



浙江展望股份有限公司
Zhejiang Prospect Company Limited*

(a joint stock limited company incorporated in the People's Republic of China with limited liability)



Annual Report 2003

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This report, for which the directors of Zhejiang Prospect Company Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Zhejiang Prospect Company Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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BOARD OF DIRECTORS

Executive Directors

Mr. Tang Li Min (*Chairman*)
Mr. Hong Guo Ding
Mr. Fei Guo Yang

Non-executive Directors

Mr. Tang Cheng Fang
Mr. Li Zhang Rui

Independent non-executive Directors

Mr. Wang He Rong
Mr. Lu Guo Qing

Supervisors

Mr. Hong Chun Qiang
Mr. Feng Yun Lin
Mr. Chen Jin Long

Independent Supervisors

Mr. Wang Zhong
Mr. Wang Ye Gang

Senior Management

Mr. Yu Hong Tu
Mr. Hong Jin Zhu
Mr. Shen Jin Chang
Mr. Fu Yong Jun
Ms. Li Yan Fei

Qualified Accountant

Ms. Kwok Pui Ching *AHKSA*

Company Secretary

Ms. Kwok Pui Ching *AHKSA*

Audit Committee

Mr. Wang He Rong
Mr. Lu Guo Qing

Compliance Officer

Mr. Hong Guo Ding

Authorized Representatives

Mr. Tang Li Min
Mr. Fei Guo Yang

Authorized Person to Accept Service of Process and Notice

Loong & Yeung in association with Rodyk & Davidson

Sponsor

South China Capital Limited

Auditors

Charles Chan, Ip & Fung CPA Ltd.

Legal Advisors

Loong & Yeung in association with Rodyk & Davidson

Principal Bankers

China Construction Bank, Shaoxing City Branch
Shanghai Pudong Development Bank, Shaoxing
Sub-branch
Shaoxing County Credit Union, Jiangqiao Sub-office
Shaoxing County Agriculture Bank

Hong Kong Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

Registered Office

Zhanwang Village
Yangxunqiao Town
Shaoxing County
Zhejiang Province
The PRC

Principal Place of Business in Hong Kong

Suites 2911–2912, 29th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

GEM Stock Code

8273

I am pleased to present to our shareholders the annual report of Zhejiang Prospect Company Limited (the "Company") for the year ended 31st December 2003.

BUSINESS REVIEW

The Company continued to experience strong growth in 2003, thanks to the commitment and hard work devoted by the staff members under the leadership of the Board of Directors. This has laid a firm foundation for further growth of the Company. One of the great achievements for the Company was its successful listing on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited on 18th February 2004.

The Company is principally engaged in the manufacture and sale of universal joints for automobiles. It has three main product categories, comprising cardan universal joints, wing bearing universal joints and differential spiders, with over 80 major models and specifications.

In order to develop new markets and new customers, new products were tailored for customers' needs and special efforts were made to develop new overseas markets. The total number of universal joints produced and sold in 2003 amounted to 4.46 million and 4.73 million respectively, representing an increase of 35.15% and 51.12% as compared with previous year of 3.30 million and 3.13 million .

Turnover for the year ended 31st December 2003 amounted to RMB66.09 million, representing approximately 56.02 % increase year on year compared to RMB42.36 million in 2002. Net profit after tax jumped to RMB9.18 million, a year on year increase of approximately 192.73% compared to the same in 2002.

BUSINESS OBJECTIVES AND OUTLOOK

The principal business objectives of the Company are to enhance "Zhanwang" as a leading brand name in the PRC automotive parts and components market and become a major player in the global market for the procurement and supply of universal joints. To achieve these objectives, the Directors intend to implement the following business strategies:

Expand the production capacity of primary products

The Directors believe that the development of the automotive parts and components industry in the PRC is closely related to the automobile industry. Due to the rapid development of the PRC economy and the country's rising living standard, both corporate and personal demands for automobiles have been increasing, which in turn would drive up demands for automotive parts and components. Accordingly, the Company will strive towards the expansion of production capacity for universal joints by increasing investments in both equipment and other fixed assets.

Strengthen product research and development

The Company will run a parallel system that encompasses both in-house research and development and collaborative arrangement with external partners for the development of products. It is intended that more experienced research and development personnel will be recruited and more rigorous training and learning opportunities will be provided to the research and development staff in order to establish a strong research and development team. In addition, the Company will increase its investment in research and development equipment

in order to attain better research and development capability and to create a wider spectrum of products with richer specification offerings. In addition, the Company will seek strategic partners in order to upgrade its existing products and facilitate the development of new production technologies.

Expand PRC and international markets

The Directors believe that the expansion of the Company's domestic and overseas sales networks will enhance its product sales. The Company intends to expand its market share both in the PRC and worldwide. For the PRC market, the Company intends to increase its market share by expanding its sales and marketing team as well as establishing sales networks in certain regions of the PRC. Currently, the Company plans to establish its sales networks in the central and south-western parts of the PRC and procure business relations with more import and export corporations in the PRC. The Company also intends to further expand its own export networks by boosting its direct export sales. In addition, the Company will strengthen its brand name promotion by means of media advertising, distribution of promotional materials and participation in automobile exhibitions to enhance the publicity of the Company. At present, the Company has its own product brand name, namely, Zhanwang. The Directors believe that a brand name is crucial to the Company's marketing strategy as it can fully present the premium quality of its products, enhance customers' recognition of the Company's products and facilitate the promotion of its products.

Continually improve product quality

The Company has obtained the ISO9002: 94/QS9000: 1998 Quality System Certification. On this basis, the Company will continue to strengthen its quality management and strive to enhance its product quality and reduce production costs of its products. The Directors believe that high product quality and relatively low production costs will be the key to substantially increasing the market competitiveness of its products.

LOOKING AHEAD

We believe that our experienced management team and dedicated staff members are our key to our success. We would like to take this opportunity to extend our thanks to them for their commitment and support for the year.

Zhejiang Prospect Company Limited

Tang Li Min

Chairman

Zhejiang Province, the PRC

25th March 2004

Progress Against Business Objectives

In compliance with the GEM Listing Rules, the Company is required to present a comparison of actual business progress for the six months period ended 31st December 2003 and the business objectives for the same as set out in the prospectus of the Company. However, since the prospectus of the Company was dated 9th February 2004, which is after the year end date, the Company will review its business objectives and strategies on an ongoing basis and report in the next review period for the six months ended 30th June 2004.

BUSINESS OVERVIEW

The Company continued to experience strong growth in 2003, thanks to the commitment and hard work devoted by the staff members under the leadership of the Board of Directors. This has laid a firm foundation for further growth of the Company.

The Company is principally engaged in the manufacture and sale of universal joints for automobiles. It has three main product categories, comprising cardan universal joints, wing bearing universal joints and differential spiders, with over 80 major models and specifications.

In order to develop new markets and new customers, new products were tailored for customers' needs and special efforts were made to develop new overseas markets. The total number of universal joints produced and sold in 2003 amounted to 4.46 million and 4.73 million respectively, representing an increase of 35.15% and 51.12% as compared with previous year of 3.30 million and 3.13 million .

Turnover for the year ended 31st December 2003 amounted to RMB66.09 million, representing approximately 56.02 % increase year on year compared to RMB42.36 million in 2002. Net profit after tax jumped to RMB9.18 million, a year on year increase of approximately 192.73% compared to the same in 2002.

MARKET OVERVIEW

According to the statistics released by the Transmission Shaft Committee of China Association of Automobile Manufacturers ("CAAM"), it estimated that in 2002, there were about 15 universal joint manufactures in the PRC, of which total sales volume amounted to approximately 31.66 million sets. In addition, sales volume of eight manufacturers, which are members of the Transmission Shaft Committee of CAAM, was approximately 31.04 million sets in 2002, representing approximately 98% of the total sales volume of universal joints in the PRC. The Company ranked second in terms of scale, production volume and sales volume among the above eight manufacturers of universal joints in the PRC which it studied. The sales volumes of the eight respective universal joint manufacturers in the PRC in 2002 are (in accordance of sales volume from the highest to the lowest) 24.76, 3.37, 1.56, 0.84, 0.25, 0.10, 0.09 and 0.08 million sets. The sales volume of the Company, being 3.37 million sets, accounted for approximately 10.9% of the total market shares contributed by the above eight manufacturers. The leading manufacturer accounted for nearly 80% of the sales volume among the eight manufacturers in 2002. The top three manufacturers accounted for approximately 79.8%, 10.9% and 5.0% of the market share of these eight manufacturers which in aggregate amounted to 95.7% among the eight manufacturers.

AUTOMOBILES COMPONENTS PARTS INDUSTRY

The rapid and enormous growth of both the annual production and rate of ownership of automobiles among the public in the PRC provides a broad base for the development of the automotive parts and components industry in the PRC. The cheaper labour force in the PRC serves an important function in reducing the cost of manufacturing automotive parts and components. These factors have made the PRC automotive parts and components industry an attractive centre for investment.

DEVELOPMENT AFTER THE ACCESSION INTO WORLD TRADE ORGANISATION (“WTO”)

While the automobile manufacturing enterprises in the PRC are seeing a rapid boost in their market sales capability in the international arena following the PRC's accession to the WTO, the export volume of parts and components products will experience a greater extent of increase. At the same time, under the trend of localization of foreign automobile manufacturers upon entering the PRC market, the PRC automotive parts and components industry will be of increasingly greater interest to the foreign automobile manufacturers. The PRC's accession to the WTO has brought about lower tariff, larger quota and stronger purchasing power of the market for automotive parts and components as well as an increasingly more mature capital market in the PRC.

DEVELOPMENT OF NEW PRODUCTS

During 2003, the Company completed the development of new models and specifications of wing bearing universal joints and heavy-duty series of universal joints.

TURNOVER

Turnover amounted to RMB66.09 million in 2003, represents approximately 56.02 % increase year on year compared to RMB42.36 million in 2002. The significant increase in turnover during the period was due to the credit sales of approximately RMB 2.92 million contributed by new customers, sales of approximately RMB 35.27 million to the largest import and export corporation, which then sold to various overseas market; and direct export sales of approximately RMB 2.48 million as well as the development of overseas channels.

