017: two) individuals were attributable to two members of senior management, as follows:

| | **2018**<br>**RMB'000** | 2017<br>RMB'000 |
|---|---|---|
| Salaries, wages and other benefits | **750** | 1,101 |
| Retirement benefits scheme contributions | **60** | 48 |
| | **810** | 1,149 |

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

| | **Number of employees**<br>**2018** | 2017 |
|---|---|---|
| Nil to HK$1,000,000 (equivalent to approximately RMB844,880 (2017: RMB867,460)) | **2** | 2 |

During the years ended 31 December 2018 and 2017, no remuneration was 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.

## 12. DIVIDENDS

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Dividends recognised as distribution during the year: | | |
| 2017 Final – RMB1.98 cents (2016 final dividend RMB1.98 cents) per share | **8,016** | 7,995 |

Subsequent to the end of the reporting period, a final dividend of RMB1.60 cents in respect of the year ended 31 December 2018 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.

## 13. 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:

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| **Earnings** | | |
| Earnings for the purpose of basic and diluted earnings per share | **91,303** | 83,495 |

| | 2018 '000 | 2017 '000 |
|---|---|---|
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share | **491,599** | 485,760 |

Diluted earnings per share is same as basic earnings per share for the years ended 31 December 2018 and 2017 as there is no potential ordinary shares outstanding.

The weighted average number of ordinary shares for the year ended 31 December 2018 and 2017 have been adjusted for the new bonus shares issued on 29 June 2018 as if such bonus issue had occurred at the beginning of the earliest period presented.

## 14. 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 2017 | 187,051 | 538,358 | 4,758 | 8,693 | 15,604 | 14,230 | 768,694 |
| Additions | 912 | 87,961 | 222 | 888 | – | 48,279 | 138,262 |
| Transfer | – | 6,157 | – | – | – | (6,157) | – |
| Disposals | – | (34,532) | (246) | (25) | – | – | (34,803) |
| At 31 December 2017 | 187,963 | 597,944 | 4,734 | 9,556 | 15,604 | 56,352 | 872,153 |
| Acquisition of a subsidiary (Note 40) | – | 22,749 | 441 | 259 | – | – | 23,449 |
| Additions | 14,053 | 58,340 | 67 | 25,135 | – | 17,755 | 115,350 |
| Transfer | 43,992 | 6,209 | – | – | – | (50,201) | – |
| At 31 December 2018 | 246,008 | 685,242 | 5,242 | 34,950 | 15,604 | 23,906 | 1,010,952 |
| DEPRECIATION AND IMPAIRMENT | | | | | | | |
| At 1 January 2017 | 58,420 | 306,781 | 3,008 | 7,506 | 9,431 | – | 385,146 |
| Provided for the year | 9,756 | 66,568 | 701 | 640 | 359 | – | 78,024 |
| Eliminated on disposals | – | (18,724) | (233) | (24) | – | – | (18,981) |
| At 31 December 2017 | 68,176 | 354,625 | 3,476 | 8,122 | 9,790 | – | 444,189 |
| Acquisition of a subsidiary (Note 40) | – | 9,405 | 188 | 9 | – | | 9,602 |
| Provided for the year | 7,784 | 66,583 | 506 | 877 | 359 | – | 76,109 |
| At 31 December 2018 | 75,960 | 430,613 | 4,170 | 9,008 | 10,149 | – | 529,900 |
| CARRYING VALUES | | | | | | | |
| At 31 December 2018 | 170,048 | 254,629 | 1,072 | 25,942 | 5,455 | 23,906 | 481,052 |
| At 31 December 2017 | 119,787 | 243,319 | 1,258 | 1,434 | 5,814 | 56,352 | 427,964 |

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 |

## 14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

As at 31 December 2018 and 2017, 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 26.

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

| | **2018**<br>**RMB'000** | 2017<br>RMB'000 |
|---|---|---|
| Machinery and equipment | **61,442** | 41,519 |

## 15. INTANGIBLE ASSETS

| | **Software**<br>RMB'000 |
|---|---|
| COST | |
| At 1 January 2017 | 6,546 |
| Additions | 102 |
| At 31 December 2017 | 6,648 |
| Additions | 3,166 |
| At 31 December 2018 | 9,814 |
| AMORTISATION | |
| At 1 January 2017 | 4,985 |
| Provided for the year | 291 |
| At 31 December 2017 | 5,276 |
| Provided for the year | 196 |
| At 31 December 2018 | 5,472 |
| CARRYING VALUES | |
| At 31 December 2018 | 4,342 |
| At 31 December 2017 | 1,372 |

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

## 16. LAND USE RIGHTS

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| COST | | |
| At beginning of the year | 35,309 | 35,309 |
| Additions | 15,183 | – |
| At end of the year | 50,492 | 35,309 |
| AMORTISATION | | |
| At beginning of the year | 7,175 | 6,326 |
| Charge for the year | 967 | 849 |
| At end of the year | 8,142 | 7,175 |
| CARRYING VALUES | | |
| At end of the year | 42,350 | 28,134 |
| Analysed for reporting purposes as: | | |
| Current assets (included in other receivables, deposits and prepayments) | 1,150 | 848 |
| Non-current assets | 41,200 | 27,286 |
| | 42,350 | 28,134 |

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

As at 31 December 2018 and 2017, certain of the land use rights were pledged to obtain bank loans granted to the Group, details of which are set out in Note 26.

