



YUSEI HOLDINGS LIMITED 友成控股有限公司*

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

2019 ANNUAL REPORT

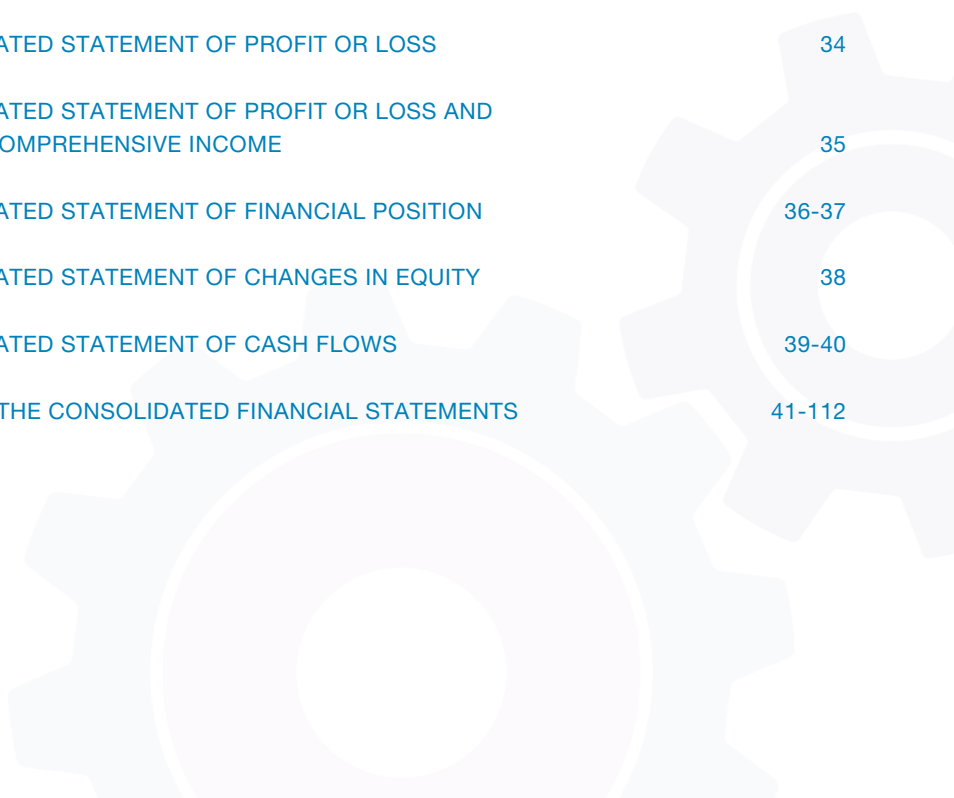


* For identification only



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CORPORATE INFORMATION

REGISTERED OFFICE

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Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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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
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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

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Zhejiang 311201
The PRC

Agricultural Bank of China
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Xiaoshan Economy & Technology Development Zone
Zhejiang
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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 2019, Yusei Holdings Limited (the “Company”) and its subsidiaries (herein after collectively referred to as the “Group”) is principally engaged in the design, development and fabrication of precision plastic injection moulds, and the manufacture of plastic components in the Peoples’ Republic of China (the “PRC”). The Group also provides services for certain assembling and further processing of plastic components for its customers. The Group’s customers are mainly the manufacturers of branded auto parts and components, office equipment and plastic components in the PRC.

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 year ended 31 December 2019 increased by 2.1% to approximately RMB1,301,618,000 as compared to that of approximately RMB1,274,993,000 for the year ended 31 December 2018 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 RMB135,931,000 for the year ended 31 December 2019, representing a decrease of approximately 25.9% as compared to that of approximately RMB183,385,000 for the year ended 31 December 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 year.

DISTRIBUTION COSTS

Distribution costs for the year ended 31 December 2019 increased by approximately 7.7% to approximately RMB56,222,000 as compared to that of approximately RMB52,217,000 for the year ended 31 December 2018. 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 (“JPY”), Euro Dollars and United State dollars (“US\$”) into Renminbi (“RMB”).

ADMINISTRATIVE EXPENSES

Administrative expenses for the year ended 31 December 2019 decreased approximately by 4.0% to RMB47,440,000 as compared to that of approximately RMB49,435,000 for the year ended 31 December 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

Finance costs for the year ended 31 December 2019 decreased approximately by 4.6% to RMB14,555,000 as compared to that of approximately RMB15,259,000 for the year ended 31 December 2018.

PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The profit attributable to owners of the Company decreased by approximately 61.5% from approximately RMB91,303,000 for the year ended 31 December 2018 to approximately RMB35,108,000 for the year ended 31 December 2019.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2019, the equity amounted to approximately RMB697,766,000 (2018: RMB665,297,000). Current assets amounted to approximately RMB935,050,000 (2018: RMB915,616,000), of which bank balances and cash and pledged bank deposits totaling approximately RMB81,035,000 (2018: RMB115,075,000). The Group had non-current assets of approximately RMB562,461,000 (2018: RMB570,268,000) and its current liabilities amounted to approximately RMB790,967,000 (2018: RMB809,582,000), comprising mainly its creditors and accrued charges and bank borrowings. The net asset value per share was RMB1.10 (2018 (restated): RMB1.11). The Group expresses its gearing ratio as a percentage of lease liabilities and borrowings (2018: finance leases, amount due to ultimate holding company and borrowings) over total assets. As at 31 December 2019, the Group had a gearing ratio of 19.1% (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.

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 (“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 31 December 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 31 December 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 31 December 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.

MANAGEMENT DISCUSSION AND ANALYSIS

| | Planned use of net proceeds of the Second Subscriptions (HK\$ 'million) | Actual use of net proceeds of the Second Subscriptions up to 31 December 2019 (HK\$ 'million) | Description |
|--|---|--|--|
| Second Subscriptions: | | | |
| - Construction of a new factory in Tianjin, the PRC | 30.0 | | - Up to 31 December 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 year ended 31 December 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 31 December 2019, the total number of the Group's staff was approximately 2,200 (2018: 2,500). The total staff costs (including directors' remuneration) amounted to approximately RMB202,847,000 (2018: RMB230,365,000) for the year. The Group remunerates its employees based on their performance, experience and prevailing industry practice. The Group provides retirement benefit for its employees in Hong Kong in form of mandatory provident fund and provides similar schemes for its employees in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

CHARGE ON GROUP ASSETS

As at 31 December 2019, the Group's bank loans are secured by right-of-use assets (2018: land use rights) and property, plant and equipment of the Group with an aggregate net carrying values of approximately RMB15,629,000 (2018: RMB16,210,000) and RMB109,400,000 (2018: RMB117,208,000), respectively.

As at 31 December 2019, the Group's other loans are secured under sales and leaseback agreements by the Group's property, plant and equipment with net carrying value of RMB48,532,000 (2018: nil).

As at 31 December 2019, bank deposits amounting to approximately RMB454,000 (2018: RMB9,459,000) 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.

FOREIGN CURRENCY RISK

The Group carries on business in RMB, 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 trade and bills receivables, deposits and other receivables; bank balances and cash; trade and other payables; bank loans 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.

MATERIAL ACQUISITIONS AND DISPOSAL

Save as those disclosed above, the Group did not make any significant investments or material acquisitions and disposals of subsidiaries during the year ended 31 December 2019.

CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any significant contingent liabilities.

OUTLOOK

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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 Enterprise resource planning 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 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.

EVENTS AFTER THE REPORTING PERIOD

The outbreak of the 2019 Novel Coronavirus ("COVID-19") in PRC and the subsequent quarantine measures imposed by the PRC government has had an impact on the Group's operation in China. The Group had to suspend its manufacturing activities since late January 2020 due to mandatory government quarantine measures in an effort to contain the spread of the epidemic. The Group has resumed its manufacturing activities since early February 2020.

The directors of the Company are monitoring the financial impact that COVID-19 will have on the Group's consolidated financial statements as at the date that these consolidated financial statements are authorised for issue.

PRINCIPAL RISKS AND UNCERTAINTIES

Below are principal risks and uncertainties that may have a material and adverse effect on the Group's business, financial conditions and results of operations and the Group's risk management measures:

1. The Group may not be able to maintain its historical growth rates or profit margins, and its results of operations may fluctuate.

Building on its existing client base, the Group will continue to seek new customers. In addition, the Group leverages on the expertise and experience of its senior management to deliver efficient operation and management, so as to reduce the risk of instability.
2. The Group's business depends on its ability to retain key personnel.

The Group maintains good relationship with its senior management and provides its staff with sufficient professional trainings. Staff remuneration and benefits are in line with the prevailing market rates and subject to regular review by the Group.
3. Labour shortages and increase in labour costs may have an adverse effect on the Group's business operations.

The Group will step up efforts to recruit appropriate employees through various channels. The Group is committed to cultivating employees with great potential to become more productive senior staff.

In addition, the Group's activities are exposed to a variety of financial risks including foreign currency risk, interest rate risk, credit risk and liquidity risk. Details of the financial risks are set out in the Company's annual report.

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 2019.

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 People's Republic of China (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 31(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 2019 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 34 to 112.

The Directors recommended the payment of a final dividend of RMB1.30 cents per share in respect of the year ended 31 December 2019 subject to the approval from the forthcoming annual general meeting.

REPORT OF THE DIRECTORS

SUMMARY FINANCIAL INFORMATION

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

RESULTS

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|----------------------------------|--------------------|-------------|-------------|-------------|-----------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Revenue | 1,301,618 | 1,274,993 | 1,247,392 | 1,218,555 | 1,101,340 |
| Cost of sales | (1,165,687) | (1,091,608) | (1,045,450) | (1,032,922) | (936,038) |
| Gross profit | 135,931 | 183,385 | 201,942 | 185,633 | 165,302 |
| Other income and gain | 25,625 | 35,515 | 20,938 | 12,937 | 7,305 |
| Net foreign exchange (loss) gain | (534) | 1,640 | (1,331) | (2,661) | 1,595 |
| Distribution costs | (56,222) | (52,217) | (46,747) | (44,322) | (35,877) |
| Administrative expenses | (47,440) | (49,435) | (63,278) | (57,355) | (51,990) |
| Finance costs | (14,555) | (15,259) | (15,836) | (15,024) | (17,576) |
| Share of profits of associates | 1,733 | 1,832 | 2,485 | 2,426 | 4,736 |
| Profit before tax | 44,538 | 105,461 | 98,173 | 81,634 | 73,495 |
| Income tax expense | (8,961) | (14,040) | (14,678) | (17,362) | (11,702) |
| Profit for the year | 35,577 | 91,421 | 83,495 | 64,272 | 61,793 |
| ASSETS AND LIABILITIES | | | | | |
| Total assets | 1,497,511 | 1,485,884 | 1,236,305 | 1,180,686 | 1,000,512 |
| Total liabilities | (799,745) | (820,587) | (726,323) | (746,526) | (622,360) |
| | 697,766 | 665,297 | 509,982 | 434,160 | 378,152 |

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 29 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

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

REPORT OF THE DIRECTORS

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 38 to the consolidated financial statements and the consolidated statement of changes in equity and note 30 to the consolidated financial statements, respectively.

The reserve available for distribution to shareholders is based on the lower of the aggregate amount of profit after taxation for the year and retained profits brought forward determined under accounting standards in the PRC 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 2019, the total number of the Group's staff was approximately 2,200. The total staff costs (including directors' remuneration) amounted to approximately RMB202,847,000 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.

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 35% of the total sales for the year and sales to the largest customer included therein amounted to 9%. 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 Toshimitsu Masuda, Lo Ka Wai and Hisaki Takabayashi will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 25 to 26 of the annual report.