COST OF SALES AND GROSS PROFIT

Cost of sales increased to RMB44.88 million in 2003 from RMB30.00 million in 2002 or an increase of approximately 49.60%. This is less than the 56.02% increases in turnover for the same period. Gross margin of the Company's products increases slightly to approximately 32.09% in 2003 from approximately 29.17% in 2002. Improving gross profit margin was mainly due to the addition of forging machines in 2002, which enabled the Company to manufacture its own medium size cross, rather than outsourcing. This led to a decrease in fixed overhead per unit produced, a result of economy of scale.

OTHER REVENUE

Other operating income in 2003 amounted to RMB0.73 million, or a decrease of 52.80 % from RMB 1.54 million in 2002. This was mainly due to decrease in sales of work-in-progress and scrap materials of approximately RMB 0.38 million and decrease in interest income of approximately RMB 0.30 million. In addition, other revenue also included insurance compensation for loss of fixed assets amounted to approximately RMB100,000 in 2002.

DISTRIBUTION EXPENSES AND GENERAL AND ADMINISTRATIVE EXPENSES

The Company continued to expand its sales and marketing network. As a result, distribution expenses for 2003 totalled RMB1.1 million. This represents an increase of RMB0.31 million, or approximately 40.00% from that of 2002. The increase is in line with the increase in sales turnover.

In 2003, administrative expenses of the Company were approximately RMB3.98 million. Apart from the relatively high professional fees and the provision for bad and doubtful debts in 2002, other reasons for the lower administrative expenses for 2003 as compared with that in 2002 was mainly attributable to relatively lower motor vehicle expenses due to the disposal of a motor vehicle in 2003. Apart from that, the administrative expenses of management salaries, depreciation and research and development costs increased in line with the expansion of operation of the Company.

PROVISION FOR BAD AND DOUBTFUL DEBTS

The decrease in the provision for bad and doubtful debts from RMB2.05 million in 2002 to RMB0.37 million in 2003 was due to the fact that the management of the Company has made further provision of RMB0.7 million in 2002 for prudent purpose, in addition to the 50% provision made for accounts receivable at the balance sheet date aged between one to two years.

OTHER OPERATING EXPENSES

Other operating expenses for the fiscal year 2003 totalled to RMB0.14 million, as compared to RMB1.03 million in 2002, a drop of 86%, which mainly represented revaluation loss on fixed assets in 2002.

In the financial year of 2003, the net finance costs of approximately RMB1.92 million, comprised of interest on bank advances and other borrowings, bank charges and interest income, represented approximately 3.0% of turnover in 2003. This represented an increase of RMB0.18 million, or approximately 1%, as compared to approximately RMB1.73 million in 2002.

MATERIAL INVESTMENTS AND CAPITAL ASSETS

Other than those disclosed in the Company's prospectus dated 9th February 2004 under the section headed "Statement of Business Objectives", the Company does not have other future plans for material investments or capital assets.

EXPOSURE IN EXCHANGE RATE FLUCTUATIONS

Most of the Company sales and raw materials purchase are settled in RMB. In such circumstances, the Directors considered that the exchange rate fluctuations is limited for the year of 2003.

SIGNIFICANT INVESTMENTS HELD

The Company has no significant investments held during the year of 2003.

FINANCIAL RESOURCES AND LIQUIDITY

The Company continues to be in a healthy financial position with shareholders equity amounted to RMB 68.42 million as at 31st December 2003 (2002: RMB55.52 million). Current assets amounted to RMB87.03 million as at 31st December 2003 (2002: RMB80.33 million), of which RMB42.85 million (2002: RMB0.62 million) were cash and bank balances. As at 31st December 2003, the Company had a short-term bank loans of about RMB35.40 million (2002: RMB23.00 million). The short term bank loans were repayable within one year.

CONTINGENT LIABILITIES

As at 31st December 2003, the Directors were not aware of any material contingent liabilities.

CHARGES ON ASSETS

As at 31st December 2003, the short-term bank loans of RMB35.40 million were secured by the Company's land use rights and buildings at net book value of RMB23.30 million (2002: Nil).

GEARING RATIO

The Company's gearing ratio, based on total liabilities to shareholders' equity, was 0.73 (2002: 0.71) as at 31st December 2003.

CAPITAL STRUCTURE

There has been no change in the capital structure of the Company as at 31st December 2003 as compared with that as at 31st December 2002. As at 31st December 2003, the Company's operations were financed mainly by shareholders' equity, internal resources and bank loans. The Company will continue to adopt its treasury policy of placing the Company cash and cash equivalents in interest bearing deposits.

EMPLOYEE INFORMATION

During the year, the Company had an average number of employees of 429 (2002: 375). They were remunerated in accordance with their performance and market condition. Other benefits available to eligible employees including retirement benefits. The Company does not have share option scheme.

OUTLOOK AND PROSPECT

The Company has three main product categories, comprising cardan universal joints, wing bearing universal joints and differential spiders. Due to the rapid development of the PRC economy and the country's rising living standard, both corporate and personal demands for automobiles have been increasing, which in turn would drive up demands for automotive parts and components. The Company plans to expand its production capacity for all three categories by increasing investments in both equipment and other fixed assets. In addition, the Company intends to renovate its bottleneck craftsmanship to further expand its production capacity.

The Company's products are distributed through its own sales force to transmission shaft factories as well as automobile repair factories in the PRC. These domestic sales represented 42.65% of the total turnover in 2003, compared to 51.26% of the total turnover in 2002. In addition, the Company sells its products to import and export corporations in the PRC, accounted for 48.74% and 53.46% of the total turnover in 2002 and 2003 respectively. In January 2003, the Company began to sell its products directly to overseas customers in countries and regions including the United Kingdom, Taiwan, South Korea, India, Iran, Singapore and Israel. For the year 2003, direct sales to overseas customers represented approximately 3.88% of the Company's total turnover. The management will continue to expand the Company's domestic and overseas sales networks. For the PRC market, the Company intends to increase its market share by expanding its sales and marketing team as well as establishing sales networks in certain regions of the PRC. For the overseas market, the Company intends to further expand its own export networks by boosting its direct export sales. It will strengthen its brand name promotion by means of advertisement, promotional campaigns and participating in automobile exhibitions to enhance the publicity of the Company.

DIRECTORS

Executive Directors

Mr. Tang Li Min (唐利民先生), aged 41, is the chairman of the Company and an executive Director. He is responsible for planning and overall management of the Company. From March 1981 to June 1987, he was the factory head of Shaoxing Zhanwang Socks Factory* (紹興縣展望襪廠); from July 1987 to December 1992, he was the factory head of Shaoxing Zhanwang Knitting Factory* (紹興縣展望針織廠); and from December 1992 to June 1994, Mr. Tang was the chairman and general manager of Shaoxing Prospect Industrial Company Limited* (紹興縣展望實業有限公司). From July 1994 onwards, he has been the chairman of Zhejiang Prospect Industrial Group Limited* (浙江展望實業集團有限公司). He has over 20 years of experience in corporate management in the PRC. He completed his studies at Financial and Economic Studies Class of Shaoxing Administration School (紹興市行政學校財經研究進修班) in 1998. He was accredited as “Senior Economist” by the Personnel Bureau of Shaoxing County (紹興縣人事局) in September 2000.

Mr. Hong Guo Ding (洪國定先生), aged 40, is an executive Director and a compliance officer of the Company. He is responsible for the administration and finance of the Company. From February 1991 to December 1992, he was the deputy head of Shaoxing Zhanwang Knitting Factory* (紹興縣展望針織廠); from January 1993 to January 1995, he was the deputy general manager of Shaoxing Prospect Industrial Company Limited* (紹興縣展望實業有限公司) and factory head of Shaoxing Huqiao Garment Factory (紹興縣滬橋製衣廠); and from February 1995 to August 1999, he was the deputy general manager of Zhejiang Prospect Industrial Group Limited* (浙江展望實業集團有限公司). From September 2000 onwards, he has been the general manager of Zhejiang Prospect Industrial Group Limited* (浙江展望實業集團有限公司). He completed his tertiary education in administration and management at Hangzhou University (杭州大學) in 1996. He was accredited as “Economist” by the Personnel Bureau of Shaoxing County (紹興縣人事局) in July 1998. He has over 10 years of experience in corporate administrative management. He joined Shaoxing Prospect Universal Joint Company Limited* (紹興展望萬向節有限公司), the predecessor of the Company, at the time of its establishment in 1995 as a supervisor.

Mr. Fei Guo Yang (費國楊先生), aged 33, is an executive Director and a general manager of the Company. He is responsible for the production and sales of the Company. From June 1991 to November 1994, he was the workshop head of Shaoxing Zhanwang Knitting Factory* (紹興縣展望針織廠); from December 1994 to December 2002, he was the head of general office of Zhejiang Prospect Industrial Group Limited* (浙江展望實業集團有限公司); and from January 2000 to February 2002, he became the deputy general manager of Shaoxing Prospect Universal Joint Company Limited* (紹興展望萬向節有限公司). From March 2002 onwards, he has been the general manager of the Company. He completed his vocational education in finance and accounting at Shaoxing Broadcasting and Television Vocational School (紹興市廣播電視中等專業學校) in 1997. He has been attending courses of economics and management at Huazhong University of Science & Technology (華中科技大學). He has over 8 years of working experience in production and sales. He joined Shaoxing Prospect Universal Joint Company Limited* (紹興展望萬向節有限公司), the predecessor of the Company, at the time of its establishment in 1995 as a supervisor.

* for identification purpose only

Non-executive Directors

Mr. Tang Cheng Fang (唐成芳先生), aged 39, is a non-executive Director. From January 1991 to June 1992, he was in charge of the accounting division of Shaoxing Zhanwang Knitting Factory* (紹興縣展望針織廠); from July 1992 to July 1995, he served as the chief accountant of Shaoxing Prospect Industrial Company Limited (紹興縣展望實業有限公司); and from August 1995 to April 2001, he served as the finance manager of Zhejiang Prospect Industrial Group Limited* (浙江展望實業集團有限公司). From May 2001 onwards, he has been the general manager of Zhejiang Prospect New Synthetic Fibre Company Limited* (浙江展望新合纖有限公司). He completed his tertiary education in economics and management at Zhejiang University of Technology (浙江工業大學) in 1998. He was qualified as an assistant accountant in March 1999 and has over 10 years of experience in corporate finance and accounting. He joined Shaoxing Prospect Universal Joint Company Limited* (紹興展望萬向節有限公司), the predecessor of the Company, at the time of its establishment in 1995 as a supervisor.