## 17. INTERESTS IN ASSOCIATES

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Cost of investments in associates – unlisted | 20,471 | 37,271 |
| Share of post-acquisition profits | 15,553 | 13,721 |
| Less: impairment loss recognised | – | (16,800) |
| Interests in associates | 36,024 | 34,192 |

## 17. INTERESTS IN ASSOCIATES (CONTINUED)

Included in the cost of investments in associates is goodwill of approximately RMB2,111,000 (2017: RMB2,111,000) arising on acquisition of associates.

As at 31 December 2018 and 2017, 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 2018 | Proportion of nominal value of issued capital held by the Group 2017 | Proportion of voting power held 2018 | Proportion of voting power held 2017 | Principal activities |
|---|---|---|---|---|---|---|---|---|
| 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 |
| Jilin Dong Guang Yusei Manufacturing Co., Limited ("Jilin Yusei") (Note) | Incorporated | PRC | Registered capital | **N/A** | 50% | **N/A** | 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: During the year ended 31 December 2018, the Group increased its equity interest in Jilin Yusei, the then associate, from 50% to 65%, and thus Jilin Yusei became a subsidiary of the Group thereupon.

### 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.

## 17. INTERESTS IN ASSOCIATES (CONTINUED)

### Summarised financial information of material associate (Continued)

***Yusei Industrial and its subsidiary (Yusei Import and Export) ("Yusei Industrial Group")***

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Current assets | **188,722** | 149,109 |
| Non-current assets | **108,992** | 108,583 |
| Current liabilities | **(137,171)** | (96,256) |
| Non-current liabilities | **(47,500)** | (54,500) |

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Revenue | **244,182** | 263,244 |
| Profit for the year | **6,106** | 8,283 |
| Other comprehensive expense for the year | **–** | – |
| Total comprehensive income for the year | **6,106** | 8,283 |

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

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Net assets of Yusei Industrial Group | **113,043** | 106,936 |
| 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 | **36,024** | 34,192 |

## 17. INTERESTS IN ASSOCIATES (CONTINUED)

### Summarised financial information of material associate (Continued)

***Yusei Industrial Group (Continued)***

The Group's immaterial associate only includes Jilin Yusei in 2017. 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 Group aimed to expand its presence in Jilin through this acquisition. Details of acquisition of a subsidiary is set out in note 40. The amount of recognised share of profit of this associate extracted from the relevant management accounts, both for the year and cumulatively, is as follow:

| | **2018**<br>**RMB'000** | 2017<br>RMB'000 |
|---|---|---|
| Unrecognised share of losses and total comprehensive expense of an associate for the year | **N/A** | (463) |
| Accumulated unrecognised share of losses and total comprehensive expense of an associate | **N/A** | (5,732) |

## 18. INVENTORIES

| | **2018**<br>**RMB'000** | 2017<br>RMB'000 |
|---|---|---|
| Raw materials | **71,585** | 62,844 |
| Work-in-progress | **47,545** | 51,386 |
| Finished goods | **206,630** | 110,532 |
| | **325,760** | 224,762 |

During the year ended 31 December 2018, allowance for slow-moving inventories of approximately RMB2,277,000 (2017: RMB3,420,000) has been recognised and included in the cost of sales and a reversal of allowance for inventories of approximately is RMB3,151,000 (2017: RMB3,639,000) has been recognised and included in profit or loss since the relevant inventories were sold in the ordinary course of business during the year ended 31 December 2018.

## 19. TRADE AND BILLS RECEIVABLES, DEPOSITS AND PREPAYMENTS

| | **2018** **RMB'000** | 2017 RMB'000 |
|---|---|---|
| Trade and bills receivables (Note a) | **430,856** | 405,797 |
| Less: impairment loss recognised | **(8,440)** | (3,124) |
| | **422,416** | 402,673 |
| Advance to suppliers | **17,116** | 11,116 |
| Other receivables, deposits and prepayments (Note b) | **34,107** | 25,676 |
| | **473,639** | 439,465 |

Note:

(a) 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.

The Group has a policy of providing allowance for doubtful debts which is based on the evaluation of collectability and age of accounts and on management's judgement including credit worthiness and past collection history of each customer.

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:

| | **2018** **RMB'000** | 2017 RMB'000 |
|---|---|---|
| Within 30 days | **213,198** | 228,467 |
| 31 to 60 days | **85,746** | 80,885 |
| 61 to 90 days | **62,981** | 53,308 |
| 91 to 180 days | **52,417** | 34,240 |
| 181 to 365 days | **6,055** | 3,153 |
| Over 365 days | **2,017** | 2,620 |
| Trade and bills receivables | **422,416** | 402,673 |

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

| | 2017 RMB'000 |
|---|---|
| 61 to 90 days | 344 |
| 91 to 180 days | 27,212 |
| 181 to 365 days | 3,153 |
| Over 365 days | 2,620 |
| Trade and bills receivables | 33,329 |

## 19. TRADE AND BILLS RECEIVABLES, DEPOSITS AND PREPAYMENTS (CONTINUED)

Note: (Continued)

(a) (Continued)

As at 31 December 2017, included in the Group's trade and bills receivables balance are debtors with aggregate carrying amount of approximately RMB33,329,000 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.

