



YUSEI HOLDINGS LIMITED 友成控股有限公司*

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

2019 INTERIM REPORT



* For identification only

CONTENTS

	PAGE(S)
CORPORATE INFORMATION	2
MANAGEMENT DISCUSSION AND ANALYSIS	3-10
SUPPLEMENTARY INFORMATION	11-18
CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (UNAUDITED)	19
CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	20
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION	21
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	22
CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)	23
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	24-30



CORPORATE INFORMATION

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HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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BUSINESS ADDRESS IN HONG KONG

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COMPANY SECRETARY

Mr. Shum Shing Kei CPA

COMPLIANCE OFFICER

Mr. Xu Yong

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

AUTHORISED REPRESENTATIVES

Mr. Xu Yong
Mr. Shum Shing Kei

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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STOCK CODE

96

AUDITOR

SHINIEWING (HK) CPA Limited

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BUSINESS REVIEW

During the six months ended 30 June 2019, the Group is principally engaged in the design, development and fabrication of precision plastic injection moulds, and the manufacture of plastic components in the PRC. The Group also provides services for certain assembling and further processing of plastic components for its customers for maintenance and enhancement its position as a one-stop total solution provider in the plastic injection moulding industry. The Group's customers are mainly the manufacturers of branded home electrical appliances, office equipment and plastic components with production facilities located in the PRC.

In 2019, the Group is facing great challenges from the global economy which was affected by the unstable factors in relation to the international political unrest and economic instability most of the time during the current year. 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 overall decline in sales in the PRC's auto industry in 2019, the auto manufacturers reduced the production quantity which had an impact on the Group's production and sales of the moulding and of auto parts and components.

In 2019, 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 six months ended 30 June 2019 decreased by 7.3% to approximately RMB593,763,000 as compared to that of approximately RMB640,346,000 for the six months ended 30 June 2018. During the period, with the overall decline in sales in the PRC's auto industry, the auto manufacturers reduced the production quantity which had an impact on the Group's production and sales of the moulding and of auto parts and components.

Gross profit

The Group's gross profit for the six months ended 30 June 2019 was approximately RMB68,704,000, representing a decrease of approximately 29.0% as compared to that of approximately RMB96,763,000 for the six months ended 30 June 2018.

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 period.

Distribution costs

The Group's distribution costs for the six months ended 30 June 2019 was approximately RMB31,702,000, representing an increase of approximately 0.5% as compared to RMB31,532,000 for the six months ended 30 June 2018. Such increase was mainly due to increase in costs of packing materials consumed.

Administrative expenses

The Group's administrative expenses for the six months ended 30 June 2019 was approximately RMB25,908,000, representing a decrease of approximately 3.0% as compared to that of approximately RMB26,695,000 for the six months ended 30 June 2018. 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

The Group's finance costs for the six months ended 30 June 2019 was approximately RMB9,086,000, representing an increase of approximately 21.8% as compared to that of approximately RMB7,460,000 for the six months ended 30 June 2018.

Profit attributable to equity holders of the Company

The profit attributable to equity holders of the Company was approximately RMB15,077,000 for the six months ended 30 June 2019 while the profit for the six months ended 30 June 2018 was approximately RMB39,599,000.

Financial resources and liquidity

As at 30 June 2019, the equity amounted to approximately RMB677,931,000. Current assets amount to approximately RMB762,497,000, of which approximately RMB109,055,000 were cash and bank deposits. The Group had non-current assets of approximately RMB545,674,000 and its current liabilities amounted to approximately RMB618,680,000, comprising mainly its creditors and accrued charges and bank and other loans. The net asset value per share was RMB1.28. The Group expresses its gearing ratio as a percentage of finance leases, and borrowings over total assets. As at 30 June 2019, the Group had a gearing ratio of 23.7% (2018: 20.9%).