Mr. Li Zhang Rui (李張瑞先生), aged 38, is a non-executive Director. From July 1987 to April 1993, he worked for Hangzhou Vacuum Tube Factory* (杭州電子管廠); from April 1993 to October 1994, he was the manager of the development department of Zhejiang Rongsheng Textile Company Limited* (浙江榮盛紡織有限公司); from October 1994 to May 2000, he worked for Zhejiang International Economic and Technical Cooperation Corporation* (浙江國際經濟技術合作公司); and from July 2000 to June 2002, he served as the deputy general manager of Zhejiang Prospect Industrial Group Limited* (浙江展望實業集團有限公司). From August 2002 onwards, he has been the general manager of Zhejiang Zhanwang Printing and Dyeing Company Limited (浙江展望印染有限公司). He obtained a bachelor's degree in electrical engineering from Xi'an Jiaotong University (西安交通大學) in 1987. He joined the Company as a non-executive Director in August 2002.

Independent non-executive Directors

Mr. Wang He Rong (王和榮先生), aged 43, a senior accountant, is an independent non-executive Director. From April 1994 to January 2000, he worked for Shaoxing Hongtai Certified Public Accountants* (紹興宏泰會計師事務所). From February 2000 onwards, he has been the chief accountant of Shaoxing Hongtai Certified Public Accountants* (紹興宏泰會計師事務所). He completed his tertiary education in economics and management at Zhejiang China's Communist Party School Distance Learning College* (中共浙江省委黨校函授學院). He was appointed as an independent non-executive Director in March 2003.

Mr. Lu Guo Qing (陸國慶先生), aged 39, is an independent non-executive Director. In 1986, he graduated from the Hangzhou University (杭州大學) with a bachelor's degree in law. He is an attorney of the PRC qualified to practise securities law in the PRC. From 1988 to 1998, he practised law at Zhejiang Guoda Law Firm* (浙江國大律師事務所) (formerly known as Zhejiang Shaoxing County Law Firm* (浙江紹興市律師事務所)) as its deputy head and later its head. He is currently a partner of Zhejiang Zhong Fa Da Law Firm* (浙江中法大律師事務所). He was appointed as an independent non-executive Director in March 2003.

SUPERVISORS

Mr. Hong Chun Qiang (洪春強先生), aged 26, is a Supervisor and chairman of the supervisory committee of the Company. He is responsible for the administration and management of the Company. From July 1996 to December 1997, he worked at the finance department of Zhejiang Prospect Industrial Group Limited*

* for identification purpose only

(浙江展望實業集團有限公司); from January 1999 to March 2000, he was secretary to chairman of Zhejiang Prospect Industrial Group Limited* (浙江展望實業集團有限公司); and from April 2000 to February 2003, he was the deputy head of the general office of Zhejiang Prospect Industrial Group Limited* (浙江展望實業集團有限公司). From March 2003 onwards, he has been a department manager of the Company. He completed his tertiary education in economics and management at Shaoxing School of Arts and Science (紹興文理學院). He was appointed as a Supervisor in February 2000.

Mr. Feng Yun Lin (馮雲林先生), aged 45, is a Supervisor. From April 1991 to May 1995, he was the deputy general manager of Shaoxing Zhanwang Wool Sweater Factory* (紹興展望羊毛衫廠); and from July 1996 to August 2000, he was the deputy general manager of Zhejiang Prospect Industrial Group Limited* (浙江展望實業集團有限公司). From September 2000 onwards, he has been the head of the Village Committee of Zhanwang Village, Yangxunqiao Town, Shaoxing County* (紹興縣楊汛橋鎮展望村村民委員會). He was appointed as a Supervisor in August 2002.

Mr. Chen Jin Long (陳金龍先生), aged 30, is a Supervisor. He joined the Company in January 1998 as head of precision workshop. From July 1992 to April 1995, he worked for Shaoxing Dongjiangqiao Agricultural Machinery Factory* (紹興東江橋農機廠); and from June 1995 to December 1997, he worked for Shaoxing Keqiao Hardware Factory* (紹興柯橋五金廠) as a production line supervisor. He was appointed as a Supervisor in February 2000.

INDEPENDENT SUPERVISORS

Mr. Wang Zhong (王眾先生), aged 36, is an independent Supervisor. He is responsible for supervising the Board, managers and other senior officers of the Company and reporting directly to the shareholders in general meeting of the Company. He is a practising attorney in the PRC. He is currently a deputy head (operations) of the Shanghai Branch of Beijing Jingdu Law Firm* (北京市京都律師事務所). Mr. Wang Zhong is a member of the law society in the PRC. In 2002, he attended training sessions for independent directors of listed companies held by China Securities Regulatory Commission and Fudan University. He was appointed as an independent Supervisor in March 2003.

Mr. Wang Ye Gang (王葉剛先生), aged 35, is an independent Supervisor. He is responsible for supervising the Board, managers and other senior officers of the Company and reporting directly to shareholders in general meeting of the Company. He obtained a master degree in business administration from Zhejiang University (浙江大學). He is currently a general manager of the marketing division of the securities department, Hangzhou Xiaoran Road East, Guosen Securities Company Limited* (國信證券有限責任公司杭州蕭然東路證券營業部). He was appointed as an independent Supervisor in March 2003.

SENIOR MANAGEMENT

Mr. Yu Hong Tu (喻宏圖先生), aged 40, is a secretary to the Board and the head of the listing division of the Company. He is responsible for matters relating to the listing of the H Shares. He graduated from Chongqing University (重慶大學) with a bachelor degree in economics in 1987 and pursued further study overseas. From 1994 to 1999, he was a member of the management of two companies in Shanghai and Hainan respectively. In 2001, he was appointed as the head of the restructuring division of Zhejiang Prospect Industrial Group Limited* (浙江展望實業集團有限公司). He joined the Company in March 2002.

* for identification purpose only

Mr. Hong Jin Zhu (洪金柱先生), aged 36, is in charge of the finance division of the Company. From July 1993 to May 1995, he was the head of the finance division of Shaoxing Huqiao Textile Garment Factory* (紹興縣滬橋針紡織製衣廠); from June 1996 to March 1998, he was in charge of the accounting division of Zhejiang Liyuan Chemical Fibre Company Limited* (浙江利源化纖有限公司); and from April 1998 to January 2002, he was the deputy manager of the finance department of Zhejiang Prospect Industrial Group Limited* (浙江展望實業集團有限公司). He joined the Company in March 2002.

Mr. Shen Jin Chang (沈錦昌先生), aged 72, is the principal engineer of the Company. He has more than 30 years of experience in machinery manufacturing. He worked as a technician in Luoyang County First Tractor Factory* (洛陽市第一拖拉機廠) from August 1962 to May 1966, in the Third Design Institute of China's First Machinery Division* (中國一機部第三設計院) from June 1966 to October 1979 and in Hangtian Industrial Department of Shanghai Xinxin Machinery Factory* (航天工業部上海新新機器廠) from November 1979 to December 1991. He was the chief engineer of Shaoxing Huafang Special Parts Factory* (紹興縣華紡專件廠) from August 1994 to October 1995. He joined the Company in January 1996.

Mr. Fu Yong Jun (傅永君先生), aged 32, is the manager of the technology and quality department of the Company. He graduated from Xiaoshan Yisheng High School (蕭山市義盛中學) in 1989. He has approximately 10 years of experience in the production technology of universal joints. During the period from 1993 to 1996, he was the chief quality control officer of Wanxiang Qianchao Co. Ltd.* (萬向錢潮股份有限公司). He joined the Company in May 1996.

Ms. Li Yan Fei (李燕飛女士), aged 34, is the head of the research and development team of the Company. She graduated from the Zhejiang Broadcasting Television University (浙江廣播電視大學) in 1991. She has approximately 10 years of experience in the universal joint industry. She worked as a technician in Wanxiang Qianchao Co. Ltd.* (萬向錢潮股份有限公司) from February 1992 to October 1999 and in Hangzhou Zhengqiang Universal Joint Company Limited* (杭州正強萬向節有限公司) from November 1999 to March 2002. She was the head of the research and development department of Hangzhou Jieke Universal Joint Company Limited* (杭州杰克萬向節有限公司) during the period from April 2002 to March 2003. She joined the Company in April 2003.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Ms. Kwok Pui Ching (郭佩貞女士), aged 38, is a qualified accountant with over 7 years of experience in accounting, auditing and financial management. She graduated with a degree of Bachelor of Social Sciences from The University of Hong Kong in 1986 and is an associate member of the Hong Kong Society of Accountants. She had worked for Ernst and Young. During the period from 1996 to 1998, she worked for a foreign-invested enterprise responsible for financial management. From September 1998 to August 2000, she was employed by PCCW Limited as finance manager. Subsequently, she worked for an investment consultancy limited. She joined the Company in June 2003.

* for identification purpose only

Report of the Board of Directors

The board of Directors (“the Board”) takes the pleasure in submitting the report of the Board together with the audited financial statements of the Company for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATION

The Company has been operating in manufacturing and sales of universal joint and automotive components for automobiles including cardan universal joint, wing bearing universal joint and differential spiders.

An analysis of the Company’s performance for the year by business and geographical segments is set out in note 12 to the financial statements.

The results and the state of affairs of the Company for the year ended 31 December 2003 are set out on page 23 to 47 of the annual report.

MAJOR CUSTOMERS AND SUPPLIERS

The Company’s sales to the five largest customers accounted for less than 50.21% of the Company’s turnover during the financial year. The Company’s sales to the largest customer accounted for 19.04% of the Company’s turnover during the financial year. The Company’s purchases attributable to the five largest suppliers in aggregate during the financial year amounted to 73.65% of the total purchases. The Company’s purchases attributable to the largest supplier accounted for 30.46% of the Company’s total purchases during the financial year.

At no time during the year have the Directors, their associates or any shareholders of the Company (who, to the knowledge of the Directors, owns more than 5% of the Company’s share capital) had any interest in these major customers and suppliers.

FINANCIAL STATEMENTS

The profit and cash flows of the Company for the year ended 31 December 2003 and the state of the Company’s affairs as at the date are set out in the financial statements on pages 23 to 27.

DIVIDENDS

No dividend was paid or declared during the year.

CHARITABLE DONATIONS

There was no charitable donations made by the Company during the year.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Company during the year are set out in note 13 on the financial statements.

SHARE CAPITAL

Details of the share capital during the year are set out in note 25 on the financial statement.