Starting from 1 January 2018, the Group measures the loss allowance for trade and bills receivables at an amount equal to lifetime ECL. The ECL on trade and bills receivables are estimated using a provision matrix by reference to past default experience and creditworthiness of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

The Group recognised lifetime ECL for trade and bill receivables based on the ageing of customers collectively as follows:

| | Weighted average expected loss rate % | Gross carrying amount RMB'000 | Loss allowance RMB'000 |
|---|---|---|---|
| Current (not past due) | 1.3 | 367,258 | 4,766 |
| Within 90 days past due | 4.6 | 50,675 | 2,350 |
| 91 – 180 days past due | 8.6 | 5,898 | 508 |
| 181 – 365 days past due | 11.6 | 7,025 | 816 |
| Total | | 430,856 | 8,440 |

The movement in the loss allowance on trade and bills receivables is as follows:

| | **2018 RMB'000** | 2017 RMB'000 |
|---|---|---|
| At 1 January | **3,124** | 3,124 |
| Effect of change in accounting policies (Note 2) | **2,868** | – |
| At 1 January, as restated | **5,992** | – |
| Recognised during the year | **2,448** | – |
| Balance at end of the year | **8,440** | 3,124 |

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:

| | **2018 RMB'000** | 2017 RMB'000 |
|---|---|---|
| United State dollar ("US$") | **25,548** | 15,571 |
| Japanese Yen ("JPY") | **–** | 4,762 |

## 19. TRADE AND BILLS RECEIVABLES, DEPOSITS AND PREPAYMENTS (CONTINUED)

Note: (Continued)

(b) Included in other receivables, deposits and prepayments are other receivables and refundable deposit for plant and equipment of RMB11,534,000 (2017: RMB2,365,000),which have low risk of default or has not been a significant increase in credit risk since initial recognition and no impairment loss is recognised.

## 20. AMOUNTS DUE FROM (TO) ASSOCIATES

On 29 December 2017, Zhejiang Yusei, an indirect wholly-owned subsidiary of the Company entered into a loan agreement with Jilin Yusei under which a loan at the amount of approximately RMB21,318,000 was granted to Jilin Yusei at an interest rate of 5% per annum. The maturity date of the loan is 28 December 2021 and therefore classified under non-current assets.

During the year ended 31 December 2018, the loan of approximately RMB21,318,000 was eliminated on consolidation upon Jilin Yusei became a subsidiary of the Group. Details of the acquisition of subsidiary set out in Note 40.

Amounts due from (to) associates under current assets (liabilities) are unsecured, interest-free and repayable under credit term of 90 days.

The amounts due from (to) associates classified under current assets (liabilities) are as follows:

| Name of company | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Yusei Industrial | **(5,200)** | 1,181 |
| Yusei Import and Export | **405** | 501 |
| Jilin Yusei# | **N/A#** | 1,414 |
| | **(4,795)** | 3,096 |

# Jilin Yusei became a subsidiary of the Group during the year ended 31 December 2018.

## 21. PLEDGED BANK DEPOSITS

As at 31 December 2018, bank deposits amounting to RMB9,459,000 and nil (2017: nil and RMB831,000) have been pledged for short-term bills payables. 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 of 0.05% to 0.35% (2017: 0.05% to 0.35%) per annum.

## 22. BANK BALANCES, DEPOSITS AND CASH

As at 31 December 2018, bank balances, deposits and cash of approximately RMB58,746,000 (2017: RMB41,979,000) 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:

| | **2018 RMB'000** | 2017 RMB'000 |
|---|---|---|
| US$ | **12,637** | 13,638 |
| JPY | **241** | 39 |
| Hong Kong dollar ("HK$") | **106** | 139 |
| EURO ("EUR") | **300** | 223 |

## 23. 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:

| | **2018 RMB'000** | 2017 RMB'000 |
|---|---|---|
| Within 30 days | **194,550** | 128,065 |
| 31 to 60 days | **53,166** | 81,008 |
| 61 to 90 days | **32,198** | 38,372 |
| 91 to 180 days | **16,029** | 25,726 |
| 181 to 365 days | **3,543** | 2,218 |
| Over 365 days | **2,727** | 8,402 |
| Trade payables and bills payables | **302,213** | 283,791 |
| Value added tax payables | **9,079** | 21,345 |
| Deposits received | **–** | 3,903 |
| Contract liabilities (Note) | **58,316** | – |
| Other payables and accrued charges | **109,196** | 97,291 |
| | **478,804** | 406,330 |

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.

Note: Contract liabilities include receipts in advance from customers. Revenue recognised during the year ended 31 December 2018 that was included in the contract liabilities as at 1 January 2018 is RMB3,903,000.

## 23. TRADE AND OTHER PAYABLES (CONTINUED)

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:

| | **2018 RMB'000** | 2017 RMB'000 |
|---|---|---|
| US$ | **–** | 32,149 |
| JPY | **–** | 295 |

## 24. AMOUNTS DUE FROM (TO) ULTIMATE HOLDING COMPANY

As at 31 December 2018, included in the amount due to ultimate holding company of approximately RMB4,101,000 was unsecured, carrying interest rate of 4.35% per annum. Pursuant to the renewal of agreement, the borrowing will be expired on 30 June 2020. Accordingly, the borrowing has been classified as non-current liabilities as at 31 December 2018. The interest payable of approximately RMB287,000 (2017: RMB1,762,000) is repayable on demand and has been classified as current liabilities as at 31 December 2018.

The amount due from ultimate holding company is non-trade nature, unsecured, interest-free and repayable on demand.