DIRECTORS' SERVICE CONTRACTS

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

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

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

REPORT OF THE DIRECTORS

DIRECTORS' REMUNERATION

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

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 36 to the consolidated financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

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

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

| Name of Company | Name of Director | Capacity | | | Number of Shares | | |
|--|--|----------------------|------------------|-----------------------|-----------------------|----------------|-------------------------------------|
| | | Personal Interests | Family Interests | Corporate Interests | Long Position | Short Position | Approximate Percentage of Interests |
| Company | Katsutoshi Masuda ("Mr. Masuda") (Note 1) | - | - | 233,316,864 shares | 233,316,864 shares | - | 36.65% |
| Company | Toshimitsu Masuda (Note 2) | - | - | 233,316,864 shares | 233,316,864 shares | - | 36.65% |
| Company | Xu Yong | 90,086,400 shares | - | - | 90,086,400 shares | - | 14.15% |
| Company | Manabu Shimabayashi | 1,900,800 shares | - | - | 1,900,800 shares | - | 0.30% |
| Company | Fan Xiaoping | 57,024 shares | - | - | 57,024 shares | - | 0.01% |
| Yusei Machinery Corporation ("Yusei Japan") | Mr. Masuda (Note 3) | 24,060 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% |

REPORT OF THE DIRECTORS

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 36.65% 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 233,316,864 Shares held by Yusei Japan.
2. Mr. Toshimitsu Masuda, (son of Mr. Masuda) holds 50.00% of the issued share capital of Conpri Co., Ltd. (the "Conpri"). Conpri is interested in 25.80% in the issued share capital of Yusei Japan which in turn is interested in 36.65% in the issued share capital of the Company. By virtue of SFO, Mr. Toshimitsu Masuda is deemed to be interested in 233,316,864 Shares through his shareholding in Conpri.
3. Mr. Masuda holds 50.00% 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:

| Name of Company | Number of Shareholder | Capacity | Number of Shares | | Approximate Percentage of Interests |
|-----------------|---|--------------------|--------------------|----------------|-------------------------------------|
| | | | Long Position | Short Position | |
| Company | Yusei Japan | Beneficial Owner | 233,316,864 shares | – | 36.65% |
| Company | Conpri (Note 1) | Corporate Interest | 233,316,864 shares | – | 36.65% |
| Company | Superview International Investment Limited (Note 2) | Beneficial Owner | 110,880,000 shares | – | 17.42% |
| Company | Ding Hong Guang | Beneficial Owner | 60,104,640 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 233,316,864 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.

REPORT OF THE DIRECTORS

PERMITTED INDEMNITY PROVISION

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

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

None of the Directors or their respective associates was granted by the Company or its subsidiary any right to acquire shares or debentures of the Company or any other body corporate, or had exercised any such right as at 31 December 2019.

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 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 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 2019, 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.

REPORT OF THE DIRECTORS

DIRECTORS' INTEREST IN A COMPLETING BUSINESS

Yusei Japan is beneficially owned as to 36.65% 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 24.0% by Mr. Masuda, as to approximately 1.7% by Mr. Toshimitsu Masuda, as to 30% by Tokyo Small and Medium Business Investment & Consultation Co., Ltd., and as to 0.5% by certain staff of Yusei Japan, respectively, and as to approximately 18.0% 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, and as to 50% by Mr. Masuda. Mr. Toshimitsu Masuda is the son of Mr. Masuda. 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;

REPORT OF THE DIRECTORS

- (3) not directly or indirectly sell, distribute, supply or otherwise provide products that are within the Group's Product Portfolio to any purchaser or potential purchaser of any products within the Group's Product Portfolio in the Group's Exclusive Markets (the "Customers") and upon receipt of any enquiry from Customers for products which are within the Group's Product Portfolio, to refer to the Company or any member of the Group all such business opportunities received by the Covenantors and provide sufficient information to enable the Company or any member of Group to reach an informed view and assessment on such business opportunities;
- (4) not directly or indirectly sell, distribute, supply or otherwise provide any products that are within the Group's Product Portfolio where the relevant Covenantor(s) know(s), or is reasonably regarded as should have known, that such products are destined to be re-sold, re-distributed or re-supplied for the purpose of commercial exploitation in the Group's Exclusive Markets;
- (5) upon receipt of any order or enquiry from customers outside the Group's Exclusive Markets for products which are within the Group's Product Portfolio and where the relevant Covenantor(s) know(s), or is reasonably regarded as should have known, that such products are destined to be re-sold, re-distributed or re-supplied for the purpose of commercial exploitation in the Group's Exclusive Markets, the relevant Covenantor shall inform the Group in writing of such order or enquiry and refer such customer to contract directly with the Group for the order of the relevant product;
- (6) not do or say anything which may be harmful to the reputation of any member of the Group or which may lead any person to reduce their level of business with any member of the Group or seek to improve their terms of trade with any member of the Group; and
- (7) not solicit or entice or endeavour to solicit or entice any of the employees of or consultants to the Group to terminate their employment or appointment with any member of the Group.

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

AUDITOR

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

ON BEHALF OF THE BOARD

Katsutoshi Masuda

Chairman

PRC

31 March 2020

CORPORATE GOVERNANCE REPORT

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 2019, 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 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.

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 25 to 26.

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".

CORPORATE GOVERNANCE REPORT

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 2019 | Attendance in annual general meeting in 2019 |
|--|---|--|
| 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.

CORPORATE GOVERNANCE REPORT

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 2019 are set out in Note 11 to the consolidated financial statements.

CORPORATE GOVERNANCE REPORT

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 31 May 2019. Auditing fees in respect of annual audit and non-audit services for the year ended 31 December 2019 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, 2018 and 2019 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 2018 annual results and 2019 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 REPORT

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 2019, 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 2019 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 2019, Mr. Shum has taken no less than 15 hours of relevant professional trainings to update his skills and knowledge.

CORPORATE GOVERNANCE REPORT

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.

CORPORATE GOVERNANCE REPORT

- 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

- The EGM shall be held within two months after the deposit of such requisition.
- 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Mr. Katsutoshi MASUDA (増田勝年先生), aged 75, 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 57, 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 46, is an executive director and deputy general manager of Yusei. Mr. Shimabayashi will be appointed as an executive Director of the Company with effect from the date on which the listing of the Shares is transferred from GEM to Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). He graduated from Seijo University (成城大學) with a bachelor degree in economics in 1996. He was employed by an accountants’ firm in Shizuoka, Japan from 1996 to 2007. Mr. Shimabayashi joined the Group in 2007 as head of management department of Zhejiang Yusei.

Mr. Toshimitsu MASUDA (増田敏光先生), aged 51, 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. FAN Xiaoping (范曉屏先生), aged 61, 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 50, 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 59, 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 66, 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. WANG Dehong (王德洪先生), aged 50, 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 48, is company secretary of the Company. He obtained a master degree in financial management from the University of London, the United Kingdom in December 1998. He is also a fellow member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group in April 2005, he had over 11 years of experience in auditing and accounting and had worked for an international accounting firm and a listed company in Hong Kong.

INDEPENDENT AUDITOR'S REPORT



SHINEWING (HK) CPA Limited
43/F., Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

TO THE MEMBERS OF YUSEI HOLDINGS LIMITED

友成控股有限公司

(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Yusei Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) set out on pages 34 to 112, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment allowance on trade receivables from selling of goods

Refer to Note 20 to the consolidated financial statements and the accounting policies on page 57.

| The key audit matter | How the matter was addressed in our audit |
|---|---|
| <p>As at 31 December 2019, the Group had trade receivables from selling of goods with carrying amount of approximately RMB436 million, net of impairment loss of approximately RMB8 million.</p> <p>The management of the Group estimates the amount of lifetime expected credit losses ("ECL") of trade receivables individually for debtors with significant balances and/or collectively based on provision matrix through grouping of various debtors that have similar loss patterns, after considering internal credit ratings of debtors, ageing, repayment history and/or past due status of respective trade receivables. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is reasonable and supportable available without undue costs or effect. In addition, trade receivables that are credit-impaired are assessed for ECL individually. The loss allowance amount of the credit-impaired trade receivables is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit losses.</p> <p>We have identified the impairment assessment of trade receivables as a key audit matter because of its significance to the consolidated financial statements and because the impairment assessment involves a significant degree of judgement by management which may affect the carrying value of the Group's trade receivables for the current year.</p> | <p>Our audit procedures were designed to challenge the assumptions and critical judgements of the Group's forward-looking ECL model on impairment assessment of trade receivables.</p> <p>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 the end of the reporting period. 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.</p> |

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (CONTINUED)

Impairment assessment of property, plant and equipment and right-of-use assets

Refer to Notes 14 and 15 to the consolidated financial statements and the accounting policies on page 49 and 51.

| The key audit matter | How the matter was addressed in our audit |
|--|---|
| <p>The carrying value of Group's property, plant and equipment and right-of-use assets as at 31 December 2019 was approximately RMB460 million and RMB45 million respectively.</p> <p>The management of the Group would determine the recoverable amount of the property, plant and equipment and right-of-use assets 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 cash flows and discount rate. The use of these estimates involves a significant degree of management judgement and therefore could have a material impact on any impairment recorded for the year.</p> <p>We have identified the impairment assessment of property, plant and equipment and right-of-use assets 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 and right-of-use assets for the current year.</p> | <p>In order to address this matter in our audit, we obtained management's assessment and challenged the reasonableness of the selection of valuation model, adoption of key assumptions and input data. In particular, we tested the future cash flow forecast on whether it is agreed to the budget and compared the budget with actual results available up to the report date. We also challenged the appropriateness of the assumption, including the sales growth rates and gross margin.</p> <p>We also challenged the discount rate employed in the calculation of value-in-use by reviewing its basis of calculation and comparing its input data to market sources.</p> <p>As any changes in these assumptions and input to valuation model may result in significant financial impact, we performed our own sensitivity analysis which included changes in the sales growth rates, gross margin and discount rate employed.</p> |

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (CONTINUED)

Allowance for inventories

Refer to Note 19 to the consolidated financial statements and the accounting policies on page 55.

| The key audit matter | How the matter was addressed in our audit |
|--|--|
| <p>The Group has inventories of approximately RMB311 million as at 31 December 2019. The directors of the Company review an ageing analysis at the end of each reporting period, and makes allowance on obsolete and slow-moving inventory items identified that are no longer suitable for use in production.</p> <p>During the year, the allowance for inventories of approximately 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.</p> <p>In making this judgment, the directors of the Company estimate the net realisable value for such raw materials, work-in-progress and finished goods based primarily on the latest invoice prices and current market conditions. The directors of the Company also carry out an inventory review on a product-by-product basis at the end of each reporting period and makes allowance on obsolete items.</p> <p>We have identified the valuation of inventories as a key audit matter because this involves a significant degree of management judgement on the valuation methods and assumptions for the estimation on the allowance for inventories.</p> | <p>Our audit procedures were designed to assess the methodology and assumptions used by the management in calculating the inventory allowance. We reviewed management's identification of slow-moving and obsolete inventories, attended physical inspection on stocktake for identifying slow-moving or obsolete inventories and critically assessed whether appropriate allowance had been established for slow-moving and obsolete items. When considering management's assessment, we have also taken into account the most recent prices achieved on sales across the product lines and the subsequent usage of the inventories.</p> <p>We considered whether we would expect a change to the methodology and assumptions based on any changes compared to those used in prior years. We also assessed the reliability of management's assessment by considering the utilisation or release of previously recorded allowance.</p> |

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS 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.

INDEPENDENT AUDITOR'S REPORT

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

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

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors 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.

