



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)*



# Placing of H Shares

Sponsor



**South China Capital Limited**

Financial Adviser, Bookrunner and Lead Manager



**博大資本國際有限公司**  
**Partners Capital International Limited**

Lead Manager



**South China Securities Limited**

PRC Financial Adviser



**国都证券有限责任公司**  
**GUODU SECURITIES CO.,LTD**

\* for identification purpose only

# IMPORTANT

If you are in any doubt about this prospectus, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional advisers.



## 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)

### LISTING ON THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED BY WAY OF PLACING OF H SHARES

Number of Placing Shares : 23,000,000 H Shares  
Placing Price : Not more than HK\$1.50 per H Share and expected  
to be not less than HK\$1.33 per H Share  
Nominal Value : RMB1.00 each  
Stock Code : 8273

#### Sponsor



### South China Capital Limited

Financial Adviser and Bookrunner



博大資本國際有限公司

Partners Capital International Limited

#### Lead Managers

#### PRC Financial Adviser



South China Securities Limited



博大資本國際有限公司

Partners Capital International Limited



國都證券有限公司  
GUODU SECURITIES CO., LTD.

#### Co-Managers

Barits Securities (Hong Kong) Limited  
G.K. Goh Securities (H.K.) Limited  
Hantec International Finance Group Limited  
Magnum International Securities Limited

Core Pacific-Yamaichi International (H.K.) Limited  
Gransing Securities Co., Limited  
Hong Tong Hai Securities Limited  
Worldwide Finance (Securities) Limited

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the section headed "Documents delivered to the Registrar of Companies and available for inspection" in Appendix VII to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance (Chapter 32, Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other document referred to above.

The Placing Price is expected to be fixed by agreement between the Lead Managers (on behalf of the Underwriters) and the Company on the Price Determination Date, which is expected to be on or before 10th February, 2004 and, in any event, not later than 13th February, 2004. The Placing Price will be not more than HK\$1.50 per Placing Share and is expected to be not less than HK\$1.33 per Placing Share. The Lead Managers (on behalf of the Underwriters) may with the consent of the Company, reduce the Placing Price to a price below the range stated in this prospectus on or before 10th February, 2004. In such case, notice of reduction in the Placing Price will be published on the GEM Website (in English and Chinese) not later than 10th February, 2004. If the Lead Managers (on behalf of the Underwriters) and the Company are unable to reach an agreement on the Placing Price on or before 13th February, 2004, the Placing will not become unconditional and will not proceed. In such case, an announcement will be issued and published on the GEM Website (in English and Chinese).

The Company is incorporated in the PRC as a joint stock company with limited liability, and its businesses are primarily located in the PRC. Potential investors should be aware of the differences in the legal, economic, and financial systems between the PRC and Hong Kong and that there are different risk factors relating to investment in companies incorporated in the PRC. Potential investors should also be aware that the regulatory framework in the PRC is different from the regulatory framework in Hong Kong and should take into consideration the different market nature of the shares of the Company.

Certain of such differences and risk factors are set out in the sections headed "Risk factors" and "Appendix IV — Summary of relevant PRC and Hong Kong laws and regulations" to this prospectus.

The Lead Managers (on behalf of the Underwriters) may terminate the Underwriting Agreement by notice in writing to the Company upon the occurrence of any of the events set forth under the paragraph headed "Grounds for termination" in the section headed "Underwriting" of this prospectus at any time prior to 5:00 p.m. (Hong Kong time) on the Business Day before the Listing Date.

\* for identification purpose only

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## CHARACTERISTICS OF GEM

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GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet Website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM Website in order to obtain up-to-date information on GEM-listed issuers.

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## EXPECTED TIMETABLE

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2004 (Note 1)

Price Determination Date on or before (Note 2) . . . . .	10th February
Announcement of the Placing Price and the level of indication of interest in the Placing to be published on the GEM Website at <a href="http://www.hkgem.com">www.hkgem.com</a> on or before . . . . .	16th February
Allotment of H Shares to placees on or about . . . . .	16th February
Despatch of H Share certificates on or before (Note 3). . . . .	16th February
Dealings in H Shares on GEM to commence on . . . . .	18th February

*Notes:*

1. All times and dates refer to Hong Kong local time.
2. The Price Determination Date is expected to be on or before 10th February, 2004. If, for any reason, the Placing Price is not agreed on or before 13th February, 2004, the Placing will not become unconditional and will not proceed.
3. Placees of the Placing Shares will receive the share certificates for the Placing Shares via CCASS. Share certificates for the Placing Shares to be distributed via CCASS will be deposited directly into CCASS on or before 16th February, 2004 for credit to the respective CCASS participants' stock accounts or investor participant stock accounts designated by the Underwriters, the placees or their agents, as the case may be. No temporary documents of title in respect of the Placing Shares will be issued.
4. For details of the structure of the Placing, including conditions of the Placing, please refer to the section headed "Structure and conditions of the Placing" to this prospectus.
5. If there is any change to the above expected timetable, the Company will make an announcement via the GEM Website.