## 25. OBLIGATIONS UNDER FINANCE LEASES

| | **Minimum lease payments** | | **Present value of minimum lease payments** | |
|---|---|---|---|---|
| | **2018 RMB'000** | 2017 RMB'000 | **2018 RMB'000** | 2017 RMB'000 |
| **Amounts payable under finance leases:** | | | | |
| Within one year | **52,425** | 26,949 | **50,653** | 26,335 |
| Less: Future finance charges | **(1,772)** | (614) | **–** | – |
| Present value of lease obligations | **50,653** | 26,335 | **50,653** | 26,335 |

During the years ended 31 December 2018, 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 RMB65,781,000 (2017: RMB37,207,000) have been sold at a consideration of RMB65,781,000 (2017: RMB37,207,000) and have been leaseback for lease terms of one year (2017: one year).

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 one (2017: one) year. For the year ended 31 December 2018, the average effective borrowing rate was 5.3% (2017: 5.0%) 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.

## 26. BANK AND OTHER LOANS

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Bank loans | **219,733** | 209,057 |
| Other loans (Note a) | **36,000** | 36,000 |
| | **255,733** | 245,057 |
| Analysed as: | | |
| Secured bank loans | **219,733** | 202,550 |
| Unsecured bank loans | **–** | 6,507 |
| Unsecured other loans | **36,000** | 36,000 |
| | **255,733** | 245,057 |

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 bank and other loans are repayable within one year 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:

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Fixed-rate loans | **255,733** | 245,057 |

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

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| US$ | **–** | 6,507 |
| JPY | **15,583** | – |

## 26. BANK AND OTHER LOANS (CONTINUED)

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

| | **2018** | 2017 |
|---|---|---|
| Fixed-rate bank loans | **3.40% to 5.44%** | 2.69% to 5.34% |
| Fixed-rate other loans | **5.00%** | 5.00% |

The secured bank loans were secured by the Group's land use rights, property, plant and equipment with aggregate net carrying values of approximately RMB16,210,000 (2017: RMB16,576,000) and RMB117,208,000 (2017: RMB112,794,000) respectively.

During the year ended 31 December 2018, the Group obtained new bank with amount of approximately RMB239,733,000 (2017: RMB194,247,000). The proceeds were used to finance the general working capital of the Group.

## 27. DEFERRED INCOME

| | **2018 RMB'000** | 2017 RMB'000 |
|---|---|---|
| Deferred income – government grants | **7,128** | 7,352 |
| Represented by: | | |
| Current liabilities (included in other payables) | **224** | 224 |
| Non-current liabilities | **6,904** | 7,128 |
| | **7,128** | 7,352 |

Note: During the year ended 31 December 2017, the Group received government grants of approximately RMB1,297,000, which were designated for the purchase of land use rights. Such government grants are presented as deferred income and are released to income over the useful lives of the related land use rights. During the year ended 31 December 2018, government grants released to the consolidated profit or loss as other income amounted to approximately RMB224,000 (2017: RMB224,000).

## 28. SHARE CAPITAL

| | 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 2017, 31 December 2017 and 31 December 2018 | 1,500,000 | 15,000 | N/A |
| **Issued and fully paid** | | | |
| At 1 January 2017, 31 December 2017 and 1 January 2018 | 404,800 | 4,048 | 3,755 |
| Bonus issue (Note a) | 80,960 | 809 | 705 |
| Issue of new share (Note b) | 44,698 | 447 | 393 |
| At 31 December 2018 | 530,458 | 5,304 | 4,853 |

Notes:

(a) On 24 June 2018, 80,960,000 bonus shares were issued and since then, the Company's total number of issued shares was increased to 485,760,000 shares accordingly. The bonus shares were credited as fully paid by way of capitalisation of an amount of approximately HK$809,000 (equivalent to RMB705,000) out of the Company's share premium account in July 2018.

(b) On 8 August 2018 and 19 November 2018, 14,698,000 and 30,000,000 new ordinary shares of par value HK$0.01 each were issued at subscription price of HK$1.435 and HK$2.005 each to independent third parties of the Group at an aggregate consideration of HK$21,091,630 and HK$60,150,000 (equivalent to RMB18,560,000 and RMB53,399,000) was credited to the share capital and share premium. Further details were set out in the Company's announcements dated 8 August 2018 and 19 November 2018.

The new shares rank pari passu with the existing shares in all respects.

## 29. 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.

## 30. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

| | **2018**<br>**RMB'000** | 2017<br>RMB'000 |
|---|---|---|
| **Financial assets** | | |
| Loans and receivables (including bank balances and cash) | **–** | 487,607 |
| Financial assets at amortised cost (including bank balances and cash) | **548,866** | – |
| **Financial liabilities** | | |
| At amortised cost | **721,478** | 672,097 |

## 30. FINANCIAL INSTRUMENTS (CONTINUED)

### (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 (to) associates, pledged bank deposits, bank balances, deposits and cash, trade and other payables, amounts due from (to) ultimate holding company, 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.

***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, bank and other loans of the Group which are mainly denominated in foreign currencies of US$, JPY, HK$ and EUR. 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 | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Monetary assets | | |
| **US$** | | |
| Trade and bills receivables, deposits and other receivables | **25,548** | 15,571 |
| Bank balances, deposits and cash | **12,637** | 13,638 |
| | **38,185** | 29,209 |
| **JPY** | | |
| Trade and bills receivables, deposits and other receivables | **–** | 4,762 |
| Bank balances, deposits and cash | **241** | 39 |
| | **241** | 4,801 |

## 30. FINANCIAL INSTRUMENTS (CONTINUED)

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

***Market risk (Continued)***

*(i) Currency risk (Continued)*

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Monetary assets (Continued) | | |
| **HK$** | | |
| Bank balance, deposits and cash | **106** | 139 |
| **EUR** | | |
| Bank balance, deposits and cash | **300** | 223 |
| Monetary liabilities | | |
| **US$** | | |
| Trade and other payables | **–** | 32,149 |
| Bank loans | **–** | 6,507 |
| | **–** | 38,656 |
| **JPY** | | |
| Trade and other payables | **–** | 295 |
| Bank loans | **15,583** | – |
| | **15,583** | 295 |