INDEPENDENT AUDITOR'S REPORT

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

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

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

SHINEWING (HK) CPA Limited

Certified Public Accountants

Chan Wing Kit

Practising Certificate Number: P03224

Hong Kong

31 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

| | NOTES | 2019 RMB'000 | 2018 RMB'000 |
|----------------------------------|-------|-----------------|-----------------|
| Revenue | 6 | 1,301,618 | 1,274,993 |
| Cost of sales | | (1,165,687) | (1,091,608) |
| Gross profit | | 135,931 | 183,385 |
| Other income and gain | 7 | 25,625 | 35,515 |
| Net foreign exchange (loss) gain | | (534) | 1,640 |
| Distribution costs | | (56,222) | (52,217) |
| Administrative expenses | | (47,440) | (49,435) |
| Finance costs | 8 | (14,555) | (15,259) |
| Share of profits of associates | 18 | 1,733 | 1,832 |
| Profit before tax | | 44,538 | 105,461 |
| Income tax expense | 9 | (8,961) | (14,040) |
| Profit for the year | 10 | 35,577 | 91,421 |

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

| | NOTE | 2019 RMB'000 | 2018 RMB'000 |
|---|------|-----------------|--------------------------|
| Profit for the year | | 35,577 | 91,421 |
| Other comprehensive (expense) income: Item that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences arising on translation of financial statements of foreign operation | | (154) | 602 |
| Total comprehensive income for the year | | 35,423 | 92,023 |
| Profit for the year attributable to: | | | |
| Owners of the Company | | 35,108 | 91,303 |
| Non-controlling interests | | 469 | 118 |
| | | 35,577 | 91,421 |
| Total comprehensive income for the year attributable to: | | | |
| Owners of the Company | | 34,954 | 91,905 |
| Non-controlling interests | | 469 | 118 |
| | | 35,423 | 92,023 |
| | | RMB | RMB (restated) |
| Earnings per share | | | |
| Basic and diluted (cents) | 13 | 0.055 | 0.153 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

| | NOTES | 2019 RMB'000 | 2018 RMB'000 |
|---|-------|-----------------|-----------------|
| Non-current assets | | | |
| Property, plant and equipment | 14 | 460,263 | 481,052 |
| Right-of-use assets | 15 | 45,299 | – |
| Intangible assets | 16 | 11,395 | 4,342 |
| Land use rights | 17 | – | 41,200 |
| Goodwill | 39 | 5,385 | 5,385 |
| Deferred tax assets | 40 | 2,362 | 2,265 |
| Interests in associates | 18 | 37,757 | 36,024 |
| | | 562,461 | 570,268 |
| Current assets | | | |
| Inventories | 19 | 311,272 | 325,760 |
| Trade and bills receivables, deposits and prepayments | 20 | 541,379 | 473,639 |
| Amount due from ultimate holding company | 25 | 1,364 | 1,142 |
| Pledged bank deposits | 22 | 454 | 9,459 |
| Bank balances and cash | 23 | 80,581 | 105,616 |
| | | 935,050 | 915,616 |
| Current liabilities | | | |
| Trade and other payables | 24 | 487,938 | 478,804 |
| Amount due to ultimate holding company | 25 | – | 287 |
| Amounts due to associates | 21 | 885 | 4,795 |
| Income tax liabilities | | 17,914 | 19,310 |
| Lease liabilities | 15 | 2,025 | – |
| Obligations under finance leases | | | |
| – due within one year | 26 | – | 50,653 |
| Bank and other loans - due within one year | 27 | 282,205 | 255,733 |
| | | 790,967 | 809,582 |
| Net current assets | | 144,083 | 106,034 |
| Total assets less current liabilities | | 706,544 | 676,302 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

| | NOTES | 2019 RMB'000 | 2018 RMB'000 |
|--|-------|-----------------|-----------------|
| Non-current liabilities | | | |
| Amount due to ultimate holding company | 25 | – | 4,101 |
| Lease liabilities | 15 | 2,098 | – |
| Deferred income | 28 | 6,680 | 6,904 |
| | | 8,778 | 11,005 |
| | | 697,766 | 665,297 |
| Capital and reserves | | | |
| Share capital | 29 | 5,801 | 4,853 |
| Reserves | 30 | 683,682 | 658,031 |
| | | 689,483 | 662,884 |
| Non-controlling interests | | 8,283 | 2,413 |
| | | 697,766 | 665,297 |

The consolidated financial statements on pages 34 to 112 were approved and authorised for issue by the board of directors on 31 March 2020 and are signed on its behalf by:

Mr. Katsutoshi Masuda
Director

Mr. Xu Yong
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

| | Share capital RMB'000 (Note 29) | Share premium RMB'000 | Special reserve RMB'000 (Note 30(i)) | Reserve for shares issued with vesting conditions RMB'000 (Note 30(iv)) | Translation reserve RMB'000 | Capital reserve RMB'000 (Note 30(ii)) | Statutory surplus reserve RMB'000 (Note 30(iii)) | Retained profits RMB'000 | Sub total RMB'000 | Non-Controlling interests RMB'000 | Total RMB'000 |
|---|---------------------------------------|--------------------------|--|---|--------------------------------|---|--|-----------------------------|----------------------|--------------------------------------|------------------|
| At 1 January 2018 | 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 29) | 1,098 | 70,861 | - | - | - | - | - | - | 71,959 | - | 71,959 |
| Acquisition of a subsidiary (Note 41) | - | - | - | - | - | - | - | - | - | 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 |
| 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 |
| Profit for the year | - | - | - | - | - | - | - | 35,108 | 35,108 | 469 | 35,577 |
| Other comprehensive expense for the year | - | - | - | - | (154) | - | - | - | (154) | - | (154) |
| Total comprehensive (expense) income for the year | - | - | - | - | (154) | - | - | 35,108 | 34,954 | 469 | 35,423 |
| Bonus issue (Note 29) | 948 | (948) | - | - | - | - | - | - | - | - | - |
| Deemed disposal of partial interest in a subsidiary (Note 37(c)) | - | - | - | - | - | - | - | 129 | 129 | 5,401 | 5,530 |
| Dividend recognised as distribution (Note 12) | - | - | - | - | - | - | - | (8,484) | (8,484) | - | (8,484) |
| At 31 December 2019 | 5,801 | 123,375 | 49,663 | 18,065 | 5,351 | 71 | 19,144 | 468,013 | 689,483 | 8,283 | 697,766 |

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

| | 2019 RMB'000 | 2018 RMB'000 |
|--|-----------------|-----------------|
| OPERATING ACTIVITIES | | |
| Profit before tax | 44,538 | 105,461 |
| Adjustments for: | | |
| Bank interest income | (395) | (3,434) |
| Depreciation and amortisation | 89,278 | 77,272 |
| Finance costs | 14,555 | 15,259 |
| Government subsidies | (14,454) | (9,134) |
| (Reversal of) impairment loss on trade receivables | (200) | 2,448 |
| Gain on deemed disposal of an associate | – | (7,130) |
| Allowance for inventories | 1,936 | 2,277 |
| Loss on disposal of property, plant and equipment | 408 | – |
| Release of government grants | (224) | (224) |
| Reversal of allowance for inventories | (447) | (3,151) |
| Share of profits of associates | (1,733) | (1,832) |
| Operating cash flows before movements in working capital | 133,262 | 177,812 |
| (Increase) decrease in trade and bills receivables, deposits and prepayments | (68,262) | 2,986 |
| Decrease (increase) in inventories | 12,999 | (67,913) |
| (Decrease) increase in amounts due to associates | (3,910) | 7,891 |
| Increase in trade and other payables | 9,193 | 14,052 |
| Cash generated from operations | 83,282 | 134,828 |
| Income taxes paid | (10,454) | (15,477) |
| NET CASH FROM OPERATING ACTIVITIES | 72,828 | 119,351 |

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

| | 2019 RMB'000 | 2018 RMB'000 |
|---|-----------------|------------------|
| INVESTING ACTIVITIES | | |
| Acquisition of a subsidiary, net of cash acquired (Note 41) | – | (787) |
| Purchase of property, plant and equipment | (68,703) | (115,350) |
| Advance to ultimate holding company | (209) | (1,142) |
| Purchase of land use rights | – | (15,183) |
| Placement of pledged bank deposits | – | (8,926) |
| Purchase of intangible assets | (3,097) | (3,166) |
| Proceeds from disposal of property, plant and equipment | 3,395 | – |
| Release of pledged bank deposits | 8,997 | 298 |
| Interest received | 395 | 3,434 |
| NET CASH USED IN INVESTING ACTIVITIES | (59,222) | (140,822) |
| FINANCING ACTIVITIES | | |
| Issue of shares | – | 71,959 |
| Repayment of bank and other loans | (255,733) | (234,744) |
| Repayment of lease liabilities | (52,494) | – |
| Repayment of obligations under finance leases | – | (41,463) |
| Interest paid | (14,639) | (14,152) |
| Dividend paid | (8,484) | (8,016) |
| New bank and other loans raised | 281,929 | 239,733 |
| Net proceeds of sale and leaseback transactions | – | 65,781 |
| Government subsidies received | 14,454 | 9,134 |
| Repayment to ultimate holding company | (4,388) | (18,736) |
| Proceeds from deemed disposal of partial interest in a subsidiary without losing control | 1,000 | – |
| NET CASH (USED IN) FROM FINANCING ACTIVITIES | (38,355) | 69,496 |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (24,749) | 48,025 |
| CASH AND CASH EQUIVALENTS AT 1 JANUARY | 105,616 | 56,019 |
| Effect of foreign exchange rate changes | (286) | 1,572 |
| CASH AND CASH EQUIVALENTS AT 31 DECEMBER Representing by bank balances and cash | 80,581 | 105,616 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS(s)”)

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

| | |
|--|--|
| HKFRS 16 | Leases |
| Hong Kong (the International Financial Reporting Interpretations Committee) (“HK (IFRIC)”) – Interpretation (“Int”) 23 | Uncertainty over Income Tax Treatments |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation |
| Amendments to Hong Kong Accounting Standard (“HKAS”) 19 | Plan Amendment, Curtailment or Settlement |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2015-2017 Cycle |

The adoption of HKFRS 16 resulted in the changes in the Group’s accounting policies and amounts recognised in the consolidated financial statements as summarises 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

Impacts on adoption of HKFRS 16 Leases

HKFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating lease and finance lease and requiring the recognition of right-of-use asset and a lease liability for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new accounting policies are described in Note 3. The Group has applied HKFRS 16 retrospectively with the cumulative effect of initial application as an adjustment to the opening balance of equity, where appropriate, at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

On transition to HKFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which arrangements are, or contain, leases. It applied HKFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-4 *Determining whether an Arrangement contains a Lease* 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.

The Group as lessee

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of HKAS 17 (except for lease of low value assets and lease with remaining lease term of 12 months or less). These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 January 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5%.

The Group recognises right-of-use assets and measures them at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments and the Group applied this approach to all other leases.

The Group leases a number of items of machinery and equipment. These leases were classified as finance leases under HKAS 17. For these finance leases, the carrying amount of the right-of-use asset and the lease liability at 1 January 2019 were determined at the carrying amount of the lease asset and lease liability under HKAS 17 immediately before that date. Accordingly, the obligations under finance leases are now included within lease liabilities, and the carrying amount of the corresponding lease asset is identified as a right-of-use asset. There is no impact on the opening balance of equity.

The Group as lessor

The Group leases some of the properties. The accounting policies applicable to the Group as lessor remain substantially unchanged from those under HKAS 17.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

Impacts on adoption of HKFRS 16 Leases (Continued)

The following table summarises the impact of transition of HKFRS 16 at 1 January 2019. Line items that were not affected by the adjustments have not been included.

| | Notes | Carrying amount previously reported at 31/12/2018 RMB'000 | Impact on adoption of HKFRS 16 RMB'000 | Carrying amount as restated at 1/1/2019 RMB'000 |
|---|---------|--|---|--|
| Property, plant and equipment | (b) | 481,052 | (56,684) | 424,368 |
| Right-of-use assets | (a),(b) | – | 103,453 | 103,453 |
| Land use rights | (a) | 41,200 | (41,200) | – |
| Trade and bills receivables, deposits and prepayments | (a) | 473,639 | (1,150) | 472,489 |
| Obligations under finance leases | (b) | 50,653 | (50,653) | – |
| Lease liabilities | (a),(b) | – | 55,072 | 55,072 |

Notes:

- (a) Land use rights of approximately RMB41,200,000 and land use rights included in trade and bills receivables, deposits and prepayments of approximately RMB1,150,000 which represent the upfront payments for leasehold lands in the PRC as at 31 December 2018 were reclassified to right-of-use assets.
- (b) The obligations under finance leases of approximately RMB50,653,000 as at 31 December 2018 were reclassified to lease liabilities. The carrying amount of the related assets under finance leases amounting to approximately RMB56,684,000 were reclassified to right-of-use assets.