Bonus shares issue

As set out in the Company's circular dated 29 April 2019, the Directors proposed a bonus issue of shares on the basis of one bonus share for every five existing shares held by Shareholders whose names appeared on the register of members of the Company on 11 June 2019. The relevant resolution was approved by the shareholders in the annual general meeting of the Company held on 31 May 2019. The share certificates for the bonus shares were dispatched to Shareholders on 12 July 2019.

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 ("First Subscriptions"). 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.

	Planned use of net proceeds of the First Subscriptions (HK\$ 'million)	Actual use of net proceeds of the First Subscriptions up to 30 June 2019 (HK\$ 'million)	Description
First Subscriptions:			
- Construction of a new factory in Hubei Province, the PRC and purchase of factory machineries (including CNC Gantry 5 axes high speed machinery centre and injection moulding machines)	19.0	10.2	Up to 30 June 2019, the net proceeds of the First Subscriptions of approximately HK\$10.2 million was utilised for construction of factory and purchase of machinery centre and injection moulding machines. In addition, it expects to fully apply the remaining net proceeds of the First Subscription for factory construction and purchase of factory machineries by 30 June 2020 in response to the Group's business development.
- General working capital	1.9	1.9	Up to 30 June 2019, the net proceeds of the First Subscriptions of approximately HK\$1.9 million was utilised for general working capital.
Total	20.9	12.1	

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 ("Second Subscriptions"). 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.

	Planned use of net proceeds of the Second Subscriptions (HK\$ 'million)	Actual use of net proceeds of the Second Subscriptions up to 30 June 2019 (HK\$ 'million)	Description
Second Subscriptions:			
- Construction of a new factory in Tianjin, the PRC	30.0	-	Up to 30 June 2019, none of the net proceeds of the Second Subscriptions was utilised and it was deposited into the banks. The Group is still negotiating to acquire a piece of land in Tianjin, the PRC, on which a new factory will be built. Up to the date of this announcement, no agreement has been reached.
- Repayment of bank borrowings of the Group	30.0	30.0	During the six months ended 30 June 2019, the Group repaid its bank borrowings of approximately HK\$30.0 million upon maturity with the net proceeds.
Total	60.0	30.0	

Segment information

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

Employment and remuneration policy

As at 30 June 2019, the total number of the Group's staff was approximately 2,500 (2018: 2,500). The total staff costs amounted to approximately RMB115,200,000,000 for the period. 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 30 June 2019, the Group's bank borrowings are secured by land use rights and property, plant and equipment of the Group with an aggregate net carrying values of approximately RMB16,000,000 and RMB121,000,000, respectively.

Foreign currency risk

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

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

Capital commitments

As at 30 June 2019, the Group had no material capital commitments.

OUTLOOK

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

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

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

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

In order to keep up with the development of auto industry and to further meet customer demand, the Group set up a wholly-owned subsidiary in Mexico and will install the production lines for production and sales of production and sales of the moulding and of auto parts and components in American market. In response to the development pace of its customers, the Group will acquire land for construction of factories when appropriate.

DIVIDENDS

The Directors do not recommend the payment of interim dividend for the six months ended 30 June 2019 (2018: Nil). Therefore, no closure of register of members is necessary.

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

The Shares of the Company were listed on GEM of the Stock Exchange on 13 October 2005 and were withdrawn from the GEM on 14 December 2010. On 15 December 2010, the Company's shares were listed on the Main Board of the Stock Exchange. The interests and/or short position of the Directors and chief executives of the Company in the Shares, underlying shares in respect of equity derivatives and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which was notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which they are taken or deemed to have under such provisions of the SFO); or which was required pursuant to section 352 of the SFO to be entered in the register referred to therein; or which was required pursuant to the Listing Rules relating to securities transactions by the directors to be notified to the Company and the Stock Exchange are as follows:

Name of Company	Name of Director	Capacity			Number of shares		
		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%