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*You should rely only on the information contained in this prospectus to make your investment decision.*

*The Company has not authorised anyone to provide you with information that is different from what is contained in this prospectus.*

*Any information or representation not made in this prospectus must not be relied on by you as having been authorised by the Company, the Sponsor, the Lead Managers, the Underwriters, any of their respective directors, officers, employees and/or representatives of any of them, or any other persons involved in the Placing.*

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## SUMMARY

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*This summary aims to give you an overview of the information contained in this prospectus. As it is only a summary, it does not contain all the information that may be important to you. You should read the entire prospectus before you decide to invest in the Placing Shares.*

*There are risks associated with investment in companies listed on GEM. You are advised to consider carefully all information set out in this prospectus. Some of the particular risks in investing in the Placing Shares are set out in the section headed "Risk factors" of this prospectus. You should read that section carefully and evaluate the risks set out therein before you decide to invest in the Placing Shares.*

### **BUSINESS OVERVIEW**

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.

The Company recorded a turnover of about RMB21.3 million, RMB42.4 million and RMB47.6 million for each of the two years ended 31st December, 2002 and the nine months ended 30th September, 2003 respectively. The principal product category of the Company, namely, cardan universal joints, accounted for approximately 96.1%, 96.9% and 96.9% of the turnover of the Company for each of the two years ended 31st December, 2002 and the nine months ended 30th September, 2003 respectively. According to the statistics released by the Transmission Shaft Committee of CAAM, it was estimated that in 2002, the Company ranked second in term of sales volume among eight manufacturers of universal joints in the PRC as per the study of the Transmission Shaft Committee of CAAM, and such eight manufacturers in aggregate accounted for approximately 98% of the total sales volume of universal joints in the PRC in 2002. The respective sales volume of the eight universal joint manufacturers in the PRC in 2002 are (in accordance with sales volume from the highest to the lowest) approximately 24.76, 3.37, 1.56, 0.84, 0.25, 0.10, 0.09 and 0.08 million sets. The top three manufacturers accounted for approximately 79.8%, 10.9% and 5.0% of the total market shares contributed by the eight manufacturers respectively. The sales volume of the Company, being approximately 3.37 million sets, accounted for approximately 10.9% of the total market share contributed by the above eight manufacturers.

The Company has built up a customer base in the PRC covering 19 provinces and autonomous regions. The Company's products are distributed through its own sales force to transmission shaft factories as well as automobile repair factories in the PRC. For each of the two years ended 31st December, 2002 and the nine months ended 30th September, 2003, sales to transmission shaft factories accounted for approximately 60.3%, 40.5% and 31.2% of the Company's total turnover respectively, and sales to automobile repair factories accounted for approximately 10.5%, 5.7% and 5.6% of the Company's total turnover respectively. In addition, the Company sells its products to import and export corporations in the PRC. As confirmed by such import and export corporations, the Company's products are then exported to countries and regions, transversing the US, Japan, Italy, Germany, the Netherlands, South Africa, Canada, Brazil, South Korea, Thailand, India, Iran, Indonesia, Malaysia, Venezuela and Panama. However, the Company has no direct contact with the ultimate overseas customers in respect of sales to such import and export corporations. For each of the two years ended 31st December, 2002 and the nine months ended 30th September, 2003, sales to import and export corporations represented approximately 18.8%, 48.7% and 48.2% of the Company's total turnover respectively. In January 2003, the Company began to sell its products directly to overseas

*Note:* The sales volume of universal joints in the PRC as composed by the Transmission Shaft Committee of CAAM included sales volume of finished and semi-finished products, universal joints produced and used in-house by automobile repair factories and automobile manufacturers in the PRC but excluded those imported from overseas.

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## SUMMARY

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customers in countries and regions including the United Kingdom, Taiwan, South Korea, India, Iran, Singapore and Israel. For the nine months ended 30th September, 2003, direct sales to overseas customers represented approximately 3.8% of the Company's total turnover.

The production facilities of the Company are primarily located in Yangxunqiao Town, Shaoxing County, Zhejiang Province of the PRC with an aggregate site area of approximately 60,739 sq.m. and an aggregate gross floor area of approximately 15,626 sq.m. Fixed assets and equipment owned by the Company are primarily production equipment for forging, lathing, heat treatment and grinding of universal joints.