In the consolidated statement of cash flows, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. The total cash flows are unaffected.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

Impacts on adoption of HKFRS 16 Leases (Continued)

Differences between operating lease commitments as at 31 December 2018, the date immediately preceding the date of initial application, discounted using the incremental borrowing rate, and the lease liabilities recognised as at 1 January 2019 are as follow:

| | RMB'000 |
|--|---------|
| Operating lease commitment disclosed as at 31 December 2018 | 4,922 |
| Less: Short-term leases and other leases with remaining lease term ended on or before 31 December 2019 | (143) |
| | 4,779 |
| Discounted using the incremental borrowing rate at 1 January 2019 | 4,419 |
| Add: Finance lease liabilities recognised under HKAS 17 as at 31 December 2018 | 50,653 |
| Lease liabilities recognised as at 1 January 2019 | 55,072 |
| Analysed as | |
| Current portion | 52,076 |
| Non-current portion | 2,996 |
| | 55,072 |

Practical expedients applied

On the date of initial application of HKFRS 16, the Group has also used the following practical expedients permitted by the standard:

- reliance on assessments on whether leases are onerous by applying HKAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

New and amendments to HKFRSs issued but not yet effective

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

| | |
|---|--|
| HKFRS 17 | Insurance Contracts ² |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³ |
| Amendments to HKFRS 3 | Definition of a Business ⁴ |
| Amendments to HKAS 1 and HKAS 8 | Definition of Material ¹ |
| Amendments to HKFRS 9, HKAS 39 and HKFRS 7 | Interest Rate Benchmark Reform ¹ |
| Conceptual Framework for Financial Reporting 2018 | Revised Conceptual Framework for Financial Reporting ¹ |

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

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 asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

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

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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation

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

Control is achieved where the 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.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 "Investments in associates" below.

Investments in associates

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 there is an objective evidence that the net investment in the associate is impaired. 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 is not allocated to any asset, including goodwill, that forms part of the carrying amount of the net investment in the associate. Any reversal of that impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates (Continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (Continued)

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.

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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (Continued)

Prior to the adoption of HKFRS 16, 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 (Accounting policy applicable on or after 1 January 2019)

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.

The Group as lessee

The Group assesses whether a contract is or contains a lease at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Lease liabilities

At the commencement date, the Group measures lease liability at the present value of the lease payments that are not paid at the date. The lease payments are discounted by using the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives receivables;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasing (Accounting policy applicable on or after 1 January 2019) (Continued)

The Group as lessee (Continued)

Lease liabilities (Continued)

Lease liability is remeasured (and with a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Right-of-use assets

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs, less lease incentives received. Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, provision is recognised and measured under HKAS 37. The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Group presents right-of-use assets as a separate line in the consolidated statement of financial position.

The Group applies HKAS 36 *Impairment of Assets* to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasing (Accounting policy applicable on or after 1 January 2019) (Continued)

The Group as lessee (Continued)

Sale and leaseback transactions

The Group acts as a seller-lessee

The Group applies the requirements of HKFRS 15 *Revenue from Contracts with Customers* to assess whether sale and leaseback transaction constitutes a sale by the Group as a seller-lessee. For a transfer that does not satisfy the requirements as a sale, the Group accounts for the transfer proceeds as borrowing within the scope of HKFRS 9 *Financial Instruments*.

The Group as lessor

The Group enters into lease agreements as a lessor with respect to some of its properties. Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When a contract includes both lease and non-lease components, the Group applies HKFRS 15 to allocate the consideration under the contract to each component.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Leasing (Accounting policy applicable prior to 1 January 2019)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasing (Accounting policy applicable prior to 1 January 2019) (Continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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.

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.

For the purposes of measuring deferred tax for lease liabilities in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (Continued)

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

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, except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at fair value through profit or loss) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

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.

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 expected credit losses ("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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Financial assets (Continued)

Amortised cost and effective interest method (Continued)

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 and gain” line item.

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, amount due from ultimate holding company, 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 bills receivables, which permit the use of the lifetime expected loss provision for all trade 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 12-month (“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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Loss allowance of financial assets (Continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Loss allowance of financial assets (Continued)

Significant increase in credit risk (Continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

Loss allowance of financial assets (Continued)

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (Continued)

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 Company 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 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 fair value through profit or loss, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment on tangible and intangible assets (other than impairment of goodwill set out in accounting policy of goodwill above)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement

When measuring fair value except for share-based payment transactions, leasing transactions, net realisable value of inventories and value in use of goodwill, 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 JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Key sources of estimation uncertainty

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

Key sources of estimation uncertainty (Continued)

Estimated depreciation and useful lives of property, plant and equipment and right-of-use assets

The directors of the Company determine the estimated useful lives and related depreciation charges for its property, plant and equipment and right-of-use assets. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment and right-of-use assets 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 and right-of-use assets as at 31 December 2019 amounted to approximately RMB460,263,000 (2018: RMB481,052,000) and RMB45,299,000 (2018: nil) respectively.

Estimated impairment of property, plant and equipment and right-of-use assets

In considering the impairment losses that may be required for certain of the Group's assets which include property, plant and equipment and right-of-use assets, 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 right-of-use assets as at 31 December 2019 amounted to approximately RMB460,263,000 (2018: RMB481,052,000) and RMB45,299,000 (2018: nil) respectively. No accumulated impairment loss was recognised for property, plant and equipment and right-of-use assets as at 31 December 2019 and 2018.

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 2019 amounted to approximately RMB37,757,000 (2018: RMB36,024,000). No impairment losses were recognised during the year ended 31 December 2019 (2018: nil).

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 make allowance for obsolete items. As at 31 December 2019, the carrying amount of inventories is approximately RMB311,272,000, net of allowance for inventories of approximately RMB11,156,000 (2018: RMB325,760,000, net of allowance for inventories of RMB9,667,000). During the year ended 31 December 2019, the Group recognised an allowance for inventories of approximately RMB1,936,000 (2018: RMB2,277,000) and reversal of allowance for inventories of approximately RMB447,000 (2018: RMB3,151,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

Key sources of estimation uncertainty (Continued)

Estimated loss allowance on trade receivables

The loss allowance for trade 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 2019, the carrying amount of trade receivables is approximately RMB435,748,000, net of loss allowance of approximately RMB8,240,000 (2018: RMB399,391,000, net of 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 2019, the carrying amount of goodwill is approximately RMB5,385,000 (2018: RMB5,385,000). Details of the recoverable amount calculation are disclosed in Note 39.

Critical judgement in applying accounting policies

The following is the critical judgement, apart from those involving estimations (see above), 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 title 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 lease liabilities and bank and other loans as disclosed in Notes 15 and 27 respectively and amounts due from/to ultimate holding company and associates as disclosed in Notes 25 and 21 respectively, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

6. REVENUE AND SEGMENT INFORMATION (CONTINUED)

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

| | 2019 RMB'000 | 2018 RMB'000 |
|--------------------|------------------|-----------------|
| Plastic components | 1,190,508 | 1,139,093 |
| Moulds | 111,110 | 135,900 |
| | 1,301,618 | 1,274,993 |

Transaction price allocated to the remaining performance obligations

As at 31 December 2019, the aggregate amount of transaction price allocated to the performance obligations that are unsatisfied (or partially satisfied) is approximately RMB200,549,000 (2018: RMB143,962,000). The amount represents revenue expected to be recognised in the future from delivery of goods. The Group will recognise this revenue when the goods are delivered to the customers, which is expected to occur over the next 12 - 24 months (2018: next 12 - 24 months).

Geographical information

During the years ended 31 December 2019 and 2018, the Group's operations were located in the PRC.

During the year ended 31 December 2019, 99.66% (2018: 99.72%) of the Group's revenue from external customers was generated in the PRC while as at 31 December 2019, 100% (2018: 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:

| | 2019 RMB'000 | 2018 RMB'000 |
|------------|------------------|-----------------|
| Customer A | N/A ¹ | 210,786 |

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

7. OTHER INCOME AND GAIN

| | 2019 RMB'000 | 2018 RMB'000 |
|---|-----------------|-----------------|
| Sale of of raw and scrap materials | 134,832 | 112,145 |
| Cost of of raw and scrap materials | (128,168) | (101,202) |
| Gain on sales of raw and scrap materials | 6,664 | 10,943 |
| Quality inspection income | 557 | 676 |
| Bank interest income | 395 | 3,434 |
| Rental income | 18 | 38 |
| Management services income | 747 | 1,666 |
| Government subsidies (Note) | 14,454 | 9,134 |
| Release of government grants for land/ land use rights (Note 28) | 224 | 224 |
| Reversal of impairment loss on trade receivables | 200 | – |
| Processing fee income | 680 | 722 |
| Gain on deemed disposal of an associate | – | 7,130 |
| Others | 1,686 | 1,548 |
| | 25,625 | 35,515 |

Note: Government subsidies of approximately RMB14,454,000 (2018: RMB9,134,000) have been recognised during the year ended 31 December 2019 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

| | 2019 RMB'000 | 2018 RMB'000 |
|--|-----------------|-----------------|
| Interest on: | | |
| Bank and other loans | 12,421 | 12,992 |
| Lease liabilities | 2,134 | – |
| Obligations under finance leases | – | 1,447 |
| Amount due to ultimate holding company | – | 820 |
| | 14,555 | 15,259 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

9. INCOME TAX EXPENSE

| | 2019 RMB'000 | 2018 RMB'000 |
|---|-----------------|-----------------|
| Current income tax: | | |
| PRC Enterprise Income Tax (the "EIT") | 9,023 | 15,618 |
| Under (over) – provision in prior years | 35 | (311) |
| | 9,058 | 15,307 |
| Deferred tax (Note 40) | (97) | (1,267) |
| | 8,961 | 14,040 |

(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 2019 and 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. Guangzhou Yusei has further obtained the renewal of its high technology qualification on 2 December 2019 and is entitled to the concession rate of 15% from 2019 to 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

9. INCOME TAX EXPENSE (CONTINUED)

(iii) PRC EIT (Continued)

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 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:

| | 2019 RMB'000 | 2018 RMB'000 |
|--|-----------------|-----------------|
| Profit before tax | 44,538 | 105,461 |
| Tax at the income tax rate at 25% (2018: 25%) | 11,135 | 26,365 |
| Tax effect of share of profits of associates | (433) | (458) |
| Tax effect of expenses not deductible for tax purpose | 428 | 1,517 |
| Tax effect of income not taxable for tax purpose | (222) | (2,237) |
| Tax effect of tax losses not recognised | 7,802 | 1,122 |
| Under (over) – provision in prior years | 35 | (311) |
| Tax effect attributable to tax concessions granted to the PRC subsidiaries | (7,123) | (12,482) |
| Effect of different tax rates | (2,661) | 524 |
| Income tax expense for the year | 8,961 | 14,040 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

10. PROFIT FOR THE YEAR

| | 2019 RMB'000 | 2018 RMB'000 |
|--|-----------------|-----------------|
| Profit for the year has been arrived at after charging (crediting): | | |
| Directors' and the chief executive's remuneration (Note 11) | 3,074 | 3,025 |
| Salaries, wages and other benefits | 186,448 | 209,118 |
| Retirement benefits scheme contributions | 13,325 | 18,222 |
| Other staff costs | 199,773 | 227,340 |
| Total staff costs | 202,847 | 230,365 |
| Depreciation of property, plant and equipment | 79,950 | 76,109 |
| Depreciation of right-of-use assets | 8,754 | – |
| Amortisation of intangible assets (included in administrative expenses) | 574 | 196 |
| Amortisation of land use rights (included in administrative expenses) | – | 967 |
| Total depreciation and amortisation expenses | 89,278 | 77,272 |
| Auditor's remuneration | 950 | 950 |
| Loss on disposal of property, plant and equipment | 408 | – |
| Loss allowance on trade receivables (included in administrative expenses) | – | 2,448 |
| Reversal of loss allowance on trade receivables (included in other income and gain) | (200) | – |
| Allowance for inventories (included in cost of sales) | 1,936 | 2,277 |
| Reversal of allowance for inventories (included in cost of sales) | (447) | (3,151) |
| Research and development costs recognised as an expense | 51,009 | 50,333 |
| Operating lease charges on leased premises | – | 9,345 |
| Cost of inventories recognised as an expense | 1,164,198 | 1,092,482 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 (2018: seven) directors and the chief executive of the Company for the years ended 31 December 2019 and 2018 are as follows:

For the year ended 31 December 2019

| | Executive directors | | Non-executive directors | | Independent non-executive directors | | | Total |
|---|---------------------|------------------------|-------------------------|----------------------|-------------------------------------|-----------------|-----------------------|-------|
| | Xu Yong (Note b) | Manabu Shimabayashi | Katsutoshi Masuda | Toshimitsu Masuda | Lo Ka Wai | Fan Xiaoping | Hisaki Takabayashi | |
| | 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 | 881 | 44 | 106 | 27 | 27 | 2,345 |
| 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 a) | 452 | - | - | - | - | - | - | 452 |
| - Contributions to retirement benefits schemes | 37 | - | - | - | - | - | - | 37 |
| | 609 | 120 | - | - | - | - | - | 729 |
| Total emoluments | 1,239 | 750 | 881 | 44 | 106 | 27 | 27 | 3,074 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

(a) Directors and Chief Executive (Continued)

For the year ended 31 December 2018

| | Executive directors | | Non-executive directors | | Independent non-executive directors | | | Total |
|---|---------------------|------------------------|-------------------------|----------------------|-------------------------------------|-----------------|-----------------------|-------|
| | Xu Yong (Note b) | Manabu Shimabayashi | Katsutoshi Masuda | Toshimitsu Masuda | Lo Ka Wai | Fan Xiaoping | Hisaki Takabayashi | |
| | 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 a) | 450 | - | - | - | - | - | - | 450 |
| - Contributions to retirement benefits schemes | 37 | - | - | - | - | - | - | 37 |
| | 607 | 120 | - | - | - | - | - | 727 |
| Total emoluments | 1,237 | 750 | 845 | 42 | 101 | 25 | 25 | 3,025 |

Notes:

- The discretionary bonus is determined with reference to the individual performance during the years ended 31 December 2019 and 2018.
- 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.
- During the years ended 31 December 2019 and 2018, 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 2019 and 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 (2018: 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 (2018: two) individuals were attributable to two members of senior management, as follows:

| | 2019 RMB'000 | 2018 RMB'000 |
|--|-----------------|-----------------|
| Salaries, wages and other benefits | 912 | 750 |
| Retirement benefits scheme contributions | 39 | 60 |
| | 951 | 810 |

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

| | Number of employees | |
|--|---------------------|------|
| | 2019 | 2018 |
| Nil to HK\$1,000,000 (equivalent to approximately RMB881,910 (2018: RMB844,880)) | 2 | 2 |

During the years ended 31 December 2019 and 2018, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

12. DIVIDENDS

| | 2019 RMB'000 | 2018 RMB'000 |
|--|-----------------|-----------------|
| Dividends recognised as distribution during the year: 2018 Final – RMB1.60 cents (2017 final dividend RMB1.98 cents) per share | 8,484 | 8,016 |

Subsequent to the end of the reporting period, a final dividend of RMB1.3 cents in respect of the year ended 31 December 2019 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:

| | 2019 RMB'000 | 2018 RMB'000 |
|--|-----------------|-----------------|
| Earnings | | |
| Earnings for the purpose of basic and diluted earnings per share | 35,108 | 91,303 |

| | 2019 RMB'000 | 2018 RMB'000 (restated) |
|---|-----------------|-------------------------------|
| Number of shares | | |
| Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share | 636,550 | 597,691 |

Diluted earnings per share is same as basic earnings per share for the years ended 31 December 2019 and 2018 as there is no potential ordinary shares outstanding.

The weighted average number of ordinary shares for the year ended 31 December 2019 has been adjusted for the new bonus shares issued on 31 May 2019 (2018 (restated): the weighted average number of ordinary shares for the year ended 31 December 2018 has been adjusted for the new bonus issued on 31 May 2019 and 23 June 2018) as if such bonus issue had occurred at the beginning of the earliest period presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 2018 | 187,963 | 597,944 | 4,734 | 9,556 | 15,604 | 56,352 | 872,153 |
| Acquisition of a subsidiary (Note 41) | - | 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 |
| Impact on initial adoption of HKFRS 16 (Note 2) | - | (93,460) | - | - | - | - | (93,460) |
| At 1 January 2019 (Restated) | 246,008 | 591,782 | 5,242 | 34,950 | 15,604 | 23,906 | 917,492 |
| Additions | 961 | 49,933 | 340 | 638 | - | 16,831 | 68,703 |
| Disposal | - | (7,950) | (186) | (50) | - | - | (8,186) |
| Transfer | - | 7,342 | - | - | - | (7,342) | - |
| Transfer from right-of-use assets | - | 93,460 | - | - | - | - | 93,460 |
| At 31 December 2019 | 246,969 | 734,567 | 5,396 | 35,538 | 15,604 | 33,395 | 1,071,469 |
| DEPRECIATION AND IMPAIRMENT | | | | | | | |
| At 1 January 2018 | 68,176 | 354,625 | 3,476 | 8,122 | 9,790 | - | 444,189 |
| Acquisition of a subsidiary (Note 41) | - | 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 |
| Impact on initial adoption of HKFRS 16 (Note 2) | - | (36,776) | - | - | - | - | (36,776) |
| At 1 January 2019 (Restated) | 75,960 | 393,837 | 4,170 | 9,008 | 10,149 | - | 493,124 |
| Provided for the year | 13,689 | 64,393 | 640 | 869 | 359 | - | 79,950 |
| Disposal | - | (4,175) | (161) | (47) | - | - | (4,383) |
| Transfer from right-of-use assets | - | 42,515 | - | - | - | - | 42,515 |
| At 31 December 2019 | 89,649 | 496,570 | 4,649 | 9,830 | 10,508 | - | 611,206 |
| CARRYING VALUES | | | | | | | |
| At 31 December 2019 | 157,320 | 237,997 | 747 | 25,708 | 5,096 | 33,395 | 460,263 |
| At 31 December 2018 | 170,048 | 254,629 | 1,072 | 25,942 | 5,455 | 23,906 | 481,052 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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 |

As at 31 December 2019 and 2018, certain of the property, plant and equipment were pledged to obtain bank loans granted to the Group, details of which are set out in Note 27.

As at 31 December 2018, the carrying value of machinery and equipment of approximately RMB254,629,000 includes an amount of approximately RMB61,442,000 in respect of assets held under finance leases.

During the year ended 31 December 2019, the Group entered into sales and leaseback agreements. Pursuant to which, the Group sells certain plant and machineries to a financial institution, which shall then be leased back for use by the Group, with the lease period of one year from the date of inception. Upon expiry of the lease term, the Group has the right to repurchase the leased assets in accordance with the agreed terms and with a consideration of a nominal amount of RMB100. The Group continues to recognise these plant and machineries and the transfer proceeds were recognised as secured other loans as set out in Note 27.

15. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

(i) Right-of-use assets

| | 31/12/2019 RMB'000 | 1/1/2019 RMB'000 |
|-------------------------|-----------------------|---------------------|
| Land | 41,200 | 42,350 |
| Machinery and equipment | – | 56,684 |
| Properties | 4,099 | 4,419 |
| | 45,299 | 103,453 |

The above items of right-of-use assets are depreciated on a straight-line basis at the following useful lives:

| | |
|-------------------------|-----------------|
| Land | Over lease term |
| Machinery and equipment | 3 – 20 years |
| Properties | Over lease term |

Right-of-use assets of approximately RMB41,200,000 represents land use rights located in the PRC. As at 31 December 2019, certain of the land were pledged to obtain bank loans granted to the Group, details of which are set out in Note 27.

The Group has lease arrangements for machinery and equipment and properties. The lease terms for machinery and equipment and properties are generally ranged from one to two years. The lease terms for land is generally 50 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

15. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (CONTINUED)

(i) Right-of-use assets (Continued)

In respect of lease arrangement for renting machinery and equipment, the Group has options to purchase machinery and equipment for a nominal amount at the end of the lease term. The Group's obligations are secured by the lessors' title to the leased assets for such lease. During the year ended 31 December 2019, right-of-use assets of approximately RMB50,945,000 were transferred to property, plant and equipment upon exercise of options to purchase.

Additions to the right-of-use assets for the year ended 31 December 2019 amounted to approximately RMB1,545,000 due to new leases of properties.

(ii) Lease liabilities

| | 31/12/2019 RMB'000 | 1/1/2019 RMB'000 |
|-------------|-----------------------|---------------------|
| Non-current | 2,098 | 2,996 |
| Current | 2,025 | 52,076 |
| | 4,123 | 55,072 |

| | 31/12/2019 RMB'000 |
|---|-----------------------|
| Amounts payable under lease liabilities | |
| Within one year | 2,025 |
| After one year but within two years | 2,098 |
| | 4,123 |
| Less: Amount due for settlement within 12 months (shown under current liabilities) | (2,025) |
| Amount due for settlement after 12 months | 2,098 |

As at 31 December 2018, the lease liabilities in respect of leased machinery and equipment under hire purchase agreements amounted to approximately RMB50,653,000 was secured by the lessor's title to the leased assets. During the year ended 31 December 2019, the Group entered into a number of new lease agreements in respect of renting properties and recognised lease liability of approximately RMB1,545,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

15. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (CONTINUED)

(iii) Amounts recognised in profit or loss

| | 31/12/2019 RMB'000 |
|---|-----------------------|
| Depreciation expense on land | 1,150 |
| Depreciation expense on machinery and equipment | 5,739 |
| Depreciation expense on properties | 1,865 |
| Interest expense on lease liabilities | 2,134 |
| Expense relating to short-term leases | 5,077 |

(iv) Others

During the year ended 31 December 2019, the total cash outflow for leases amount to approximately RMB64,781,000.

16. INTANGIBLE ASSETS

| | Software RMB'000 |
|------------------------|---------------------|
| COST | |
| At 1 January 2018 | 6,648 |
| Additions | 3,166 |
| <hr/> | |
| At 31 December 2018 | 9,814 |
| Additions | 7,627 |
| <hr/> | |
| At 31 December 2019 | 17,441 |
| <hr/> | |
| AMORTISATION | |
| At 1 January 2018 | 5,276 |
| Provided for the year | 196 |
| <hr/> | |
| At 31 December 2018 | 5,472 |
| Provided for the year | 574 |
| <hr/> | |
| At 31 December 2019 | 6,046 |
| <hr/> | |
| CARRYING VALUES | |
| At 31 December 2019 | 11,395 |
| <hr/> | |
| At 31 December 2018 | 4,342 |
| <hr/> | |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

17. LAND USE RIGHTS

| | RMB'000 |
|---|---------------|
| COST | |
| At 1 January 2018 | 35,309 |
| Additions | 15,183 |
| At 31 December 2018 | 50,492 |
| AMORTISATION | |
| At 1 January 2018 | 7,175 |
| Provided for the year | 967 |
| At 31 December 2018 | 8,142 |
| CARRYING VALUES | |
| At 31 December 2018 | 42,350 |
| | |
| | 2018 |
| Analysed for reporting purposes as: | RMB'000 |
| Current assets (included in other receivables, deposits and prepayments) | 1,150 |
| Non-current assets | 41,200 |
| | 42,350 |

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

As at 31 December 2018, certain of the land use rights were pledged to obtain bank loans granted to the Group, details of which are set out in Note 27.

Upon adoption of HKFRS 16 on 1 January 2019, the carrying amount of land use rights of approximately RMB42,350,000 were reclassified to right-of-use assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

18. INTERESTS IN ASSOCIATES

| | 2019 RMB'000 | 2018 RMB'000 |
|--|-----------------|-----------------|
| Cost of investments in associates – unlisted | 20,471 | 20,471 |
| Share of post-acquisition profits | 17,286 | 15,553 |
| Interests in associates | 37,757 | 36,024 |

Included in the cost of investments in associates is goodwill of approximately RMB2,111,000 (2018: RMB2,111,000) arising on acquisition of associates.

As at 31 December 2019 and 2018, the Group had interests in the following associates:

| Name of entity | Form of entity | Place of incorporation/ principal place of operation | Class of shares held | Proportion of nominal value of issued capital held by the Group | | Proportion of voting power held | | Principal activities |
|--|----------------|---|----------------------|---|------|---------------------------------|------|--|
| | | | | 2019 | 2018 | 2019 | 2018 | |
| 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 |

* The English names are for identification purposes only.

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

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.