## 30. FINANCIAL INSTRUMENTS (CONTINUED)

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

***Market risk (Continued)***

*(i) Currency risk (Continued)*

Sensitivity analysis

The Group is mainly exposed to currency risk in US$, JPY, HK$ and EUR. The following table details the Group's sensitivity to a 10% (2017: 10%) increase and decrease in RMB or HK$ against JPY and 5% (2017: 5%) increase and decrease in RMB or HK$ against US$, HK$ and EUR with all other variables held constant. 10% and 5% (2017: 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. The sensitivity analysis includes foreign currencies 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% (2017: 5%) against US$, HK$ and EUR and strengthen 10% (2017: 10%) against JPY. For a 5% and 10% (2017: 5% and 10%) weakening of RMB or HK$ against the foreign currencies respectively, there would be an equal and opposite impact on the post-tax profit.

| | **2018**<br>**RMB'000** | 2017<br>RMB'000 |
|---|---|---|
| US$ | **(1,571)** | 354 |
| JPY | **1,282** | (338) |
| HK$ | **(9)** | – |
| EUR | **640** | – |

*(ii) Interest rate risk*

The Group is exposed to fair value interest rate risk in relation to fixed-rate pledged bank deposits, amounts due to ultimate holding company, obligations under finance leases and fixed-rate bank and other loans (see Notes 21, 24, 25 and 26 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 22 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.

## 30. FINANCIAL INSTRUMENTS (CONTINUED)

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

***Market risk (Continued)***

*(ii) Interest rate risk (Continued)*

Sensitivity analysis

As at 31 December 2018, it is estimated that a general increase or decrease of 1% (2017: 1%) in interest rates, with all other variables held constant, would increase (2017: increase) or decrease (2017: decrease) the Group's post-tax profit for the year ended 31 December 2018 by approximately RMB825,000 (2017: RMB420,000).

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 1% (2017: 1%) 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***

As at 31 December 2018, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

Under HKAS 39, impairment losses are made when there is objective evidence of impairment loss.

*The Group's exposure to credit risk*

In order to minimise the credit risk, the management of the Group has 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. Under HKAS 39, impairment losses are made for irrecoverable amounts. Starting from 1 January 2018, for trade and bill receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL collectively by using a provision matrix, estimated based on historical credit loss experience, as well as the general economic conditions of the industry in which the debtors operate. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

For other receivables, the Group has assessed whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

## 30. FINANCIAL INSTRUMENTS (CONTINUED)

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

***Credit risk (Continued)***

*The Group's exposure to credit risk (Continued)*

The Group's current credit risk grading framework comprises the following categories:

| Category | Description | Basis for recognising ECL |
|---|---|---|
| Performing | For financial assets where there has low risk of default or has not been a significant increase in credit risk since initial recognition and that are not credit impaired (refer to as Stage 1) | 12-month ECL |
| Doubtful | For financial assets where there has been a significant increase in credit risk since initial recognition but that are not credit impaired (refer to as Stage 2) | Lifetime ECL – not credit impaired |
| Default | Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred (refer to as Stage 3) | Lifetime ECL – credit impaired |
| Write-off | There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery | Amount is written off |

The tables below detail the credit quality of the Group's financial assets as well as the Group's maximum exposure to credit risk by credit risk rating grades.

| 31 December 2018 | External credit rating | Internal credit rating | 12-month or lifetime ECL | Gross carrying amount | Loss allowance | Net carrying amount |
|---|---|---|---|---|---|---|
| Trade and bill receivables | N/A | Performing | 12-month ECL (simplified approach) | 430,856 | (8,440) | 422,416 |
| Other receivables and deposit | N/A | Performing | 12-month ECL | 22,573 | – | 22,573 |

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

## 30. FINANCIAL INSTRUMENTS (CONTINUED)

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

***Credit risk (Continued)***

*The Group's exposure to credit risk (Continued)*

As at 31 December 2018, the Group has concentration of credit risk as 9% (2017: 16%) and 29% (2017: 40%) of the total trade and bills 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 99.72% (2017: 99.99%) of the total receivables as at 31 December 2018.

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

***Liquidity risk***

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 2018, banking facilities in an aggregate amount of approximately RMB251,950,000 (2017: RMB215,550,000) were available from the Group's principal bankers, of which approximately RMB204,150,000 (2017: RMB202,550,000) 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.

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. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

## 30. FINANCIAL INSTRUMENTS (CONTINUED)

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

***Liquidity risk (Continued)***

The following table includes both interest and principal cash flows.