FIXED ASSETS

Details of the movements in fixed assets of the Company are set out in note 13 to the financial statements.

RESERVES

Details of movements in reserves of the Company during the year are set out in note 26 on the financial statements.

DISTRIBUTABLE RESERVES

At 31st December 2003, the Company's reserves available for distribution as dividends, calculated in accordance with the relevant rules and regulations, amounted to RMB9.29 million.

DIRECTORS' INTERESTS IN SHARES

As at 31st December 2003, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors as referred to in Rule 5.40 of the Rules Governing the Listing of Securities on the GEM (the "GEM Listing Rules"), were as follows:

Long position in shares

The Company Director/Supervisor	Capacity	No. and class of securities	Approximate percentage of shareholding in the registered capital
Mr. Tang Li Min (<i>Note</i>)	Beneficial owner	36,626,666 Domestic Shares	68.33%
	Interest of children under 18	8,933,334 Domestic Shares	16.66%
Mr. Hong Guo Ding	Beneficial owner	3,216,000 Domestic Shares	6.00%
Mr. Tang Cheng Fang	Beneficial owner	2,680,000 Domestic Shares	5.00%
Mr. Feng Yun Lin	Beneficial owner	1,072,000 Domestic Shares	2.00%
Mr. Fei Guo Yang	Beneficial owner	1,072,000 Domestic Shares	2.00%

Note: As Mr. Tang Li Min is the father of Mr. Tang Liu Jun and Ms. Tang Jing Jing, both of whom are under the age of 18, Mr. Tang Li Min shall, apart from the 36,626,666 Shares beneficially owned by him, be deemed under the provisions of the SFO to be interested in the 8,933,334 Shares in aggregate owned by Mr. Tang Liu Jun and Ms. Tang Jing Jing.

Save as disclosed above, as at 31st December 2003, none of the Directors and chief executives of the Company has any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors as referred to in Rule 5.40 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As of 31st December 2003, the following persons (other than the Directors and chief executives of the Company as disclosed in the paragraph headed “Directors’ interests in Shares” above) had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

<u>Name of shareholders</u>	<u>Capacity</u>	<u>Number of domestic shares</u>	<u>Approximate percentage of shareholding in the registered capital</u>
Mr. Tang Liu Jun	Beneficial owner	4,466,667	8.33%
Ms. Tang Jing Jing	Beneficial owner	4,466,667	8.33%

Save as disclosed above, as at 31st December 2003, the Directors were not aware of any other person (other than the Directors and chief executives of the Company as disclosed in the paragraph headed “Directors’ interests in Shares” above) who had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

DIRECTORS’ AND SUPERVISORS’ INTERESTS IN CONTRACTS

Save as disclosed in note 28 on the financial statements, no contract of significance to which the Company, its holding company or any of its fellow subsidiaries was a party in which a director or supervisor of the company had a material interest, subsisted at the end of the year or at any time during the year.

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

Each of the Directors and supervisors of the Company has entered into a service contract with the Company. Each service contract is for an initial term of three years commencing on the respective date of appointment by the shareholder’s meeting. Save as disclosed above, no Director and supervisor has an unexpired service contract which is not determinable by the Company within one year without payment of compensation, other than normal statutory obligations.

DIRECTORS AND SUPERVISORS

The Directors and supervisors of the Company during the financial year were:

Executive Directors

Mr. Tang Li Min
Mr. Hong Guo Ding
Mr. Fei Guo Yang

Non-executive Directors

Mr. Tang Cheng Fang
Mr. Li Zhang Rui

Independent non-executive Directors

Mr. Wang He Rong (appointed in March 2003)
Mr. Lu Guo Qing (appointed in March 2003)

Supervisors

Mr. Hong Chun Qiang
Mr. Feng Yun Lin
Mr. Chen Jin Long

Independent supervisors

Mr. Wang Zhong (appointed in March 2003)
Mr. Wang Ye Gang (appointed in March 2003)

In accordance with article 100 of the Company's articles of association, directors shall be elected at the shareholders' general meeting for a term of three years. A director may serve consecutive terms if re-elected upon the expiration of the term.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Brief biographical details of directors, supervisors and senior management are set out on page 10 to 13.

DIRECTORS' AND SUPERVISORS' EMOLUMENTS

Details of such Directors and supervisors' emoluments for the year are set out in note 10 on the financial statements.

CONNECTED TRANSACTIONS

During the financial year ended 31st December 2003, the Company conducted certain transactions which, for the purpose for the GEM Listing Rules, should constitute connected transactions of the Company upon its listing on GEM on 18th February 2004, and details of such connected transactions of the Company carried out in the year are disclosed in note 28 on the financial statements.

For the continuing connected transactions pursuant to an electricity tariff agency agreement between the Company and Zhejiang Prospect New Synthetic Fibre Company Limited* (浙江展望新合纖有限公司) dated 1st July 2002 as described in the Company's prospectus dated 9th February 2004, Zhejiang Prospect New Synthetic Fibre Company Limited* (浙江展望新合纖有限公司) would provide electricity to the Company for a term of 3 years commencing from 1st July 2002. The calculation of electricity tariff is based on the meter reading of the Company's separately installed meter. Pricing of the electricity tariff is determined with reference to the uniform rate payable by Zhejiang Prospect New Synthetic Fibre Company Limited* (浙江展望新合纖有限公司) to Keqiao Power Supply Division of the Shaoxing Power Supply Bureau* (紹興電力局柯橋供電分局). The fee payable by the Company to Zhejiang Prospect New Synthetic Fibre Company Limited* (浙江展望新合纖有限公司) is determined on an actual cost basis and is allocated on a fair and equitable basis. Upon expiry of the term or the renewed term of the above agreement, the term will be renewed automatically annually until both parties agree to terminate the above agreement by negotiation. The expenses paid by the Company to Zhejiang Prospect New Synthetic Fibre Company Limited in accordance with the above agreement for the financial year ended 31 December 2003 were RMB1,974,529.91.

Pursuant to the GEM Listing Rules, Zhejiang Prospect New Synthetic Fibre Company Limited* (浙江展望新合纖有限公司) is a connected person of the Company as Mr. Tang Li Min, who is one of the promoters of the Company, an executive Director and an initial management shareholder of the Company, holds 70.48% of the equity interests of Zhejiang Prospect Industrial Group Limited* (浙江展望實業集團有限公司) which, in turn, holds 57.14% equity interests in Zhejiang Liyuan Chemical Fibre Limited* (浙江利源化纖有限公司), whereas Zhejiang Liyuan Chemical Fibre Limited* (浙江利源化纖有限公司) holds 70% of the equity interests of Zhejiang Prospect New Synthetic Fibre Company Limited* (浙江展望新合纖有限公司). Four promoters of the Company, namely Mr. Hong Guo Ding, Mr. Tang Cheng Fang, Mr. Fei Guo Yang and Mr. Feng Yun Lin, have the following interests in Zhejiang Prospect Industrial Group Limited* (浙江展望實業集團有限公司): 10.84%, 9.97%, 3.68% and 5.03% respectively. Mr. Tang Cheng Fang and Mr. Hong Guo Ding, two of the Directors, promoters and initial management shareholders of the Company, and Mr. Feng Yun Lin, one of the Supervisors, promoters and initial management shareholders of the Company have a direct equity interest of 14.29%, 9.52% and 9.52% respectively in Zhejiang Liyuan Chemical Fibre Limited (浙江利源化纖有限公司). Accordingly, the agreement constitutes a continuing connected transaction under the GEM Listing Rules upon the listing of the H Shares of the Company on GEM on 18th February 2004.

* for identification purpose only

The independent non-executive directors have examined and confirmed that:

- (1) the transaction has been entered into by the Company in its ordinary and usual course of business;
- (2) the transaction has been entered into on terms that are fair and reasonable so far as the shareholders of the Company are concerned;
- (3) the transaction has been entered into on normal commercial terms or, where there is no available comparison, on terms no less favourable than those available to and from independent third parties;
- (4) the transaction has been entered into in accordance with the terms of the agreement governing such transaction; and
- (5) the Company should continue with the transaction.

COMPETING INTERESTS

None of the Directors, supervisors, initial management shareholders, substantial shareholders and significant shareholders of the Company and their respective associates has any interest in any businesses which directly or indirectly compete with the business of the Company for the year ended 31st December 2003.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SHARES OF THE COMPANY

During the year, the Company has not purchased, sold or redeemed any of its listed securities.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

AUDIT COMMITTEE

The Company set up an audit committee (the "Committee") on 14th January 2004 with written terms of reference in compliance with the requirements as set out in Rules 5.23 to 5.25 of the GEM Listing Rules. The primary duties of the Committee are to review and provide supervision over the financial reporting process and internal control of the Company. The Committee comprises two independent non-executive directors, Mr. Wang He Rong and Mr. Lu Guo Qing. One audit committee meeting was held since its establishment. The work undertaken at that meeting was to review the Company's annual report, including the Company's financial statements for the year ended 31st December 2003 and to provide advice and comments thereon to the Board. The audit committee is of the opinion that the financial statements comply with applicable accounting standards, GEM Listing Rules, and that adequate disclosures have been made.

BANK LOANS

Particulars of bank loans as at 31 December 2003 are set out in notes 24 on the financial statements.

RETIREMENT SCHEME

Particulars of the retirement scheme of the Company are set out in note 9 on the financial statements.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Company for the last three financial years is set out on pages 49.

INTERESTS OF SPONSOR

Neither South China Capital Limited (the “Sponsor”) nor its directors or employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the share capital of the Company as at 31st December 2003. Pursuant to the agreement dated 9th February 2004 entered into between the Company and the Sponsor, the Sponsor will receive a fee for acting as the Company’s retained Sponsor for the period from 18th February 2004, the date on which the shares of the Company are listed on GEM, to 31st December 2006. Save as disclosed above, the Sponsor has no other interest in the Company as at 31st December 2003.

PRACTICES AND PROCEDURES OF THE BOARD

The Directors considered that the Company has complied with the requirement of Board practices and procedures of Rules 5.28 to 5.39 of the GEM Listing Rules since the listing of its shares on GEM on 18th February 2004.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Company are set out in note 30 to the financial statements.

CLOSURE OF SHARE REGISTER

The H Share register of members of the Company will be closed from Tuesday, 20th April 2004 to Thursday, 20th May 2004 (both dates inclusive), during which no transfer of H Shares will be registered.