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18. INTERESTS IN ASSOCIATES (CONTINUED)

Summarised financial information of material associate (Continued)

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

| | 2019 RMB'000 | 2018 RMB'000 |
|-------------------------|-----------------|-----------------|
| Current assets | 202,758 | 188,722 |
| Non-current assets | 108,117 | 108,992 |
| Current liabilities | (175,055) | (137,171) |
| Non-current liabilities | (17,000) | (47,500) |

| | 2019 RMB'000 | 2018 RMB'000 |
|--|-----------------|-----------------|
| Revenue | 235,796 | 244,182 |
| Profit for the year | 5,777 | 6,106 |
| Other comprehensive expense for the year | – | – |
| Total comprehensive income for the year | 5,777 | 6,106 |

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

| | 2019 RMB'000 | 2018 RMB'000 |
|--|-----------------|-----------------|
| Net assets of Yusei Industrial Group | 118,820 | 113,043 |
| 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 | 37,757 | 36,024 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

19. INVENTORIES

| | 2019 RMB'000 | 2018 RMB'000 |
|------------------|-----------------|-----------------|
| Raw materials | 47,144 | 71,585 |
| Work-in-progress | 54,108 | 47,545 |
| Finished goods | 210,020 | 206,630 |
| | 311,272 | 325,760 |

During the year ended 31 December 2019, allowance for slow-moving inventories of approximately RMB1,936,000 (2018: RMB2,277,000) has been recognised and included in the cost of sales and a reversal of allowance for inventories of approximately RMB447,000 (2018: RMB3,151,000) has been recognised and included in cost of sales since the relevant inventories were sold in the ordinary course of business during the year ended 31 December 2019.

20. TRADE AND BILLS RECEIVABLES, DEPOSITS AND PREPAYMENTS

| | 2019 RMB'000 | 2018 RMB'000 |
|---|-----------------|-----------------|
| Trade receivables (Note a) | 443,988 | 407,831 |
| Less: impairment loss recognised | (8,240) | (8,440) |
| | 435,748 | 399,391 |
| Bills receivables | 44,571 | 23,025 |
| Advance to suppliers | 28,398 | 17,116 |
| Prepayments | 16,343 | 20,337 |
| Other receivables and deposits (Note b) | 16,319 | 13,770 |
| | 541,379 | 473,639 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

Notes:

- (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, 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:

| | 2019 RMB'000 | 2018 RMB'000 |
|-------------------|-----------------|-----------------|
| Within 30 days | 192,613 | 190,173 |
| 31 to 60 days | 100,620 | 85,748 |
| 61 to 90 days | 77,387 | 62,981 |
| 91 to 180 days | 46,704 | 52,417 |
| 181 to 365 days | 12,341 | 6,055 |
| Over 365 days | 6,083 | 2,017 |
| Trade receivables | 435,748 | 399,391 |

The Group measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The ECL on trade 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

Notes: (Continued)

(a) (Continued)

There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

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

| As at 31 December 2019 | Weighted average expected loss rate % | Gross carrying amount RMB'000 | Loss allowance RMB'000 |
|-------------------------|---------------------------------------|-------------------------------|------------------------|
| Current (not past due) | 1.0 | 351,065 | 3,405 |
| Within 90 days past due | 4.3 | 71,215 | 3,048 |
| 91 – 180 days past due | 7.0 | 12,624 | 886 |
| 181 – 365 days past due | 9.9 | 9,084 | 901 |
| Total | | 443,988 | 8,240 |

| As at 31 December 2018 | Weighted average expected loss rate % | Gross carrying amount RMB'000 | Loss allowance RMB'000 |
|-------------------------|---------------------------------------|-------------------------------|------------------------|
| Current (not past due) | 1.4 | 344,233 | 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 | | 407,831 | 8,440 |

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

| | 2019 RMB'000 | 2018 RMB'000 |
|---|--------------|--------------|
| At the beginning of the year | 8,440 | 5,992 |
| Impairment losses recognised on trade receivables | – | 2,448 |
| Reversal of impairment loss recognised on trade receivables | (200) | – |
| At the end of the year | 8,240 | 8,440 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

Notes: (Continued)

- (b) Included in other receivables, deposits and prepayments are other receivables and refundable deposit for plant and equipment of approximately RMB2,319,000 (2018: RMB11,534,000), 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.

Upon adoption of HKFRS16, the carrying amount of land use rights of approximately RMB1,150,000 included in other receivables and deposits as at 31 December 2018 were reclassified to right-of-use assets.

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:

| | 2019 RMB'000 | 2018 RMB'000 |
|-------------------------------|-----------------|-----------------|
| United State Dollars ("US\$") | 17,504 | 25,548 |

21. AMOUNTS DUE TO ASSOCIATES

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

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 41.

The amounts due to associates classified under current liabilities are as follows:

| Name of company | 2019 RMB'000 | 2018 RMB'000 |
|-------------------------|-----------------|-----------------|
| Yusei Industrial | 1,222 | 5,200 |
| Yusei Import and Export | (337) | (405) |
| | 885 | 4,795 |

22. PLEDGED BANK DEPOSITS

As at 31 December 2019, bank deposits amounting to approximately RMB454,000 (2018: RMB9,459,000) 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% (2018: 0.05% to 0.35%) per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

23. BANK BALANCES AND CASH

As at 31 December 2019, bank balances and cash of approximately RMB44,703,000 (2018: RMB58,746,000) 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 held by the Group carry interest at prevailing market rate for both years.

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

| | 2019 RMB'000 | 2018 RMB'000 |
|--------------|-----------------|-----------------|
| US\$ | 34,233 | 12,637 |
| JPY | 766 | 241 |
| HK\$ | 256 | 106 |
| EURO ("EUR") | 617 | 300 |

24. TRADE AND OTHER PAYABLES

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

| | 2019 RMB'000 | 2018 RMB'000 |
|-----------------------------------|-----------------|-----------------|
| Within 30 days | 142,509 | 194,550 |
| 31 to 60 days | 81,463 | 53,166 |
| 61 to 90 days | 46,789 | 32,198 |
| 91 to 180 days | 33,992 | 16,029 |
| 181 to 365 days | 3,420 | 3,543 |
| Over 365 days | 2,965 | 2,727 |
| Trade payables and bills payables | 311,138 | 302,213 |
| Value added tax payables | 13,016 | 9,079 |
| Contract liabilities (Note) | 55,517 | 58,316 |
| Other payables | 37,128 | 41,520 |
| Accrued staff costs | 42,473 | 41,271 |
| Accrued charges | 28,666 | 26,405 |
| | 487,938 | 478,804 |

Note: Contract liabilities include advances received to deliver moulds.

Revenue recognised during the year ended 31 December 2019 that was included in the contract liabilities at the beginning of the year is approximately RMB38,045,000 (2018: RMB44,659,000). There was no revenue recognised in the current year that related to performance obligations that were satisfied in a prior year.

The Group receives a deposit before the production activity commences that give rise to contract liabilities at the start of a contract. The Group typically receives a 30% deposit on acceptance of manufacturing orders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

24. TRADE AND OTHER PAYABLES (CONTINUED)

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.

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:

| | 2019 RMB'000 | 2018 RMB'000 |
|------|-----------------|-----------------|
| US\$ | 22,450 | – |
| JPY | 555 | – |
| HK\$ | 6,155 | – |

25. AMOUNTS DUE FROM/TO ULTIMATE HOLDING COMPANY

As at 31 December 2019, the amount due from ultimate holding company is unsecured, interest-free and repayable on demand.

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. The amount was early repaid during the year. As at 31 December 2018, the interest payable of approximately RMB287,000 is repayable on demand and has been classified as current liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

26. OBLIGATIONS UNDER FINANCE LEASES

| | Minimum lease payments 2018 RMB'000 | Present value of minimum lease payments 2018 RMB'000 |
|--|--|--|
| Amounts payable under finance leases: | | |
| Within one year | 52,425 | 50,653 |
| Less: Future finance charges | (1,772) | – |
| <hr/> | | |
| Present value of lease obligations | 50,653 | 50,653 |

The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. These liabilities have been aggregated with the brought forward balances relating to leases previously classified as finance leases and disclosed in Note 15. Comparative information as at 31 December 2018 has not been restated and relates solely to leases previously classified as finance leases. Further details on the impact of the transition to HKFRS 16 are set out in Note 2.

During the year 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 have been sold at a consideration of approximately RMB65,781,000 and have been leaseback for lease terms of 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 year. For the year ended 31 December 2018, the average effective borrowing rate was 5.3% 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

27. BANK AND OTHER LOANS

| | 2019 RMB'000 | 2018 RMB'000 |
|--------------------------------|-----------------|-----------------|
| Bank loans | 211,409 | 219,733 |
| Other loans | 70,796 | 36,000 |
| | 282,205 | 255,733 |
| Analysed as: | | |
| Secured bank loans | 211,409 | 219,733 |
| Secured other loans (Note a) | 40,796 | – |
| Unsecured other loans (Note b) | 30,000 | 36,000 |
| | 282,205 | 255,733 |

Notes:

- (a) As at 31 December 2019, the secured other loans carry interest at 5.15% (2018: nil).
- (b) The loans were advanced from a company in which Mr. Xu Yue, the shareholder of the Company, has direct equity interest.
- (c) 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:

| | 2019 RMB'000 | 2018 RMB'000 |
|------------------|-----------------|-----------------|
| Fixed-rate loans | 282,205 | 255,733 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

27. BANK AND OTHER LOANS (CONTINUED)

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

| | 2019 | 2018 |
|------------------------|----------------|---------------|
| Fixed-rate bank loans | 3.66% to 5.22% | 3.4% to 5.44% |
| Fixed-rate other loans | 5.00% to 5.26% | 5.00% |

As at 31 December 2019, the secured bank loans were secured by the Group's right-of-use assets (2018: land use rights) and property, plant and equipment with net carrying values of approximately RMB15,629,000 (2018: RMB16,210,000) and RMB109,400,000 (2018: RMB117,208,000) respectively.

As at 31 December 2019, the secured other loans were secured under sales and leaseback agreements by the Group's property, plant and equipment with net carrying values of approximately RMB48,532,000 (2018: nil).

During the year ended 31 December 2019, the Group obtained new bank and other loans with amount of approximately RMB281,929,000 (2018: RMB239,733,000). The proceeds were used to finance the general working capital of the Group.

28. DEFERRED INCOME

| | 2019 RMB'000 | 2018 RMB'000 |
|--|-----------------|-----------------|
| Deferred income – government grants | 6,904 | 7,128 |
| Represented by: | | |
| Current liabilities (included in other payables) | 224 | 224 |
| Non-current liabilities | 6,680 | 6,904 |
| | 6,904 | 7,128 |

Note: During the year ended 31 December 2019, government grants released to the consolidated profit or loss as other income amounted to approximately RMB224,000 (2018: RMB224,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

29. 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 2018, 31 December 2018, 1 January 2019 and 31 December 2019 | 1,500,000 | 15,000 | N/A |
| Issued and fully paid | | | |
| At 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 and 1 January 2019 | 530,458 | 5,304 | 4,853 |
| Bonus issue (Note a) | 106,092 | 1,061 | 948 |
| At 31 December 2019 | 636,550 | 6,365 | 5,801 |

Note:

- (a) On 31 May 2019, 106,092,000 bonus shares were issued and since then, the Company's total number of issued shares was increased to 636,550,000 shares accordingly. The bonus shares were credited as fully paid by way of capitalisation of an amount of approximately HK\$1,061,000 (equivalent to RMB948,000) out of the Company's share premium account in July 2019. Further details were set out in the Company's announcements dated 31 May 2019.

On 23 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. Further details were set out in the Company's announcements dated 23 June 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

30. RESERVES

(i) Special reserve

The special reserve of the Group represents the difference between the nominal value of the registered capital of the acquired subsidiaries and the nominal value of the shares of the Company issued for the acquisition at the time of the group reorganisation on 6 June 2005.

(ii) Capital reserve

The amount represents the excess capital contribution by the ultimate holding company to the subsidiary in prior years.

(iii) Statutory surplus reserve

The Articles of Association of the subsidiaries requires the appropriation of 10% of its profit after tax determined under the PRC accounting standards each year to the statutory surplus reserve until the balance reaches 50% of the registered share capital. According to the provision of the Company's Articles of Association, under normal circumstances, the statutory surplus reserve shall only be used for making up losses, capitalisation into share capital and expansion of the Company's production and operation. For the capitalisation of statutory surplus reserve into share capital, the remaining amount of such reserve shall not be less than 25% of the registered share capital.