**As at 31 December 2018**

| | 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 | 409,362 | – | – | 409,362 | 409,362 |
| Obligations under finance leases | 52,425 | – | – | 52,425 | 50,653 |
| Amounts due to associates | 4,795 | – | – | 4,795 | 4,795 |
| Amount due to ultimate holding company | 465 | 4,102 | – | 4,567 | 4,388 |
| Bank and other loans | 262,424 | – | – | 262,424 | 255,733 |
| | 729,471 | 4,102 | – | 730,120 | 724,931 |

**As at 31 December 2017**

| | 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 | 378,371 | – | – | 378,371 | 378,371 |
| Amount due to ultimate holding company | 2,657 | 895 | 21,019 | 24,571 | 22,334 |
| Obligations under finance leases | 26,949 | – | – | 26,949 | 26,335 |
| Bank and other loans | 249,609 | – | – | 249,609 | 245,057 |
| | 657,586 | 895 | 21,019 | 679,500 | 672,097 |

### (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.

## 31. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the consolidated statement of cash flows as cash flows from financing activities.

| | | | Non-cash changes | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 1/1/2018 RMB'000 | Financing cash flows RMB'000 | Foreign exchange movements RMB'000 | Release of deferred income RMB'000 | Finance cost incurred RMB'000 | Acquisition of a subsidiary RMB'000 | Dividend deferred (note 12) RMB'000 | 31/12/2018 RMB'000 |
| Interest payables included in trade and other payables (Note 23) | 2,367 | (11,885) | - | - | 12,992 | - | - | 3,474 |
| Deferred income (Note 27) | 7,128 | - | - | (224) | - | - | - | 6,904 |
| Bank and other loans (Note 26) | 245,057 | 4,989 | 687 | - | - | 5,000 | - | 255,733 |
| Obligation under finance lease (Note 25) | 26,335 | 22,871 | - | - | 1,447 | - | - | 50,653 |
| Dividend payable | - | (8,016) | - | - | - | - | 8,016 | - |
| Amount due to ultimate holding company (Note 24) | 22,334 | (18,736) | (30) | - | 820 | - | - | 4,388 |
| | 303,221 | (10,777) | 657 | (224) | 15,259 | 5,000 | 8,016 | 321,152 |

| | | | Non-cash changes | | | |
|---|---|---|---|---|---|---|
| | 1/1/2017 RMB'000 | Financing cash flows RMB'000 | Foreign exchange movements RMB'000 | Release of deferred income RMB'000 | Finance cost incurred RMB'000 | 31/12/2017 RMB'000 |
| Interest payables included in trade and other payables (Note 23) | – | (10,499) | – | – | 12,866 | 2,367 |
| Deferred income (Note 27) | 7,603 | – | – | (251) | – | 7,352 |
| Bank and other loans (Note 26) | 219,650 | 25,597 | (190) | – | – | 245,057 |
| Obligation under finance lease (Note 25) | 52,564 | (28,102) | – | – | 1,873 | 26,335 |
| Amount due to ultimate holding company (Note 24) | 21,818 | (581) | – | – | 1,097 | 22,334 |
| | 301,635 | (13,585) | (190) | (251) | 15,836 | 303,445 |

## 32. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2017, the Group has ceased to proceed with capital injection plan with Jilin Yusei and entered into a loan agreement with Jilin Yusei on 29 December 2017 (the "Agreement"). Pursuant to the Agreement, prepayment for capital injection into Jilin Yusei of approximately RMB16,117,000 was regarded as a loan to the associate starting from 29 December 2017 and bears interest at the prevailing interest rate determined in accordance with the loan benchmark interest rates promulgated by the People's Bank of China. The maturity date of the loan is 28 December 2021 and the corresponding amount was reclassified as amount due from an associate, non-current portion, on 29 December 2017.

As at 31 December 2018, the amount due from an associate of approximately RMB21,318,000 is eliminated on consolidation as Jilin Yusei becomes a subsidiary of the Group upon the capital injection as disclosed in note 20.

## 33. 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:

| | **2018** **RMB'000** | 2017 RMB'000 |
|---|---|---|
| Within one year | **3,513** | 2,929 |
| In the second to fifth year inclusive | **7,201** | 17 |
| | **10,714** | 2,946 |

Operating lease payments represent rentals payable by the Group for its leased factories and office premises. Leases are negotiated with terms ranging from one to five years (2017: two to five years) and rentals are fixed for an average of one to five years (2017: two to five years).

### Capital commitment

| | **2018** **RMB'000** | 2017 RMB'000 |
|---|---|---|
| Capital expenditure contracted for but not provided for in the consolidated financial statements in respect of: | | |
| – acquisition of plant and equipment | **10,017** | 7,949 |
| – construction of new production plant | **2,520** | 2,639 |
| | **12,537** | 10,588 |

## 34. 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 2018, the total retirement benefits scheme contributions charged to the consolidated profit or loss amounted to approximately RMB18,259,000 (2017: RMB10,636,000).

## 35. RELATED PARTY TRANSACTIONS

Details of the balances with related parties are set out in the consolidated statement of financial position and Note 20 and Note 24.

During the year ended 31 December 2018, the Group had the following material transactions with its related parties:

| Name of related party | Relationship | Nature of transactions | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|---|
| Yusei Japan | Ultimate holding company | Interest expense | **820** | 1,097 |
| Yusei Industrial | Associate | Rental fee paid | **1,050** | 957 |
| | | Sales of moulds | **1,284** | – |
| | | Reimbursement of utilities charges | **120** | 153 |
| Jilin Yusei | Associate | Sales of raw materials and moulds | **11,092*** | 24,974 |
| | | Purchase of machines | **–** | 3,057 |
| | | Interest income | **2,518*** | – |
| | | Processing fee, storage fee and product testing fee received | **–** | 202 |
| | | Purchase of finished goods | **–** | 330 |
| Hangzhou Suo Kai Industrial Co., Ltd. | Related party (Note b) | Sales of raw materials | **779** | 120 |
| | | Product testing fee and processing fee received | **2,220** | 377 |
| | | Reimbursement of utilities charges | **2,874** | 3,018 |
| | | Purchase of product samples | **210** | 2,123 |
| Zhejiang Old Workshop Investment Co., Ltd. | Related party (Note b) | Interest expense | **2,172** | 1,978 |

## 35. RELATED PARTY TRANSACTIONS (CONTINUED)

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.