AUDITORS

Charles Chan, Ip & Fung CPA Ltd retire and being eligible, offer themselves for reappointment. A resolution for the re-appointment of Charles Chan, Ip & Fung CPA Ltd as the international auditors of the Company respectively will be proposed at the forthcoming Annual General Meeting.

By order of the Board
Zhejiang Prospect Company Limited
Mr. Tang Li Min
Chairman

Zhejiang Province, the People’s Republic of China
25th March 2004

Report of the Supervisory Committee

To the shareholders of the Company

The Supervisory Committee of the Company (the “Supervisory Committee”), in compliance with the provisions of the Company Law of the People’s Republic of China (the “PRC Company Law”), the relevant laws and regulations of Hong Kong and the Articles of Association of the Company, under their fiduciary duty, took up an active role to work reasonably and cautiously with diligence to protect the interests of the Company and its shareholders.

During the year, Supervisory Committee had reviewed cautiously the operation and development plans of the Company and provided reasonable suggestions and opinions to the Board of Directors. It also strictly and effectively monitored and supervised the Company’s management in making significant policies and decisions to ensure that they are in compliance with the laws and regulations of the PRC and the Articles of Association of the Company, and in the interests of its shareholders.

We have reviewed and agreed to the report of the Directors and audited financial statements for presentation at the forthcoming annual general meeting. We are of the opinion that the Directors, the general manager and other senior management of the Company were able to strictly observe their fiduciary duty, to act diligently and to exercise their authority faithfully in the best interests of the Company. The transactions between the Company and connected parties are in the interests of the shareholders as a whole and under fair and reasonable price. Up till now, none of the Directors, general manager and senior management staff had been found abusing their authority, damaging the interests of the Company and infringing upon the interests of its shareholders and employees. And none of them were found to be in breach of any laws and regulations or the Articles of Association of the Company.

The Supervisory Committee is satisfied with the achievement and cost-effectiveness of the Company in 2003 and has great confidence in the future of the Company.

By Order of the Supervisory Committee
Hong Chun Qiang
Chairman

Zhejiang Province, the PRC
25 March 2004



CCIF

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AUDITORS' REPORT TO THE SHAREHOLDERS OF ZHEJIANG PROSPECT COMPANY LIMITED

(Incorporated in the People's Republic of China with limited liability)

We have audited the financial statements on pages 23 to 27 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's Directors are responsible for the preparation of the financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's and the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 31st December, 2003 and of the Company's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Charles Chan, Ip & Fung CPA Ltd.
Certified Public Accountants
Hong Kong, 25 March 2004

Chan Wai Dune, Charles
Practising Certificate Number P00712

Income Statement

Year ended 31 December 2003

	<i>Note</i>	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Turnover	2	66,089	42,355
Cost of sales		(44,884)	(29,999)
Gross profit		21,205	12,356
Other revenue	3	726	1,537
Distribution costs		(1,098)	(785)
Administrative expenses		(3,977)	(4,739)
Other operating expenses		(141)	(1,028)
Profit from operations	4	16,715	7,341
Finance costs	5	(1,918)	(1,734)
Profit from ordinary activities before taxation		14,797	5,607
Taxation	6(a)	(5,617)	(2,471)
Net profit after tax		9,180	3,136
Dividends			
Interim dividend declared and payable during the year	7	—	37
Earnings per share			
Basic (<i>RMB cents</i>)	8	17.13	5.85

The notes on pages 28 to 47 form an integral part of these financial statements

Balance Sheet

As at 31 December 2003

	<i>Note</i>	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Non-current assets			
Property, plant and equipment	13	24,389	14,535
Land use rights	14	7,042	—
Construction-in-progress	15	78	—
		31,509	14,535
Current assets			
Inventories	16	15,134	8,860
Trade receivables	17	20,589	16,190
Prepayments, deposits and other receivables	18	8,465	1,626
Amount due from a director	19	—	43
Amounts due from related companies	20	—	2,988
Bank deposits		—	50,000
Cash at banks and in hand	21	42,845	621
		87,033	80,328
Current liabilities			
Trade and other payables	22	12,584	12,214
Amounts due to related companies	23	224	159
Short-term bank loans	24	35,400	23,000
Income tax payable	6(b)	1,910	3,975
		50,118	39,348
Net current assets		36,915	40,980
Net assets		68,424	55,515
Capital and reserves			
Paid-in/share capital	25	53,600	53,600
Reserves	26	14,824	1,915
		68,424	55,515

Approved and authorised for issue by the board of directors on 25 March 2004

On behalf of the board

Mr. Tang Li Min

Director

The notes on pages 28 to 47 form an integral part of these financial statements

Statements of Changes in Equity

Year ended 31 December 2003

	Paid-in/ share capital <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i>	Statutory public welfare fund <i>RMB'000</i>	Revaluation reserve <i>RMB'000</i>	Retained profit <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2002	2,000	175	88	—	1,493	3,756
Issue capital	48,660	—	—	—	—	48,660
Capitalisation	2,940	(294)	(147)	—	(2,499)	—
Net profit for the year	—	—	—	—	3,136	3,136
Transfer	—	314	156	—	(470)	—
Dividend	—	—	—	—	(37)	(37)
At 31 December 2002 and 1 January 2003	53,600	195	97	—	1,623	55,515
Net profit for the year	—	—	—	—	9,180	9,180
Transfer	—	1,006	503	—	(1,509)	—
Revaluation surplus	—	—	—	3,729	—	3,729
At 31 December 2003	53,600	1,201	600	3,729	9,294	68,424

The notes on pages 28 to 47 form an integral part of these financial statements

Cash Flow Statement

Year ended 31 December 2003

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Cash flows from operating activities		
Profit from ordinary activities before taxation	14,797	5,607
Adjustments for:		
Depreciation of property, plant and equipment	1,434	1,054
Amortisation of land use rights	104	—
Interest income	(335)	(635)
Finance costs	1,918	1,734
Impairment loss on property, plant and equipment	—	517
Property, plant and equipment written off	17	89
Loss on disposal of property, plant and equipment	14	44
Bad debts written off	40	41
Provision for bad and doubtful debts	333	2,052
Operating profit before changes in working capital	18,322	10,503
(Increase)/decrease in inventories	(6,274)	150
Increase in trade and other receivables	(12,129)	(10,575)
Increase in trade and other payables	414	1,905
Cash generated from operations	333	1,983
PRC enterprise income tax paid	(7,682)	—
Net cash (outflow)/inflow from operating activities	(7,349)	1,983
Cash flows from investing activities		
Purchase of property, plant and equipment	(8,150)	(3,149)
Acquisition of land use rights	(6,961)	—
Purchase of construction-in-progress	(78)	—
Receipts from disposal of property, plant and equipment	375	744
Interest received	852	117
Net cash outflow from investing activities	(13,962)	(2,288)

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Cash flows from financing activities		
Proceeds from injection of capital	—	48,660
Decrease/(increase) in amount due from a director	43	(43)
Decrease/(increase) in amounts due from related companies	2,988	(2,988)
Decrease in amount due from a holding company	—	3,891
Decrease in pledged deposit	—	1,040
Decrease/(increase) in bank deposits with maturity more than 3 months	50,000	(50,000)
Increase/(decrease) in amounts due to related companies	65	(179)
Proceeds from new short-term bank loans	85,900	23,000
Repayment of short-term bank loans	(73,500)	(23,000)
Interest paid	(1,961)	(1,760)
Net cash inflow/(outflow) from financing activities	63,535	(1,379)
Increase/(decrease) in cash and cash equivalents	42,224	(1,684)
Cash and cash equivalents at beginning of year	621	2,305
Cash and cash equivalents at end of year	42,845	621
Analysis of cash and cash equivalents		
Cash at banks and in hand	42,845	621

The notes on pages 28 to 47 form an integral part of these financial statements

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with Statements of Standard Accounting Practice (“SSAPs”) issued by the Hong Kong Society of Accountants (“HKSA”), the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Growth Enterprise Market (“GEM”). The financial statements are prepared under the historical cost convention as modified by the revaluation of certain property, plant and equipment.

The Company was established as a limited liability company and became a joint stock limited company on 9 August 2002. The Company is principally engaged in the manufacturing and sale of universal joints for automobiles. The financial statements as set out below have been prepared on continuing basis.

In the current year, the Company adopted the following Statements of Standard Accounting Practice (“SSAP”) issued by the HKSA which are effective for accounting periods commencing or after 1 January 2002.

SSAP 1 (Revised)	:	Presentation of financial statements
SSAP 11 (Revised)	:	Foreign currency translation
SSAP 15 (Revised)	:	Cash flow statements
SSAP 33	:	Discontinuing operations
SSAP 34 (Revised)	:	Employee benefits

The changes to the Company’s accounting policies and the effect of adopting these new policies are set out below.

(b) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses as modified by the revaluation of certain property, plant and equipment. Revaluations are performed by qualified valuers with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet date. Depreciation is calculated on a straight-line basis to write off the cost of assets as modified by the revaluation of certain property, plant and equipment to their residual values over their estimated useful lives as follows:

Buildings	20 – 30 years
Machinery and equipment	12 years
Office equipment and furniture	5 years
Motor vehicles	5 years

1. SIGNIFICANT ACCOUNTING POLICIES (continued)**(b) Property, plant and equipment (continued)**

Property, plant and equipment are reviewed periodically for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

When the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Estimated recoverable amount is determined based on estimated discounted future cash flows of the cash-generating unit at the lowest level to which the asset belongs. The recoverable amount is the higher of value in use or net selling price.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement.

Changes in the values of property, plant and equipment are dealt with as movements in the revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained profit as a movement in reserves.

(c) Land use rights

Land use rights are stated at valuation less accumulated amortisation and impairment losses. Revaluations are performed by qualified valuers with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet date. Amortisation of land use rights is calculated on a straight-line basis over the period of the land use rights of 50 years.

Changes in the values of land use rights are dealt with as movements in the revaluation reserve same as note (b) above.

(d) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the property, plant and equipment may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)**(d) Impairment of assets (continued)**

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price 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 time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest company of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(e) Construction-in-progress

Construction-in-progress is stated at cost. Cost comprises all direct and indirect cost of construction. Construction-in-progress is transferred to fixed assets and depreciation commences when construction is completed and the asset is put into use.