(iv) Reserve for shares issued with vesting conditions

The reserve for shares issued with vesting conditions represents the accumulated fair value at the date of allotment of the relevant shares (allotted on 12 October 2005) subsequently vested.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

31. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

| | 2019 RMB'000 | 2018 RMB'000 |
|---|-----------------|-----------------|
| Financial assets | | |
| Financial assets at amortised cost | 575,283 | 548,866 |
| Financial liabilities | | |
| Financial liabilities at amortised cost | 695,856 | 670,825 |

(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 and ultimate holding company, pledged bank deposits, bank balances and cash, trade and other payables 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

31. FINANCIAL INSTRUMENTS (CONTINUED)

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

Market risk (Continued)

(i) *Currency risk (Continued)*

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:

| | 2019 RMB'000 | 2018 RMB'000 |
|--|-----------------|-----------------|
| Monetary assets | | |
| US\$ | | |
| Trade and bills receivables, deposits and other receivables | 17,504 | 25,548 |
| Bank balances and cash | 34,233 | 12,637 |
| | 51,737 | 38,185 |
| JPY | | |
| Bank balances and cash | 766 | 241 |
| HK\$ | | |
| Bank balance and cash | 256 | 106 |
| EUR | | |
| Bank balance and cash | 617 | 300 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

31. FINANCIAL INSTRUMENTS (CONTINUED)

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

Market risk (Continued)

(i) Currency risk (Continued)

| | 2019 RMB'000 | 2018 RMB'000 |
|-----------------------------|-----------------|-----------------|
| Monetary liabilities | | |
| US\$ | | |
| Trade and other payables | 22,450 | – |
| JPY | | |
| Trade and other payables | 555 | – |
| Bank loans | 15,859 | 15,583 |
| | 16,414 | 15,583 |
| HK\$ | | |
| Trade and other payables | 6,155 | – |

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% (2018:10%) increase and decrease in RMB or HK\$ against JPY and 5% (2018: 5%) increase and decrease in RMB or HK\$ against US\$, HK\$ and EUR with all other variables held constant. 10% and 5% (2018: 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% (2018: 5%) against US\$, HK\$ and EUR and strengthen 10% (2018: 10%) against JPY. For a 5% and 10% (2018: 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.

| | 2019 RMB'000 | 2018 RMB'000 |
|------|-----------------|-----------------|
| US\$ | (1,130) | (1,571) |
| JPY | 1,303 | 1,282 |
| HK\$ | 246 | (9) |
| EUR | (26) | 640 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

31. FINANCIAL INSTRUMENTS (CONTINUED)

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

Market risk (Continued)

(ii) *Interest rate risk*

The Group is exposed to fair value interest rate risk in relation to fixed-rate pledged bank deposits, amount due to ultimate holding company and fixed-rate bank and other loans (see Notes 22, 25 and 27 respectively for details). The Group historically has not used any financial instruments to hedge potential fluctuations in interest rates.

The Group is also exposed to cash flow interest rate risk in relation to floating-rate bank balances (see Note 23 for details). The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of RMB Benchmark Interest Rate arising from the Group's RMB denominated bank balances.

Sensitivity analysis

As at 31 December 2019, it is estimated that a general increase or decrease of 1% (2018: 1%) in interest rates, with all other variables held constant, would increase (2018: increase) or decrease (2018: decrease) the Group's post-tax profit for the year ended 31 December 2019 by approximately RMB611,000 (2018: RMB825,000).

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% (2018: 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

31. FINANCIAL INSTRUMENTS (CONTINUED)

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

Credit risk

As at 31 December 2019, 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.

The credit risk of our Group mainly arises from trade and bills receivables, other receivables, amount due from ultimate holding company, bank balances and cash, pledged bank deposits. The carrying amounts of these balances represent our Group's maximum exposure to credit risk in relation to financial assets.

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. For trade and bills 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.

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) | 12m 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 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

31. FINANCIAL INSTRUMENTS (CONTINUED)

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

Credit risk (Continued)

The Group's exposure to credit risk (Continued)

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 2019 | External credit rating | Internal credit rating | 12m or lifetime ECL | Gross carrying amount RMB'000 | Loss allowance RMB'000 | Net carrying amount RMB'000 |
|--|------------------------|------------------------|---------------------------------------|----------------------------------|---------------------------|--------------------------------|
| Trade receivables | N/A | (Note) | Lifetime ECL (simplified approach) | 443,988 | (8,240) | 435,748 |
| Other receivables and deposit | N/A | Performing | 12m ECL | 16,319 | - | 16,319 |
| Amount due from ultimate holding company | N/A | Performing | 12m ECL | 1,364 | - | 1,364 |

| 31 December 2018 | External credit rating | Internal credit rating | 12m or lifetime ECL | Gross carrying amount RMB'000 | Loss allowance RMB'000 | Net carrying amount RMB'000 |
|--|------------------------|------------------------|---------------------------------------|----------------------------------|---------------------------|--------------------------------|
| Trade receivables | N/A | (Note) | Lifetime ECL (simplified approach) | 407,831 | (8,440) | 399,391 |
| Other receivables and deposit | N/A | Performing | 12m ECL | 13,770 | - | 13,770 |
| Amount due from ultimate holding company | N/A | Performing | 12m ECL | 1,142 | - | 1,142 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

31. FINANCIAL INSTRUMENTS (CONTINUED)

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

Credit risk (Continued)

The Group's exposure to credit risk (Continued)

Note: For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the expected credit losses on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Accordingly, the credit risk profile of these assets is presented based on their past due status in terms of the provision matrix. Note 20 include their further details on the loss allowance for these assets.

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

As at 31 December 2019, the Group has concentration of credit risk as 33% (2018: 9%) and 49% (2018: 29%) of the total trade receivables was due from the Group's largest customer and the five largest customers, respectively.

The Group's concentration of credit risk by geographical locations is mainly in the PRC, which accounted for 99.66% (2018: 99.72%) of the total receivables as at 31 December 2019.

The credit quality of counterparty in respect of amount 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 2019, banking facilities in an aggregate amount of approximately RMB251,409,000 (2018: RMB251,950,000) were available from the Group's principal bankers, of which approximately RMB211,409,000 (2018: RMB204,150,000) 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.

The following table includes both interest and principal cash flows.

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For the year ended 31 December 2019

31. FINANCIAL INSTRUMENTS (CONTINUED)

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

Liquidity risk (Continued)

As at 31 December 2019

| | Weighted average interest rate % | Within one year or on demand RMB'000 | More than one year less than two years RMB'000 | Total contractual undiscounted cash flows RMB'000 | Carrying amount RMB'000 |
|---------------------------|---|---|--|---|-------------------------------|
| Trade and other payables | - | 412,766 | - | 412,766 | 412,766 |
| Lease liabilities | 5.76 | 2,190 | 2,157 | 4,347 | 4,123 |
| Amounts due to associates | - | 885 | - | 885 | 885 |
| Bank and other loans | 4.82 | 292,023 | - | 292,023 | 282,205 |
| | | 707,864 | 2,157 | 710,021 | 699,979 |

As at 31 December 2018

| | Weighted average interest rate % | Within one year or on demand RMB'000 | More than one year less than two years RMB'000 | Total contractual undiscounted cash flows RMB'000 | Carrying amount RMB'000 |
|--|---|---|--|---|-------------------------------|
| Trade and other payables | - | 405,909 | - | 405,909 | 405,909 |
| Obligations under finance leases | 5.30 | 52,425 | - | 52,425 | 50,653 |
| Amount due to ultimate holding company | 4.35 | 465 | 4,102 | 4,567 | 4,388 |
| Amounts due to associates | - | 4,795 | - | 4,795 | 4,795 |
| Bank and other loans | 3.40 | 262,424 | - | 262,424 | 255,733 |
| | | 726,018 | 4,102 | 730,120 | 721,478 |

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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32. 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 financial 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 financial activities

| | Non-cash changes | | | | | | | 31/12/2019 RMB'000 |
|--|---------------------|------------------------------------|--------------------------------------|---|---|---|--|-----------------------|
| | 1/1/2019 RMB'000 | Financing cash flows RMB'000 | New Lease arrangements RMB'000 | Foreign exchange movements RMB'000 | Release of deferred income RMB'000 | Finance | | |
| | | | | | | cost incurred (Note 8) RMB'000 | Dividend declared (Note 12) RMB'000 | |
| Interest payables included in trade and other payables (Note 24) | 3,474 | (14,639) | - | - | - | 12,421 | - | 1,256 |
| Deferred income (Note 28) | 6,904 | - | - | - | (224) | - | - | 6,680 |
| Bank and other loans (Note 27) | 255,733 | 26,196 | - | 276 | - | - | - | 282,205 |
| Lease liabilities (Note 15) | 55,072 | (54,628) | 1,545 | - | - | 2,134 | - | 4,123 |
| Dividend payable | - | (8,484) | - | - | - | - | 8,484 | - |
| Amount due to ultimate holding company (Note 25) | 4,388 | (4,388) | - | - | - | - | - | - |
| | 325,571 | (55,943) | 1,545 | 276 | (224) | 14,555 | 8,484 | 294,264 |

| | Non-cash changes | | | | | | | 31/12/2018 RMB'000 |
|--|---------------------|------------------------------------|---|---|---|--|--|-----------------------|
| | 1/1/2018 RMB'000 | Financing cash flows RMB'000 | Foreign exchange movements RMB'000 | Release of deferred income RMB'000 | Finance | | | |
| | | | | | cost incurred (Note 8) RMB'000 | Acquisition of a subsidiary RMB'000 | Dividend declared (Note 12) RMB'000 | |
| Interest payables included in trade and other payables (Note 24) | 2,367 | (11,885) | - | - | 12,992 | - | - | 3,474 |
| Deferred income (Note 28) | 7,128 | - | - | (224) | - | - | - | 6,904 |
| Bank and other loans (Note 27) | 245,057 | 4,989 | 687 | - | - | 5,000 | - | 255,733 |
| Obligation under finance lease (Note 26) | 26,335 | 22,871 | - | - | 1,447 | - | - | 50,653 |
| Dividend payable | - | (8,016) | - | - | - | - | 8,016 | - |
| Amount due to ultimate holding company (Note 25) | 22,334 | (18,736) | (30) | - | 820 | - | - | 4,388 |
| | 303,221 | (10,777) | 657 | (224) | 15,259 | 5,000 | 8,016 | 321,152 |

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For the year ended 31 December 2019

33. MAJOR NON-CASH TRANSACTION

As at 31 December 2019, proceeds from deemed disposal of partial interest in a subsidiary of approximately RMB5,530,000 was settled by cash of approximately RMB1,000,000 and intangible assets of approximately RMB4,530,000.

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 21.

34. COMMITMENTS

Operating leases commitment

As lessee

As at 31 December 2018, the Group had commitments for future minimum lease payments under non-cancellable operating lease which fall due as follows:

| | 2018 RMB'000 |
|---------------------------------------|-----------------|
| Within one year | 1,762 |
| In the second to fifth year inclusive | 3,160 |
| | 4,922 |

As at 31 December 2018, 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 and rentals are fixed for an average of one to five years.

Capital commitment

| | 2019 RMB'000 | 2018 RMB'000 |
|---|-----------------|-----------------|
| Capital expenditure contracted for but not provided for in the consolidated financial statements in respect of: | | |
| – acquisition of plant and equipment | 14,124 | 10,017 |
| – construction of new production plant | 2,079 | 2,520 |
| | 16,203 | 12,537 |

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For the year ended 31 December 2019

35. 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 Group 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 2019, the total retirement benefits scheme contributions charged to the consolidated profit or loss amounted to approximately RMB13,362,000 (2018: RMB18,259,000).

36. RELATED PARTY TRANSACTIONS

Details of the balances with related parties are set out in the consolidated statement of financial position and Notes 21 and 25.