* The associate became a subsidiary of the Group during the year ended 31 December 2018. The disclosure above are the amounts of transactions before the acquisition.

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

| | **2018 RMB'000** | 2017 RMB'000 |
|---|---|---|
| Short-term benefits | **3,738** | 4,705 |
| Retirement benefits scheme contributions | **97** | 113 |
| | **3,835** | 4,818 |

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.

## 36. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Particulars of all subsidiaries of the Company as at 31 December 2018 and 2017 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 | | |
| | | | **2018** | 2017 | **2018** | 2017 | |
| 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 |

## 36. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (CONTINUED)

| Name of subsidiary | Fully paid registered capital | Class of share | Proportion ownership interest held by the Company | | | | Principal activities |
|---|---|---|---|---|---|---|---|
| | | | Directly | | Indirectly | | |
| | | | **2018** | 2017 | **2018** | 2017 | |
| 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 | **–** | – | **100%** | 100% | Moulding fabrication, manufacturing and trading of plastic components |
| Hubei Yusei (note b) | US$10,000,000 | Registered capital | **25%** | 25% | **75%** | 75% | Moulding fabrication, manufacturing and trading of plastic components |
| Tianjin Yusei | RMB80,000,000 | Registered capital | **–** | – | **100%** | 100% | Moulding fabrication, manufacturing and trading of plastic components |
| Yusei Technology | RMB2,000,000 | Registered capital | **–** | – | **100%** | 100% | Providing system design services and technical support |
| Jilin Yusei | RMB48,000,000 | Registered capital | **–** | – | **65%** | N/A | 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 RMB49,188,792 (equivalent to US$7,561,614) as at 31 December 2017. During the year ended 31 December 2018, the registered capital of Hubei Yusei was fully paid up by cash.

## 37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Non-current assets | | |
| Investments in subsidiaries | **203,364** | 186,098 |
| Investment in an associate | **20,471** | 20,471 |
| | **223,835** | 206,569 |
| Current assets | | |
| Deposits, prepayments and other receivables | **709** | 8,133 |
| Amount due from ultimate holding company | **588** | 558 |
| Amounts due from subsidiaries | **61,334** | 22,624 |
| Pledged bank deposit | **456** | – |
| Bank balances and cash | **40,948** | 841 |
| | **104,035** | 32,156 |
| Current liabilities | | |
| Other payables and accruals | **13,087** | 5,722 |
| Bank and other loan – due within one year | **15,583** | 6,507 |
| Amounts due to subsidiaries | **80,487** | 61,948 |
| | **109,157** | 74,177 |
| Net current liabilities | **(5,122)** | (42,021) |
| Total assets less current liabilities | **218,713** | 164,548 |
| Capital and reserves | | |
| Share capital | **4,853** | 3,755 |
| Reserves (Note) | **213,860** | 160,793 |
| Total equity | **218,713** | 164,548 |

Approved and authorised for issue by the board of directors on 29 March 2019 and are signed on its behalf by:

| | |
|---|---|
| **Mr. Katsutoshi Masuda**<br>*Director* | **Mr. Xu Yong**<br>*Director* |

## 37. 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 2017 | 53,462 | 18,065 | 73,854 | 3,831 | 17,569 | 166,781 |
| Loss for the year | – | – | – | – | (1,346) | (1,346) |
| Other comprehensive expense for the year | – | – | – | 3,353 | – | 3,353 |
| Total comprehensive expense for the year | – | – | – | 3,353 | (1,346) | 2,007 |
| Dividend recognised as distribution (Note 12) | – | – | – | – | (7,995) | (7,995) |
| At 31 December 2017 | **53,462** | **18,065** | **73,854** | **7,184** | **8,228** | **160,793** |
| Loss for the year | **–** | **–** | **–** | **–** | **(6,625)** | **(6,625)** |
| Other comprehensive expense for the year | **–** | **–** | **–** | **(3,610)** | **–** | **(3,610)** |
| Total comprehensive expense for the year | **–** | **–** | **–** | **(3,610)** | **(6,625)** | **(10,235)** |
| Issue of share (Note 28) | **70,861** | **–** | **–** | **–** | **–** | **70,861** |
| Dividend recognised as distribution (Note 12) | **–** | **–** | **–** | **–** | **(8,016)** | **(8,016)** |
| At 31 December 2018 | **124,323** | **18,065** | **73,854** | **3,574** | **(6,413)** | **213,403** |

Note:

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

## 38. GOODWILL

| | 2018<br>RMB'000 |
|---|---|
| **Cost** | |
| At the beginning of the financial year | – |
| Arising on acquisition of a subsidiary (Note 40) | 5,385 |
| At the end of the financial year | 5,385 |
| **Impairment** | |
| At the beginning and end of the financial year | – |
| **Carrying amounts** | |
| At the end of the financial year | 5,385 |

As disclosed in Note 40, the Company further acquired 15% of the equity interests in Jilin Yusei (the "Acquisition"), an associate of the Group immediately before the Acquisition, at a consideration of RMB2,516,000.

The management of the Group prepared a profit forecast and cash flow forecast in respect of this subsidiary (the "Jilin Yusei"). The Jilin Yusei forecast were based on financial budgets approved by the management covering a period of five years at the pre-tax discount rate of 15.70%. Cash flows beyond 5-year period are projected using 5% growth rate. This growth rate was based on past performance and its expectation on the relevant industry growth forecasts.