Supplementary Information

Name of Company	Name of Director	Capacity			Number of shares		Approximate Percentage of interests
		Personal Interests	Family Interests	Corporate Interests	Long Position	Short Position	
Company	Fan Xiaoping	47,520 shares	-	-	47,520 shares	-	0.01%
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 49.8% 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% of the issued share capital of Conpri. Conpri is interested in 25.8% in the issued share capital of Yusei Japan which in turn is interested in 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% of the issued share capital of Conpri. Conpri or its directors are accustomed or obliged to act in accordance with the directions or instructions of Mr. Masuda. By virtue of SFO, Mr. Masuda is deemed to be interested in 25,760 shares in Yusei Japan held by Conpri.
4. Mr. Toshimitsu Masuda, (son of Mr. Masuda) holds 50% of the issued share capital of Conpri. Conpri is interested in 25.8% of the issued share capital of Yusei Japan. By virtue of SFO, Mr. Toshimitsu Masuda is deemed to be interested in 25,760 shares in Yusei Japan held by Conpri.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

The Shares of the Company were listed on GEM of the Stock Exchange on 13 October 2005 and were withdrawn from the GEM on 14 December 2010. On 15 December 2010, the Company's shares were listed on the Main Board of the Stock Exchange. So far as the Directors are aware, the following persons (other than the Directors or chief executive of the Company) had an interest and/or a short position in the shares or underlying shares in respect of equity derivatives of the Company that would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO (including interests and/or short positions which they are taken or deemed to have under such provisions of the SFO), or be recorded in the register of the Company or who are directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying right to vote in all circumstances at general meetings of any other member of the Group are as follows:

Name of Company	Number of shareholder	Capacity	Number of shares		Approximate Percentage of interests
			Long Position	Short Position	
Company	Yusei Japan	Beneficial Owner	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	Xu Yong	Beneficial Owner	75,072,000 shares	-	14.15%
Company	Ding Hong Guang	Beneficial Owner	50,087,200 shares	-	9.44%

Notes:

1. Conpri is interested in 25.8% in the issued share capital of Yusei Japan. By virtue of SFO, Conpri is deemed to be interested in 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.

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 30 June 2019.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 June 2019, the Company had adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Appendix 10 to the Listing Rules. The Company also had made specific enquiry of all directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors.

AUDIT COMMITTEE

The Company has established an audit committee comprising of the three independent non-executive directors, namely Mr. Hisaki Takabayashi, Mr. Fan Xiaoping and Mr. Lo Ka Wai, with written terms of reference in compliance with 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 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 and approved the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2019, which complied with the applicable accounting standards and requirements and that adequate disclosure have been made.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2019, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares.

DIRECTORS' INTEREST IN A COMPLETING BUSINESS

Yusei Japan is beneficially owned as to 40% equity interest of the Company. With its production and business operations based in Japan, Yusei Japan is principally engaged in the design, fabrication and sales of plastic injection moulds, and, to a lesser extent, the manufacture and sales of plastic component products. The plastic injection moulds fabricated by Yusei Japan are mainly applicable for the manufacture of headlight components including glass lens and reflector, automobile gauge board and other interior components for automobiles. Furthermore, Yusei Japan also fabricates plastic injection moulds for the manufacturing of peripheral plastic components for air conditioners and component parts for fishing tools.

Yusei Japan is owned as to approximately 25.8% by Conpri, as to approximately 21.9% by Mr. Masuda, as to approximately 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 18.5% 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.

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.

CORPORATE GOVERNANCE

During the period under review, 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 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.

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 business 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 cover 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 Executive.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (UNAUDITED)

For the six months ended 30 June 2019

	Notes	2019 RMB'000	2018 RMB'000
Revenue	3	593,763	640,346
Cost of sales		(525,059)	(543,583)
Gross profit		68,704	96,763
Other income		17,620	17,135
Distribution costs		(31,702)	(31,532)
Administrative expenses		(25,908)	(26,695)
Finance costs		(9,086)	(7,460)
Share of profits of associates		(25)	(25)
Profit before tax	4	19,603	48,186
Income tax expense	5	(4,385)	(8,587)
Profit attributable to the equity holders of the Company		15,218	39,599
Dividend		-	-
Earnings per share			
- Basic and diluted	6	RMB0.024	RMB0.068