(f) Inventories

Inventories comprise raw materials, work-in-progress and finished goods are stated at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)**(g) Deferred taxation**

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arise from depreciation on fixed assets, revaluations of certain non-current assets and of investments, provisions for pensions and other post retirement benefits and tax losses carried forward; and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(h) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(i) Research and development costs

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized as an expense in the period in which it is accrued.

Expenditure on development activities is capitalized if the product or process is technically and commercially feasible and the Company has sufficient resources and the intention to complete development. The expenditure capitalized includes the costs of materials, direct labour and an appropriate proportion of overheads. Capitalized development costs are stated at cost less accumulated amortization and impairment losses. Other development expenditure is recognised as an expense in the period in which it is incurred.

Amortization of capitalised development costs is charged to the income statement on a straight-line basis over the estimated useful lives of the underlying products of not exceeding five years, commencing from the date when the products are put into commercial production.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)**(j) Borrowing costs**

Borrowing costs are expensed in the income statement in the period in which they are incurred.

(k) Revenue recognition

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Company. Revenue is recognised in the income statement as follows:

- (i) Revenue from sales of goods is recognised when goods are delivered and title has passed. Sales of goods exclude value-added tax and are stated after deduction of goods returns and trade discounts.
- (ii) Interest income is accrued on a time-apportioned basis by reference to the principal outstanding and the interest rate applicable.

(l) Translation of foreign currencies

Transactions in foreign currencies are translated into Renminbi at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the income statement.

(m) Retirement benefit costs

Contributions to the retirement benefit schemes are recognised as an expense to the income statement as and when incurred.

(n) Trade receivables

Provision is made against trade receivables to the extent that they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)**(p) Related parties**

For the purposes of the financial statements, parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(q) Segment reporting

A segment is a distinguishable component of the Company that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and fixed assets.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses.

2. TURNOVER

Turnover represents the aggregate of the invoiced value of goods supplied to the customers, which excludes value-added tax and is stated after deducting all goods returns and trade discounts.

3. OTHER REVENUE

	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Sales of work-in-progress and scrap materials	390	773
Interest income from a holding company	—	85
Bank interest income	335	550
Compensation received	1	100
Sundry income	—	29
	726	1,537

4. PROFIT FROM OPERATIONS

Profit from ordinary activities before taxation is stated after (crediting)/charging the followings:

	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Cost of inventories sold	44,884	29,999
Staff costs	5,481	5,056
Staff welfare costs	871	523
Directors' emoluments	51	31
Research and development	314	210
Depreciation of property, plant and equipment	1,434	1,054
Amortisation of land use rights	104	—
Auditors' remuneration	468	430
Provision/(written back) for bad and doubtful debts		
— Trade receivables	391	2,033
— Other receivables	(58)	19
Bad debts written off	40	41
Impairment loss on property, plant and equipment	—	517
Loss on disposal of property, plant and equipment	14	44
Property, plant and equipment written off	17	89

5. FINANCE COSTS

	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Interest expense on bank loans, repayable within one year	1,918	1,734

6. TAXATION

(a) Taxation in the income statements represents:

	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Provision for PRC enterprise income tax	5,617	2,471

The provision for PRC enterprise income tax is calculated at a standard rate of 33% of the estimated assessable income for the year ended 31 December 2003 as determined in accordance with the relevant income tax rules and regulations of the PRC.

6. TAXATION (continued)

(a) Taxation in the income statements represents: (continued)

The taxation on the Company's profit before taxation differs from the theoretical amount is as follows:

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Profit before taxation	14,797	5,607
Calculated at a taxation rate of 33%	4,883	1,850
Income not subject to taxation	—	(178)
Expenses not deductible for taxation purposes	734	1,104
Tax allowance given by PRC authority	—	(305)
Taxation charge	5,617	2,471

(b) Taxation in the balance sheets represents:

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Provision for PRC enterprise income tax	5,617	2,471
Balance of PRC enterprise income tax provision relating to prior years	3,975	1,504
Payment of PRC enterprise income tax	(7,682)	—
	1,910	3,975

(c) There was no material unprovided deferred taxation for the year ended 31 December 2003.

7. DIVIDENDS

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Interim dividend paid	—	37

The Company resolved not to declare a final dividend in respect of the year ended 31 December 2003. (2002: Nil)

8. EARNINGS PER SHARE

The basic earnings per share for each of the two years ended 31 December 2002 and 31 December 2003 are calculated based on the profit attributable to shareholders for the same period and the 53,600,000 shares issued and outstanding upon the establishment of the joint stock limited company on 9 August 2002 as if such shares had been outstanding for all periods presented.

No diluted earnings per share have been presented as the Company did not have any dilutive potential shares for the years ended 31 December 2002 and 2003.

9. RETIREMENT BENEFIT COSTS

The Company contributes on a monthly basis to defined contribution retirement benefit plan organised by relevant municipal government in the PRC. The municipal government undertakes to assume the retirement benefit obligations of all existing and future retired employees payable under the plan. Contributions to the plan are expensed as incurred. The assets of the plan are held separately from those of the Company in independently administered funds managed by the PRC government. The Company's contributions for each of the two years ended 31 December 2002 and 31 December 2003 were approximately RMB56,000 and RMB184,000, respectively.

10. DIRECTORS' EMOLUMENTS

Emoluments of the Company's directors disclosed pursuant to the GEM Listing Rules and section 161 of the Hong Kong Companies Ordinance are as follows:

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Fees	—	—
Other emoluments	50	19
Bonus	—	11
Retirement benefits	1	1
	51	31
The number of directors having emoluments fell within the following bands		
Nil – RMB1,000,000	7	5

During the year ended 31 December 2002, the three executive directors received individual emoluments of approximately RMB31,000, nil and nil respectively. During the year ended 31 December 2003, the three executive directors received individual emoluments of approximately RMB51,000, nil and nil respectively. The two non-executive directors and the four non-executive directors received nil emolument during the year ended 31 December 2002 and the year ended 31 December 2003 respectively.

11. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The aggregate emoluments of the five highest paid individuals are as follows:

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Salaries and other emoluments	399	128
Number of directors	—	1
Number of employees	5	4
	5	5

During the year ended 31 December 2003, no emoluments were paid by the Company to the five highest paid individuals as an inducement to join or upon joining the Company or as compensation for loss of office.

12. SEGMENTAL INFORMATION

Segmental information is presented in respect of the Company's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Company's internal financial reporting.

Primary reporting format — business segments

The Company has been operating in one single business segment, i.e. manufacturing and sale of universal joints and automotive components for automobiles including cardan universal joints, wing bearing universal joints and differential spiders.

Secondary reporting format — geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Revenue from external customers		
— PRC		
Domestic sales	28,190	21,710
Import and export corporations	35,332	20,645
— Overseas	2,567	—
Total revenue from external customers	66,089	42,355

At 31 December 2002 and 31 December 2003, all the Company's assets were located in the PRC.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings <i>RMB'000</i>	Machinery and equipment <i>RMB'000</i>	Office equipment and furniture <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Total <i>RMB'000</i>
Cost or valuation					
At 1 January 2003	8,825	8,934	402	349	18,510
Additions	5,146	2,338	159	507	8,150
Disposals	—	(38)	—	(421)	(459)
Written off	—	—	(19)	—	(19)
Revaluation	3,910	—	—	—	3,910
At 31 December 2003	17,881	11,234	542	435	30,092
Representing					
Cost	—	2,300	140	435	2,875
Valuation — 2002	—	8,934	402	—	9,336
Valuation — 2003	17,881	—	—	—	17,881
	17,881	11,234	542	435	30,092
Accumulated depreciation and impairment losses					
At 1 January 2003	874	2,897	103	101	3,975
Charge for the year	431	827	93	83	1,434
Written back on disposals	—	(4)	—	(66)	(70)
Written off	—	—	(2)	—	(2)
Revaluation	366	—	—	—	366
At 31 December 2003	1,671	3,720	194	118	5,703
Net book value					
At 31 December 2003	16,210	7,514	348	317	24,389
At 31 December 2002	7,951	6,037	299	248	14,535

13. PROPERTY, PLANT AND EQUIPMENT (continued)

The Company's land use rights and buildings held for own use were revalued individually at 31 December 2003 by Sallmanns (Far East) Limited, independent professionally qualified valuers, at an aggregate of RMB23,252,000 (2002: Nil). All the Company's land use rights and buildings were revalued using depreciated replacement costs basis. A revaluation surplus of RMB3,729,000 (2002: Nil), resulting from the above valuations, has been credited to the relevant asset revaluation reserve (note 26).

The carrying amount of the land use rights and buildings held for own use of the Company at 31 December 2003 would have been RMB6,857,000 (2002: Nil) and RMB12,666,000 (2002: RMB7,951,000) respectively had they been carried at cost less accumulated depreciation.

At 31 December 2003, the Company's land use rights and buildings with net value of approximately RMB7,042,000 and RMB16,210,000 respectively were pledged to secure general banking facilities granted to the Company (note 24).

14. LAND USE RIGHTS

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
At valuation (<i>note 13</i>)	7,149	—
Less: Accumulated amortisation	(104)	—
Revaluation (<i>note 13</i>)	(3)	—
Net book value	7,042	—

15. CONSTRUCTION-IN-PROGRESS

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
At 1 January	—	—
Additions	78	—
At 31 December	78	—

16. INVENTORIES

	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	5,069	1,983
Work-in-progress	6,956	3,927
Finished goods	3,109	2,950
	15,134	8,860

At 31 December 2002 and 31 December 2003, no inventories were carried at net realisable value.

17. TRADE RECEIVABLES

The aging analysis of trade receivables is as follows:

	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
1-30 days	6,538	3,280
31-60 days	5,256	3,207
61-90 days	3,397	3,726
91-180 days	3,794	4,369
More than 180 days	4,726	4,339
	23,711	18,921
Less: Provision for bad and doubtful debts	(3,122)	(2,731)
	20,589	16,190

The Company has a policy of allowing credit period ranging from 30 days to 120 days to its trade customers. However, for certain customers with long established relationship and good past payment histories, a longer credit period may be granted.

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2003 RMB'000	2002 RMB'000
Bill receivables	350	150
Prepayments and other receivables	6,917	1,009
Trade deposits paid to suppliers	1,198	467
	8,465	1,626

19. AMOUNT DUE FROM A DIRECTOR

	Maximum outstanding balances during the year			
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Fei Guo Yang	—	43	76	43

The amount is unsecured, interest free and has no fixed term of repayment. At 31 December 2002 and 31 December 2003, there were no outstanding overdue interests and no provision has been made for the amount due.