During the year ended 31 December 2018, management of the Group determines that there are no impairment of any of its cash-generating units containing goodwill with indefinite useful lives.

The basis of the recoverable amounts of the above CGUs and their major underlying assumptions are summarised below:

The recoverable amounts of this unit have been determined on a value-in-use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period with an average growth rate of 5%, and pre-tax discount rate of 15.70%. Cash flows beyond the five-year period are extrapolated using an estimated annual growth rate. Management determined the budgeted gross margin based on past performance, its expectations on the market development, and a long-term growth rate of 3%, which is based on the industry growth forecasts and does not exceed the long-term average growth rate for the business in the country in which the CGU operates. The discount rates used are the CGU's specific weighted average cost of capital, adjusted for the risks of the specific CGU.

Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amounts of this CGU to exceed its recoverable amount.

## 39. DEFEERED TAX ASSET

The following is the analysis of the deferred tax asset for financial reporting purposes:

| | Tax losses<br>RMB'000 | Loss allowance of doubtful debts<br>RMB'000 | Revenue recognition<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|
| At 1 January 2017 and 31 December 2017 | – | – | – | – |
| Effect of changes in accounting policies (Note 2) | – | 717 | 145 | 862 |
| At 1 January 2018 | **–** | **717** | **145** | **862** |
| Acquisition from a subsidiary (Note 40) | **136** | **–** | **–** | **136** |
| (Charge) credit to profit or loss | **(56)** | **612** | **711** | **1,267** |
| At 31 December 2018 | **80** | **1,329** | **856** | **2,265** |

As at 31 December 2018, the Group has estimated unused tax losses of approximately RMB32,626,000 (2017: RMB26,079,000). A deferred tax asset has been recognised in respect of estimated unutilised tax losses of approximately RMB320,000 (2017: nil). Included in unrecognised tax losses are losses of approximately RMB1,435,000 (2017: RMB949,000) 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 RMB407,341,000 (2017: RMB346,186,000) 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.

## 40. ACQUISITION OF A SUBSIDIARY

On 21 May 2018, the Group acquired additional 2,516,000 shares of Jilin Yusei, representing approximately 15% of the total issued shares of Jilin Yusei. The purchase consideration of RMB2,516,000 has been settled in cash. As the result of the above change and following the appointment of one director by the Group into the board of Jilin Yusei which is the body delegated with the power to make decisions on the relevant activities affecting variable returns. As result, the Group obtained control over Jilin Yusei which has become a subsidiary of the Group. This acquisition has been accounted for as a business combination using acquisition accounting. After the acquisition, the Group holds in aggregate approximately 65% equity interest of Jilin Yusei.

## 40. ACQUISITION OF A SUBSIDIARY (CONTINUED)

Details of the carrying value and fair value of the Group's pre-existing interest in Jilin Yusei at the acquisition date are summarised as follows:

| | RMB'000 |
|---|---|
| Share of net assets | – |
| Less: Fair value of pre-existing interest | (7,130) |
| Gain on deemed disposal of an associate | (7,130) |

Assets acquired and liabilities recognised at the date of acquisition are as follows:

| | **Fair value** RMB'000 |
|---|---|
| Property, plant and equipment | 13,847 |
| Deferred tax asset | 136 |
| Inventories | 21,493 |
| Trade and bills receivables, deposits and prepayments | 41,906 |
| Bank balances, deposits and cash | 1,729 |
| Trade and other payables | (67,214) |
| Income tax liabilities | (341) |
| Bank and other loans – due within one year | (5,000) |
| Total identifiable net assets at fair value | 6,556 |
| Fair value of 50% share of Jilin Yusei held by the Group immediately prior to the acquisition date (Note a) | (7,130) |
| Non-controlling interests (Note b) | (2,295) |
| Goodwill (Note 38) | 5,385 |
| Fair value of consideration | 2,516 |

Analysis of net cash outflows of cash and cash equivalents in respect of acquisition of subsidiary:

| | |
|---|---|
| Purchase consideration | (2,516) |
| Cash acquired | 1,729 |
| Net cash outflow in acquisition | (787) |

## 40. ACQUISITION OF A SUBSIDIARY (CONTINUED)

Notes:

(a) At the acquisition of 15% equity interest in Jilin Yusei is considered as a step acquisition under HKFRS 3, equity interest previously held in Jilin Yusei is treated as if it was disposed of and reacquired at fair value on the date of acquisition of Jilin Yusei (the "Jilin Acquisition Date""). Accordingly, it was measured to its acquisition-date fair value, and a gain on deemed disposal of associate amounted to RMB7,130,000 is recognised in profit or loss.

(b) The non-controlling interests recognised at the acquisition date were measured by reference to the non-controlling interest's proportionate share of the recognised amount of the net assets of Jilin Yusei and amounted to RMB2,295,000.

(c) Jilin Yusei contributed revenue of approximately RMB56,763,000 and profit of RMB336,000 to the Group since the Jilin Acquisition Date to 31 December 2018. Had the acquisition taken place on 1 January 2018, the consolidated revenue and profit for the year of the Group would have been approximately RMB1,311,024,000 and RMB92,213,000 respectively.

## 41. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation. The directors of the Company are considered the reclassification of reversal of allowance of inventories of the Company into cost of sales would result in more appropriate manner to reflect the core business of the Group. These reclassifications have no impact on the Group's total equity as at 31 December 2018 or the Group's profit or loss for the year ended 31 December 2018.