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	2019 RMB'000	2018 RMB'000
Profit for the period	15,218	39,599
Other comprehensive income for the period:		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of financial statements of foreign operation	167	(47)
Total comprehensive income for the period	15,385	39,552
Profit attributable to:		
Owners of the Company	15,077	39,599
Non-controlling interest	141	-
	15,218	39,599
Total comprehensive income attributable to:		
Owners of the Company	15,244	39,552
Non-controlling interest	141	-
	15,385	39,552

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

	Notes	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment		449,854	481,052
Intangible assets		4,243	4,342
Land use rights		–	41,200
Right-of-use assets		47,928	–
Goodwill		5,385	5,385
Deferred tax asset		2,265	2,265
Interests in associates		35,999	36,024
		545,674	570,268
Current assets			
Inventories		268,497	325,760
Trade and bills receivables, deposits and prepayments	7	383,138	473,639
Amount due from ultimate holding company		874	1,142
Amounts due from associates		933	–
Pledged bank deposits		–	9,459
Bank balances, deposits and cash		109,055	105,616
		762,497	915,616
Current liabilities			
Trade and other payables	8	296,615	478,804
Amount due to ultimate holding company		–	287
Amounts due to associates		307	4,795
Income tax liabilities		7,748	19,310
Obligations under finance leases		50,095	50,653
Lease liabilities		5,965	–
Bank and other loans		257,950	255,733
		618,680	809,582
Net current assets			
		143,817	106,034
Total assets less current liabilities			
		689,491	676,302
Non-current liabilities			
Lease liabilities		2,000	–
Amount due to ultimate holding company		102	4,101
Deferred income		6,904	6,904
		9,006	11,005
		680,485	665,297
Capital and reserves			
Share capital		4,853	4,853
Reserves		673,078	658,031
		677,931	662,884
Non-controlling interest		2,554	2,413
		680,485	665,297

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	Share capital	Share premium	Special reserve	Reserve for shares issued with vesting conditions	Translation reserve	Capital reserve	Statutory surplus reserve	Retained profits	Sub-total	Non-controlling interest	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
1 January 2018	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	-	-	-	-	-	-	-	(2,946)	(2,946)	-	(2,946)
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 period	-	-	-	-	-	-	-	39,599	39,599	-	39,599
Other comprehensive income for the period	-	-	-	-	(47)	-	-	-	(47)	-	(47)
Total comprehensive income for the period	-	-	-	-	(47)	-	-	39,599	39,552	-	39,552
At 30 June 2018	3,755	53,462	49,663	18,065	4,856	71	18,367	398,349	546,588	-	546,588
At 1 January 2019	4,853	124,323	49,663	18,065	5,505	71	19,144	441,260	662,884	2,413	665,297
Effect of change in accounting policy	-	-	-	-	-	-	-	(197)	(197)	-	(197)
At 1 January 2019	4,853	124,323	49,663	18,065	5,505	71	19,144	441,063	662,687	2,413	665,100
Profit for the period	-	-	-	-	-	-	-	15,077	15,077	141	15,218
Other comprehensive income for the period	-	-	-	-	167	-	-	-	167	-	167
Total comprehensive income for the period	-	-	-	-	167	-	-	15,077	15,244	141	15,385
At 30 June 2019	4,853	124,323	49,663	18,065	5,672	71	19,144	456,140	677,931	2,554	680,485

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the six months ended 30 June 2019

	2019 RMB'000	2018 RMB'000
Net cash generated from operating activities	3,222	35,584
Net cash generated from/(used in) investing activities	2,557	(61,249)
Net cash generated from/(used in) financing activities	(2,340)	24,149
Increase/(decrease) in cash and cash equivalents	3,439	(1,516)
Cash and cash equivalents at beginning of period	105,616	56,019
Cash and cash equivalents at end of period, representing bank balances deposits and cash	109,055	54,503

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The Company is a public limited company incorporated in the Cayman Islands as an exempted company with limited liability on 4 April 2005. On 13 October 2005, the shares of the Company were listed on the Growth Enterprises Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and were withdrawn from the GEM on 14 December 2010. On 15 December 2010, the Company's shares were listed on the Main Board of the Stock Exchange.

The unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong (the "Listing Rules").

The accounting policies and methods of computation used in the preparation of these condensed consolidated interim financial statements are consistent with those used in the annual report for the year ended 31 December 2018, except for the adoption of the amendments to Hong Kong Financial Reporting Standards ("HKFRSs") as of 1 January 2019 that are relevant to its operations. The adoption of these amendments to HKFRSs had no significant financial effect on these financial statements.

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

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

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2015-2017 Cycle
HKAS 28 (Amendment)	Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures
HKAS 19 (Amendment)	Employee Benefits – Plan Amendments, Curtailment or Settlement
HKFRS 9 (Amendment)	Financial Instruments – Prepayment Features with Negative Compensation
HKFRS 16	Leases

Saved as further explained below, the adoption of the other new and revised HKFRSs has had no significant financial effect on the unaudited condensed interim financial statements of the Group.

Impact and changes in accounting policies of application on HKFRS 16 Leases

HKFRS 16 replaces HKAS 17 Leases, HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases – Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17.

New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standalone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various factories and office properties, warehouses and staff quarters. As a lessee, the Group previously classified leases as operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets; and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

3. REVENUE

Revenue represents the net amounts received and receivable for goods sold to outside customers, less returns and discounts, and net of value-added tax ("VAT").

4. PROFIT BEFORE TAXATION

	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Profit before taxation has been arrived at after charging:		
Cost of inventories recognized as an expense	525,059	543,583
Amortisation of intangible recognized as administrative expenses	99	146
Depreciation of property, plant and equipment	38,100	39,245

5. TAXATION

(i) Overseas income tax

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

(ii) Hong Kong profits tax

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

(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 year ending 31 December 2019 and the year ended 31 December 2018 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.

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 year ending 31 December 2019 and the year ended 31 December 2018.

* The English names are for identification purposes only

6. 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:

	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Earnings		
Earnings for the purpose of basic and diluted earnings per share	15,077	39,599
	2019 '000	2018 '000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	636,550	582,912

Diluted earnings per share is same as basic earnings per share for the periods ended 30 June 2019 and 2018 as there is no potential ordinary shares outstanding.

The weighted average number of ordinary shares for the period ended 30 June 2019 and 2018 have been adjusted for the new bonus shares issued on 12 July 2019 as if such bonus issue had occurred at the beginning of the earliest period presented.

7. TRADE AND BILLS RECEIVABLE, DEPOSITS AND PREPAYMENTS

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Trade receivables and bills receivables	356,665	430,856
Less: impairment loss recognised	(8,440)	(8,440)
	348,225	422,416
Advance to suppliers	4,575	17,116
Other receivables, deposits and prepayments	30,338	34,107
	383,138	473,639

Note:

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 aged analysis of trade receivables, net of provision of impairment loss recognised presented based on the invoice dates, which approximated the respective revenue recognition dates, are as follows:

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Within 30 days	117,573	213,198
31 to 60 days	102,611	85,748
61 to 90 days	91,108	62,981
91 to 180 days	29,464	52,417
181 to 365 days	5,512	6,055
Over 365 days	1,957	2,017
	348,225	422,416

8. TRADE PAYABLES AND ACCRUED CHARGES

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Trade payables and bills payables	206,177	302,213
Other payables, accrued charges, value added tax payables and contract liabilities	90,438	176,591
	296,615	478,804

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

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Within 30 days	75,685	194,550
31 to 60 days	71,512	53,166
61 to 90 days	39,835	32,198
91 to 180 days	15,466	16,029
181 to 365 days	1,108	3,543
Over 365 days	2,571	2,727
	206,177	302,213

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.

9. APPROVAL OF FINANCIAL STATEMENTS

These condensed consolidated financial statements were approved and authorised for issue by the board of directors on 23 August 2019.