20. AMOUNTS DUE FROM RELATED COMPANIES

Name	Connected parties	Maximum outstanding balances during the year			
		2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Zhejiang Jiali Protein Fibre Company Limited	Tang Li Min	—	42	42	42
Zhejiang Prospect Green Fibre Company Limited	Hong Guo Ding	—	84	84	89
Zhejiang Prospect Industrial Group Limited	Tang Li Min Hong Guo Ding Tang Chang Fang Fei Guo Yang Li Zhang Rui	—	2,862	11,105	13,791
		—	2,988		

The amounts are unsecured, interest free and have no fixed term of repayment. At 31 December 2002 and 31 December 2003, there were no outstanding overdue interests and no provision has been made for the amount due.

21. CASH AT BANKS AND IN HAND

	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Cash at banks	42,220	260
Cash in hand	625	361
	42,845	621

22. TRADE AND OTHER PAYABLES

	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	7,065	7,199
Other payables	3,714	3,797
Value added tax, business tax and other taxes payable	138	216
Dividend payable	37	37
Accruals	1,588	960
Trade deposits received from customers	42	5
	12,584	12,214

All of the trade and other payables are expected to be settled within one year.

Included in trade and other payables are trade payables with the following aging analysis:

	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Due within 3 months	6,346	6,249
Due after 3 months but within 6 months	358	818
Due after 6 months but within 12 months	208	97
Due after 12 months	153	35
	7,065	7,199

23. AMOUNTS DUE TO RELATED COMPANIES

The amounts are unsecured, interest free, repayable on demand and have been fully settled on 9 January 2004.

24. SHORT-TERM BANK LOANS

The short-term bank loans are secured by the land use rights and buildings of the Company, interest bearing at a range of 5.04% to 7.056% per annum and repayable within one year. The short-term bank loans of RMB10,000,000 as at 31 December 2003 have been repaid during January to February 2004.

25. PAID-IN/SHARE CAPITAL

	Number of shares	Paid-in capital <i>RMB'000</i>	Share capital <i>RMB'000</i>
At 1 January 2002	N/A*	2,000	N/A*
Issued capital	N/A*	48,660	N/A*
Capitalisation into paid-in capital	N/A*	2,940	N/A*
Capitalisation upon transformation into shares in a joint stock limited company, registered, issued and fully paid at par value of RMB1 each	53,600,000	(53,600)	53,600
At 31 December 2002 and 31 December 2003	53,600,000	—	53,600

* Prior to the transformation into a joint stock limited company in the PRC, the capital of the Company was not divided into ordinary shares and accordingly, no information regarding the number of shares is presented.

The Predecessor, Shaoxing Prospect Universal Joint Company Limited was established as a limited liability company with registered capital of RMB2,000,000 on 7 June 1995.

On 9 August 2002, the Company was transformed into a joint stock limited company and obtained the enterprise legal person business license issued by the Administration Bureau of Industry and Commerce of Zhejiang Province. The registered paid-in capital, retained profit, statutory surplus reserve and statutory public welfare fund at 30 June 2002 were capitalised into 53,600,000 shares of RMB1 each, totalling RMB53,600,000, in accordance with Article 99 of the PRC Company Law.

26. RESERVES

	Statutory surplus reserve <i>RMB'000</i>	Statutory public welfare fund <i>RMB'000</i>	Revaluation reserve <i>RMB'000</i>	Retained profit <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2002	175	88	—	1,493	1,756
Net profit for the year	—	—	—	3,136	3,136
Transfer	314	156	—	(470)	—
Capitalisation	(294)	(147)	—	(2,499)	(2,940)
Dividend	—	—	—	(37)	(37)
<hr/>					
At 31 December 2002 and 1 January 2003	195	97	—	1,623	1,915
Net profit for the year	—	—	—	9,180	9,180
Transfer	1,006	503	—	(1,509)	—
Revaluation surplus <i>(note 13 and 14)</i>	—	—	3,729	—	3,729
<hr/>					
At 31 December 2003	1,201	600	3,729	9,294	14,824

(a) Statutory surplus reserve

According to the Company's articles of association, the Company is required to transfer 10% of its net profit after tax, as determined in accordance with the PRC accounting rules and regulations, to the statutory surplus reserve. When the balance of the statutory surplus reserve reaches 50% of the Company's registered capital, any further appropriation is optional. The transfer to this reserve must be made before distribution of a dividend to the shareholders.

Statutory surplus reserve can be used to make up previous years' losses, if any, and may be converted into the capital in proportion to their existing shareholdings, provided that the balance after such conversion is not less than 25% of the registered capital.

(b) Statutory public welfare fund

According to the Company's articles of association, the Company is required to transfer 5% to 10% of its net profit after tax, as determined in accordance with the PRC accounting rules and regulations, to the statutory public welfare fund. This fund can only be utilised on capital items for the collective benefits of the Company's employees such as the construction of dormitories, canteen and other staff welfare facilities. This fund is non-distributable other than on liquidation. The transfer to this fund must be made before distribution of a dividend to shareholders.

26. RESERVES (continued)**(c) Distributable reserves**

Pursuant to the Company's articles of association, the net profit after tax of the Company for the purpose of profit distribution to shareholders will deem to be lesser of (i) the net profit determined in accordance with the PRC accounting rules and regulations; and (ii) the net profit determined in accordance with the accounting principles generally accepted in Hong Kong.

Under the PRC Company Law and the Company's articles of association, net profit after tax can be distributed as dividends after allowance has been made for:

- (i) making up cumulative prior years' losses, if any;
- (ii) allocations of 10% of net profit after tax, as determined in accordance with the PRC accounting rules and regulations, to the Company's statutory surplus reserve. When the balance of the statutory surplus reserve reaches 50% of the Company's registered capital, any further appropriation is optional;
- (iii) allocations of 5% to 10% of net profit after tax, as determined in accordance with the PRC accounting rules and regulations, to the Company's statutory public welfare fund; and
- (iv) allocations to the discretionary surplus reserve, if approved by the shareholders.

The distributable reserves of the Company as at 31 December 2002 and 31 December 2003 approximately amounted to RMB1,623,000 and RMB9,271,000 respectively.

- (d) Upon the transformation of the Company into a joint stock limited company on 9 August 2002, the Company transferred all the retaining profit, statutory surplus reserve and statutory public welfare fund as at 30 June 2002 of approximately RMB2,940,000 to capital in accordance with Article 99 of the PRC Company Law.

27. CAPITAL COMMITMENTS

The Company's capital commitments outstanding at 31 December 2002 and 31 December 2003 and not provided for in the financial statements are as follows:

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Contracted but not provided for	5,261	—

28. RELATED PARTY TRANSACTIONS

The following is a summary of significant related party transactions which were carried out in the normal course of the Company's business:

	2003 RMB'000	2002 RMB'000
Continuing Activity		
Electricity fee paid to related companies (<i>note a</i>)	2,171	1,501
Discontinuing Activities		
Acquisition of leasehold building (<i>note b</i>)	5,001	—
Interest income received from a holding company (<i>note c</i>)	—	85
Sales of fixed assets to a related company (<i>note d</i>)	—	519

- (a) During the two years ended 31 December 2003, electricity fee paid to related companies was conducted in the normal course of business as the Company has to share the electricity meter with two related companies and prices were charged by the related companies based on actual electricity consumed by the Company at the average unit rate charged by the power company. The outstanding amounts as at the years ended 31 December 2002 and 31 December 2003 were all settled in the succeeding month. During the year ended 31 December 2003, the electricity tariff agency agreement with one of the related companies was terminated.
- (b) The Company acquired a building from Zhejiang Prospect Industrial Group Limited in April 2003. Apart from the two independent non-executive directors, all the directors of the Company and Mr. Fung Yun Lin, a supervisor of the Company, are also the directors of Zhejiang Prospect Industrial Group Limited, which is owned by Tang Li Min, Hong Guo Ding, Tang Cheng Fang, Fei Guo Yang and Feng Yun Lin. The consideration of acquiring the leasehold building was based on the valuation performed by an independent valuer. The amount was settled during the year ended 31 December 2003.
- (c) During the year ended 31 December 2002, the Company received interest income from its holding company. Interest income was calculated at a rate of 7.8% per annum, which was the interest rate charged by the bank at its normal course of business.
- (d) The Company sold two motor vehicles at carrying value of approximately RMB519,000 to Zhejiang Prospect Industrial Group Limited in July 2002. Apart from the two independent non-executive directors, all the directors of the Company are also the directors of Zhejiang Prospect Industrial Group Limited, which is owned by Tang Li Min, Hong Guo Ding, Tang Cheng Fang, Fei Guo Yang and Feng Yun Lin. The consideration was received during the year ended 31 December 2002.

29. HOLDING COMPANY

Prior to the change in equity interest of the Company in May 2002, the directors regarded Zhejiang Prospect Industrial Group Limited, a company incorporated in the PRC as the holding company.

30. SUBSEQUENT EVENTS

The following significant events took place subsequent to 31 December 2003:

- (a) On 5 January 2004, 18 February 2004 and 16 March 2004, the Company entered into agreements with Shaoxing County Credit Union, Jiangqiao Sub-office, Shaoxing County Credit Union, Jiangqiao Sub-office and Industrial and Commercial Bank of China, Shaoxing County Sub-branch for short term loans amounted to RMB5,000,000, RMB5,000,000 and RMB14,000,000 respectively. Such loans were secured by the Company's land use rights and buildings, interest bearing at 7.056%, 7.056% and 5.04% per annum respectively and repayable within one year.
- (b) On 18 February 2004, the Company became listed on GEM board of The Stock Exchange of Hong Kong Limited and a total of 23,000,000 new H shares with a nominal value of RMB1.00 each were issued at a price of HK\$1.33 per H share.