During the year ended 31 December 2019, the Group had the following material transactions with its related parties:

| Name of related party | Relationship | Nature of transactions | 2019 RMB'000 | 2018 RMB'000 |
|--|--------------------------|---|-----------------|-----------------|
| Yusei Japan | Ultimate holding company | Interest expense | - | 820 |
| Yusei Industrial | Associate | Rental fee paid | 1,050 | 1,050 |
| | | Sales of moulds | - | 1,284 |
| | | Reimbursement of utilities charges | - | 120 |
| Jilin Yusei | Associate | Sales of raw materials and moulds | N/A | 11,092* |
| | | Interest income | N/A | 2,518* |
| Hangzhou Suo Kai Industrial Co., Ltd. | Related party (Note b) | Sales of raw materials | - | 779 |
| | | Product testing fee and processing fee received | 109 | 2,220 |
| | | Reimbursement of utilities charges | 3,168 | 2,874 |
| | | Purchase of product samples | 200 | 210 |
| Zhejiang Old Workshop Investment Co., Ltd. | Related party (Note b) | Interest expense | 1,809 | 2,172 |

Notes:

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

(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 disclosures above are the amounts of transactions before the acquisition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

36. RELATED PARTY TRANSACTIONS (CONTINUED)

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

| | 2019 RMB'000 | 2018 RMB'000 |
|--|-----------------|-----------------|
| Short-term benefits | 3,649 | 3,738 |
| Retirement benefits scheme contributions | 76 | 97 |
| | 3,725 | 3,835 |

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

37. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Particulars of all subsidiaries of the Company as at 31 December 2019 and 2018 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 | | | | Proportion of voting power held by the Company | | Principal activities |
|-------------------------|-------------------------------|--------------------|---|--------|------------|--------|--|------|---|
| | | | Directly | | Indirectly | | 2019 | 2018 | |
| | | | 2019 | 2018 | 2019 | 2018 | | | |
| Zhejiang Yusei | US\$3,000,000 | Registered capital | 100% | 100% | - | - | 100% | 100% | Moulding fabrication, manufacturing and trading of plastic components |
| Hangzhou Yusei | US\$8,000,000 | Registered capital | 100% | 100% | - | - | 100% | 100% | Moulding fabrication, manufacturing and trading of plastic components |
| Hangzhou Yusei Moulding | US\$500,000 | Registered capital | 100% | 100% | - | - | 100% | 100% | Moulding fabrication |
| Yusei China | US\$15,300,000 | Registered capital | 34.64% | 34.64% | 65.36% | 65.36% | 100% | 100% | Moulding fabrication |
| Suzhou Yusei | US\$10,000,000 | Registered capital | 35% | 35% | 65% | 65% | 100% | 100% | Moulding fabrication, manufacturing and trading of plastic components |
| Guangzhou Yusei | US\$4,000,000 | Registered capital | 25% | 25% | 75% | 75% | 100% | 100% | Moulding fabrication, manufacturing and trading of plastic components |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

37. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (CONTINUED)

| Name of subsidiary | Fully paid registered capital | Class of share | Proportion ownership interest held by the Company | | | | Proportion of voting power held by the Company | | Principal activities |
|---------------------------|--|--------------------|---|------|------------|------|--|------|---|
| | | | Directly | | Indirectly | | 2019 | 2018 | |
| | | | 2019 | 2018 | 2019 | 2018 | | | |
| Wuhu Yusei | RMB1,000,000 | Registered capital | - | - | 100% | 100% | 100% | 100% | Moulding fabrication, manufacturing and trading of plastic components |
| Hubei Yusei (Note b) | US\$10,000,000 | Registered capital | 25% | 25% | 75% | 75% | 100% | 100% | Moulding fabrication, manufacturing and trading of plastic components |
| Tianjin Yusei | RMB80,000,000 | Registered capital | - | - | 100% | 100% | 100% | 100% | Moulding fabrication, manufacturing and trading of plastic components |
| Yusei Technology (Note c) | RMB11,000,000 (2018: RMB5,500,000) | Registered capital | - | - | 50% | 100% | 100% | 100% | Providing system design services and technical support |
| Jilin Yusei | RMB48,000,000 | Registered capital | - | - | 65% | 65% | 65% | 65% | Manufacturing and trading of plastic components |

Notes:

- (a) None of the subsidiaries had any debt securities outstanding as at the end of both years or at any time during both years.
- (b) The registered capital of Hubei Yusei is US\$10,000,000 (equivalent to approximately 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.
- (c) On 28 February 2019, upon additional capital contribution being made by a non-controlling shareholder of Yusei Technology, the Group's equity interest in Yusei Technology was diluted from 100% to 55%. On 9 August 2019, upon additional capital contribution being made by a non-controlling shareholder of Yusei Technology, the registered capital of Yusei Technology was enlarged from RMB10,000,000 to RMB11,000,000 and the Group's equity interest in Yusei Technology was further diluted from 55% to 50%.

The carrying amount of interest disposed of was approximately RMB5,401,000. The consideration received from non-controlling interest was approximately RMB5,530,000. The effect of disposal of interest in a subsidiary without loss of control was recognised in retained profits within equity of approximately RMB129,000.

As at 31 December 2019, the Group owns 50% equity shares of Yusei Technology indirectly. However, based on the contractual arrangements between the Group and other investor, the Group has the power to appoint and remove the majority of the board of directors of Yusei Technology. Therefore, the directors of the Company concluded that the Group has control over Yusei Technology and Yusei Technology is consolidated in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | NOTES | 2019 RMB'000 | 2018 RMB'000 |
|--|-------|-----------------|-----------------|
| Non-current assets | | | |
| Investments in subsidiaries | (i) | 203,364 | 203,364 |
| Investment in an associate | (ii) | 20,471 | 20,471 |
| | | 223,835 | 223,835 |
| Current assets | | | |
| Deposits, prepayments and other receivables | | 2,211 | 709 |
| Amount due from ultimate holding company | 25 | 767 | 588 |
| Amounts due from subsidiaries | (iii) | 69,892 | 61,334 |
| Pledged bank deposit | | 454 | 456 |
| Bank balances and cash | | 8,783 | 40,948 |
| | | 82,107 | 104,035 |
| Current liabilities | | | |
| Other payables and accruals | | 6,193 | 13,087 |
| Bank and other loan – due within one year | | 15,859 | 15,583 |
| Amounts due to subsidiaries | (iii) | 82,877 | 80,487 |
| | | 104,929 | 109,157 |
| Net current liabilities | | (22,822) | (5,122) |
| Total assets less current liabilities | | 201,013 | 218,713 |
| Capital and reserves | | | |
| Share capital | | 5,801 | 4,853 |
| Reserves | (iv) | 195,212 | 213,860 |
| Total equity | | 201,013 | 218,713 |

Approved and authorised for issue by the board of directors on 31 March 2020 and are signed on its behalf by:

Mr. Katsutoshi Masuda
Director

Mr. Xu Yong
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

Notes:

- (i) As at 31 December 2019, investments in subsidiaries are carried cost at approximately RMB203,364,000 (2018: RMB203,364,000), no accumulated impairment losses were recognised (2018: nil).
- (ii) As at 31 December 2019, investment in an associate carried cost at approximately RMB20,471,000 (2018: RMB20,471,000), no impairment loss was recognised (2018: nil).
- (iii) The amounts due from/to subsidiaries are unsecured and repayable on demand. As at 31 December 2019, except for an amount due from a subsidiary of approximately RMB26,814,000 (2018: nil) carrying interest at 6% per annum, the remaining balances are interest-free.
- (iv) 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 (Accumulated losses) RMB'000 | Total RMB'000 |
|---|--------------------------|--|--------------------------------------|--------------------------------|--|------------------|
| At 1 January 2018 | 52,947 | 18,065 | 73,854 | 7,184 | 8,743 | 160,793 |
| Loss for the year | - | - | - | - | (6,168) | (6,168) |
| Other comprehensive expense for the year | - | - | - | (3,610) | - | (3,610) |
| Total comprehensive expense for the year | - | - | - | (3,610) | (6,168) | (9,778) |
| Issue of share (Note 29) | 70,861 | - | - | - | - | 70,861 |
| Dividend recognised as distribution (Note 12) | - | - | - | - | (8,016) | (8,016) |
| At 31 December 2018 | 123,808 | 18,065 | 73,854 | 3,574 | (5,441) | 213,860 |
| Loss for the year | - | - | - | - | (8,861) | (8,861) |
| Other comprehensive expense for the year | - | - | - | (355) | - | (355) |
| Total comprehensive expense for the year | - | - | - | (355) | (8,861) | (9,216) |
| Bonus issue (Note 29) | (948) | - | - | - | - | (948) |
| Dividend recognised as distribution (Note 12) | - | - | - | - | (8,484) | (8,484) |
| At 31 December 2019 | 122,860 | 18,065 | 73,854 | 3,219 | (22,786) | 195,212 |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

39. GOODWILL

| | 2019 RMB'000 | 2018 RMB'000 |
|--|-----------------|-----------------|
| Cost | | |
| At the beginning of the financial year | 5,385 | – |
| Arising on acquisition of a subsidiary (Note 41) | – | 5,385 |
| At the end of the financial year | 5,385 | 5,385 |
| Impairment | | |
| At the beginning and end of the financial year | – | – |
| Carrying amounts | | |
| At the end of the financial year | 5,385 | 5,385 |

As disclosed in Note 41, 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 approximately RMB2,516,000 during the year ended 31 December 2018.

During the year ended 31 December 2019, management of the Group determines that there are no impairment of any of its cash-generating units containing goodwill with indefinite useful lives.

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% (2018: 5%), and pre-tax discount rate of 17.33% (2018: 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% (2018: 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

40. DEFERRED TAX ASSETS

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

| | Tax losses RMB'000 | Loss allowance of doubtful debts RMB'000 | Revenue recognition RMB'000 | Total RMB'000 |
|--|-----------------------|--|-----------------------------------|------------------|
| At 1 January 2018 | – | 717 | 145 | 862 |
| Acquisition from a subsidiary (Note 41) | 136 | – | – | 136 |
| (Charge) credit to profit or loss | (56) | 612 | 711 | 1,267 |
| As 31 December 2018 and 1 January 2019 | 80 | 1,329 | 856 | 2,265 |
| Credit to profit or loss | – | – | 97 | 97 |
| At 31 December 2019 | 80 | 1,329 | 953 | 2,362 |

As at 31 December 2019, the Group has estimated unused tax losses of approximately RMB63,834,000 (2018: RMB32,626,000). A deferred tax asset has been recognised in respect of estimated unutilised tax losses of approximately RMB320,000 (2018: RMB320,000). Included in unrecognised tax losses are losses of approximately RMB12,503,000 (2018: RMB1,435,000) 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 (losses) profits of the PRC subsidiaries amounting to approximately RMB455,284,000 (2018: RMB407,341,000) 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.

41. 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 approximately RMB2,516,000 was 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 became a subsidiary of the Group. This acquisition was accounted for as a business combination using acquisition accounting. After the acquisition, the Group held in aggregate approximately 65% equity interest of Jilin Yusei.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

41. 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) |
| <hr/> | |
| Gain on deemed disposal of an associate | (7,130) |

Asset acquired and liabilities reassigned at the date of acquisition were 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) |
| <hr/> | |
| 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 39) | 5,385 |
| <hr/> | |
| Fair value of consideration | 2,516 |

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

| | RMB'000 |
|---------------------------------|---------|
| Purchase consideration | (2,516) |
| Cash acquired | 1,729 |
| <hr/> | |
| Net cash outflow in acquisition | (787) |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

41. ACQUISITION OF A SUBSIDIARY (CONTINUED)

Notes:

- (a) At the acquisition of 15% equity interest in Jilin Yusei was considered as a step acquisition under HKFRS 3 *Business Combinations*, equity interest previously held in Jilin Yusei was 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 approximately 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 approximately RMB2,295,000.
- (c) Jilin Yusei contributed revenue of approximately RMB56,763,000 and profit of approximately 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 were approximately RMB1,311,024,000 and RMB92,213,000 respectively.

42. EVENT AFTER THE REPORTING PERIOD

The outbreak of the 2019 Novel Coronavirus ("COVID-19") in the PRC and the subsequent quarantine measures imposed by the PRC government has had an impact on the Group's operation in China. The Group had to suspend its manufacturing activities since late January 2020 due to mandatory government quarantine measures in an effort to contain the spread of the epidemic. The Group has resumed its manufacturing activities since early February 2020.

The directors of the Company are monitoring the financial impact that COVID-19 will have on the Group's consolidated financial statements as at the date that these consolidated financial statements are authorised for issue.