Financial Summary

	For the year ended 31 December		
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
RESULTS			
Turnover	66,089	42,355	21,336
Net Profit after tax	9,180	3,136	1,149
ASSETS AND LIABILITIES			
	As at 31 December		
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Total assets	87,033	80,328	25,062
Total liabilities	(50,118)	(39,348)	(35,139)
Balance (deficiency) of shareholders funds	68,424	55,515	3,756

Note: The Company was established as a limited liability company and became joint stock limited company on 9th August 2002. The financial information as set out has been prepared on continuing basis.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 2003 Annual General Meeting of Zhejiang Prospect Company Limited (the “Company”) will be held at the conference room of the Company, Zhanwang Village, Yangxunqiao Town, Shaoxing County, Zhejiang Province, the PRC on Thursday, 20th May, 2004 at 11:30 a.m. (or immediately after the conclusion or adjournment of the Extraordinary General Meeting of the Company to be held on the same day) for the following purposes:

1. To consider and approve the report of the directors of the Company for the year ended 31st December, 2003;
2. To consider and approve the audited financial statements and the report of the auditors of the Company for the year ended 31st December, 2003;
3. To consider and approve the report of the supervisory committee of the Company for the year ended 31st December, 2003;
4. To authorize the board of directors of the Company to fix Directors’ remuneration of the Company for the financial year ended 31st December, 2004;
5. To consider the re-appointment of Charles Chan, Ip & Fung CPA Limited as the Company’s auditors and to authorize the board of directors of the Company to fix their remuneration;
6. To consider the resignation of Mr. Hong Chun Qiang as a member of the supervisory committee of the Company;
7. To elect new members of the board of directors and the supervisory committee of the Company and fix their remuneration, and to authorize the board of directors to decide the terms of service contracts with the relevant directors and supervisors;
8. To consider and approve any proposal put forward by any shareholder holding 5% or more of the shares with voting rights at such meeting; and
9. To transact any other ordinary business of the Company.

By Order of the Board
浙江展望股份有限公司
Zhejiang Prospect Company Limited*
Mr. Tang Li Min
Chairman

Zhejiang Province, the People’s Republic of China
25th March, 2004

Notes:

1. Any member of the Company entitled to attend and vote at the aforesaid meeting is entitled to appoint one or more proxies to attend and vote on his behalf at the meeting in accordance with the article of association of the Company. A proxy needs not be a member of the Company.
2. In order to be valid, the proxy form, under which it is signed, must be deposited by hand or post, for holders of H Shares of the Company at the H shares registrar of the Company at Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong and, for holders of domestic shares, to the legal address of the Company (Zhanwang Village, Yangxunqiao Town, Shaoxing County, Zhejiang Province, the PRC) not less than 24 hours before the time for holding the AGM or not less than 24 hours before the time appointed for taking the poll. If the proxy form is signed by a power of attorney or other authority, a notarially certified copy of that power of attorney or authority shall be deposited at the same time.
3. Shareholders or their proxies shall produce their identity documents when attending the meeting.
4. The register of members of the Company will be closed from Tuesday, 20th April, 2004 to Thursday, 20th May, 2004 (both dates inclusive), during which no transfer of shares will be registered.
5. Holders of domestic shares and H shares whose names stand on the register of members of the Company at the close of business on Monday, 19th April, 2004 are entitled to attend and vote at the meeting.
6. The shareholders who intend to attend the meeting should complete and lodge the reply slip at the Company's legal address (Zhanwang Village, Yangxunqiao Town, Shaoxing County, Zhejiang Province, the PRC) on or before Friday, 30th April, 2004. The receipt can be delivered in person or by mail.
7. The annual general meeting is expected not to last for more than half a day. Attendants shall bear their own traveling and accommodation expenses.
8. The board of directors of the Company intends to nominate the following candidates for election to the office of director and supervisor:

To nominate Mr. Hong Chun Qiang (洪春強先生) as the candidate for executive director;

To nominate Mr. Ma Hong Ming (馬洪明先生) as the candidate for independent non-executive director.

The profile of the candidates are set out as follows:

Mr. Hong Chun Qiang (洪春強先生), aged 26, is a supervisor of the Company. He is responsible for the administration and management of the Company. From July 1996 to December 1997, he worked at the finance department of 浙江展望實業集團有限公司 (Zhejiang Prospect Industrial Group Limited*); from January 1999 to March 2000, he was secretary to chairman of 浙江展望實業集團有限公司 (Zhejiang Prospect Industrial Group Limited*); and from April 2000 to February 2003, he was the deputy head of the general office of 浙江展望實業集團有限公司 (Zhejiang Prospect Industrial Group Limited*). From March 2003 onwards, he has been a department manager of the Company. He completed his tertiary education in

economics and management at Shaoxing School of Arts and Science* (紹興文理書院). Subject to the approval of the members of the Company, he intends to resign from the post of supervisor of the Company in the forthcoming AGM.

Mr. Ma Hong Ming (馬洪明先生), aged 41, is the principal of 紹興中興會計師事務所 (Shaoxing Zhong Xing Certified Public Accountants*). He obtained his master degree in management from Shanghai Financial and Economic Studies University* (上海財經大學). From December 1981 to March 1992, he worked for Shaoxing Xing Hong Chemical Fibre Company Limited* (紹興興虹化纖公司) as finance manager; from March 1992 to December 1999, he was the assistant principal of Shaoxing County Audit Firm* (紹興縣審計事務所); and from January 2000 onwards, he served as the principal of Shaoxing Zhong Xing Certified Public Accountants* (紹興中興會計師事務所).

To nominate Mr. Hong Jin Shiu (洪金水先生) as the candidate for supervisor of the Company.

The profile of the candidate is set out as follows:

Mr. Hong Jin Shiu (洪金水先生), aged 40, is the accountant of the Company since 1996. From October 1986 to October 1989, he worked for the sales department of Shanghai Qian Jiang branch of Shaoxing County Qian Qing Supplier* (紹興縣錢清供銷社上海錢江經營部) as cashier; from November 1989 to 1990, he was the salesman of the Yangxunqiao branch of Shaoxing County Qian Qing Supplier* (紹興縣錢清供銷社楊汛橋分社); from 1991 to 1994, he was the salesman of the retail department of Qian Qing Association* (錢清聯購分銷服務部); from 1995 to 1996, he served as the cashier of Shaoxing Prospect Universal Joint Company Limited* (紹興展望萬向節有限公司), the predecessor of the Company.

* For identification purpose only

Notice of Extraordinary General Meeting

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of Zhejiang Prospect Company Limited (the “Company”) will be held at the conference room of the Company, Zhanwang Village, Yangxunqiao Town, Shaoxing County, Zhejiang Province, the PRC on Thursday, 20th May, 2004 at 11:00 a.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolution as a Special Resolution:

SPECIAL RESOLUTION

THAT the articles of association of the Company be and are hereby amended by:

- (1) deleting Article 77 in its entirety and substituting therefor the following new Article:

A shareholder (including proxy) when voting at a general meeting may exercise voting rights in accordance with the number of shares carrying the right to vote and each share shall have one vote. Where any shareholder is, under the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

- (2) deleting Article 78 in its entirety and substituting therefor the following new Article:

At any general meeting, a resolution shall be decided on a show of hands unless specifically required under the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange or any other applicable laws, rules or regulations to be by poll or unless a poll is demanded before or after any vote by show of hands by:

- (1) The chairman of the meeting;
- (2) At least 2 shareholders entitled to vote present in person or by proxy;
- (3) One or more shareholders present in person or by proxy representing in aggregate 10% or more of all shares carrying the right to vote at the meeting.

Unless a poll be so demanded, a declaration by the chairman that a resolution has been passed on a show of hands and an entry to that effect into the minutes of the meeting shall be conclusive evidence of the fact without requiring proof to the number or proportion of votes cast in favour of or against such resolution.

The demand for a poll may be withdrawn by the person who has made the same.

- (3) deleting Article 99 in its entirety and substituting therefor the following new Article:

The board of directors shall consist of 9 directors, including three independent directors. The board of directors shall have one chairman and one deputy chairman.

- (4) deleting the second paragraph of Article 100 in its entirety and substituting therefor the following new paragraph:

Other than a retiring Director and a person recommended by the Board for election to the office of Director, commencing on the second date after the dispatch of the notice of the meeting appointed for election of director(s), a shareholder is entitled to lodge a notice in writing to the Company to nominate director(s), the period (during which the candidate shall issue a notice to the Company acknowledging his intention to be elected) for lodgment of such notice shall be at least 7 days. In any event, the aforesaid period shall end seven days before the date of such meeting.

- (5) deleting the second paragraph of Article 135 in its entirety and substituting therefor the following new paragraph:

Unless otherwise provided in the Articles, a director shall not vote on any board resolution approving any contract or arrangement or any other proposal in which he or any of his associates (within the meaning as defined in the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange) has a material interest nor shall he be counted in the quorum present at the same board meeting.

By Order of the Board

浙江展望股份有限公司

Zhejiang Prospect Company Limited*

Mr. Tang Li Min

Chairman

Zhejiang Province, the People's Republic of China
25th March, 2004

Notes:

1. Any member of the Company entitled to attend and vote at the aforesaid meeting is entitled to appoint one or more proxies to attend and vote on his behalf at the meeting in accordance with the article of association of the Company. A proxy needs not be a member of the Company.
2. In order to be valid, the proxy form, under which it is signed, must be deposited by hand or post, for holders of H Shares of the Company at the H shares registrar of the Company at Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong and, for holders of domestic shares, to the legal address of the Company (Zhanwang Village, Yangxunqiao Town, Shaoxing County, Zhejiang Province, the PRC) not less than 24 hours before the time for holding the EGM or not less than 24 hours before the time appointed for taking the poll. If the proxy form is signed by a power of attorney or other authority, a notarially certified copy of that power of attorney or authority shall be deposited at the same time.
3. Shareholders or their proxies shall produce their identity documents when attending the meeting.
4. The register of members of the Company will be closed from Tuesday, 20 April 2004 to Thursday, 20 May 2004 (both dates inclusive), during which no transfer of shares will be registered.

5. Holders of domestic shares and H shares whose names stand on the register of members of the Company at the close of business on Monday, 19 April 2004 are entitled to attend and vote at the meeting.
6. The shareholders who intend to attend the meeting should complete and lodge the reply slip at the Company's legal address (Zhanwang Village, Yangxunqiao Town, Shaoxing County, Zhejiang Province, the PRC) on or before Friday, 30 April 2004. The receipt can be delivered in person or by mail.
7. The extraordinary general meeting is expected not to last for more than half a day. Attendants shall bear their own traveling and accommodation expenses.
8. The Directors wish to state that the above proposed Special Resolution is to mainly facilitate the compliance with the recent changes of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.
9. Since the original text of the articles of association of the Company are in Chinese language, so far as the proposed amendments of the articles of association are concerned, the Chinese text of the amended articles of association as shown in the Chinese version of this notice shall prevail over the English text in case of any inconsistency.

* *For identification purpose only*