### HISTORY AND DEVELOPMENT

The history of the Company can be traced back to June 1995 when Shaoxing Group and Shaoxing Jiangzhong Industrial Company (紹興縣江中實業公司) founded Shaoxing Prospect to engage in the manufacture and processing of universal joints, transmission shafts, cardan shafts and axle bearings for various types of automobiles. Shaoxing Prospect was established in Shaoxing County, Zhejiang Province, the PRC, on 7th June, 1995 as a limited liability company with a registered capital of RMB2 million, of which 75% was contributed by Shaoxing Group and the remaining 25% was contributed by Shaoxing Jiangzhong Industrial Company (紹興縣江中實業公司).

Shaoxing Group was registered as a collectively owned enterprise in 1994 with a registered capital of RMB31,680,000, which was contributed by Mr. Tang Li Min, Mr. Hong Guo Ding, Mr. Tang Cheng Fang, Mr. Fei Guo Yang and Mr. Feng Yun Lin, who were five of the six Promoters, through an enterprise beneficially owned by them, namely Shaoxing Prospect Industrial Company Limited (紹興縣展望實業有限公司) (formerly known as Shaoxing Prospect Industrial Joint Stock Company Limited (紹興縣展望實業股份有限公司)). Zhanwang Village Committee held the entire registered capital of Shaoxing Group on behalf of these five Promoters before Shaoxing Group underwent a corporate reorganisation to revert its corporate form from a collectively owned enterprise to a privately owned enterprise in June 2002. As advised by the Directors and the legal advisers to the Company as to PRC law, at the time of establishment of Shaoxing Group, it was a common practice in the PRC for privately owned enterprises established as collectively owned enterprises so as to, among other things, strengthen the confidence of their business partners and customers and build up their reputation. Against this background, Shaoxing Group was established as a collectively owned enterprise. In order to delineate clearly the property rights and ownership of Shaoxing Group and pursuant to the relevant laws and regulations in the PRC, Shaoxing Group carried out a demarcation process and reverted its corporate form from a collectively owned enterprise to a privately owned enterprise in June 2002, details of which are set out in the paragraph headed "Relationship between Shaoxing Group and the Company" of the section headed "Business" to this prospectus. Upon completion of the corporate reorganization, Shaoxing Group reverted to a limited liability company beneficially owned by Mr. Tang Li Min, Mr. Hong Guo Ding, Mr. Tang Cheng Fang, Mr. Fei Guo Yang and Mr. Feng Yun Lin. According to a valuation report issued by Shaoxing Zhongxing Asset Evaluation Limited Company (紹興中興資產評估有限公司), the net asset value of Shaoxing Group as at 11th June, 2002 was approximately RMB1 million. Pursuant to a property right demarcation agreement dated 16th June, 2002 entered into between Zhanwang Village Committee, Shaoxing Group, Mr. Tang Li Min, Mr. Hong Guo Ding, Mr. Tang Cheng Fang, Mr. Fei Guo Yang and Mr. Feng Yun Lin, it was confirmed that the interest held by Mr. Tang Li Min, Mr. Hong Guo Ding, Mr. Tang Cheng Fang, Mr. Fei Guo Yang and Mr. Feng Yun Lin in Shaoxing Group were RMB704,800, RMB108,400, RMB99,700, RMB36,800 and RMB50,300 respectively. Shaoxing Jiangzhong Industrial Company (紹興縣江中實業公司) was a collectively owned enterprise held by Zhanwang Village Committee since 1998 and it was dissolved in March 2000.



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## SUMMARY

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Among the Directors, Mr. Tang Li Min was a director of Shaoxing Prospect since its incorporation in 1995. He was in charge of the overall management and operation of Shaoxing Prospect. Mr. Hong Guo Ding, Mr. Fei Guo Yang and Mr. Tang Cheng Fang joined Shaoxing Prospect at the time of its establishment in 1995 as supervisors. They became directors of Shaoxing Prospect in February 2000.

Shaoxing Prospect had gradually developed its own manufacturing capacity since its establishment and had carried out its business at Yangxunqiao Town, Shaoxing County, Zhejiang Province, the PRC. In March 1997, Shaoxing Prospect started the manufacture and sale of cardan universal joints under the brand name “Zhanwang”. In the first few years, the Company mainly served the eastern part of the PRC which covers Shanghai, Jiangsu and Zhejiang as well as the northern part of the PRC which covers Beijing, Tianjin, Hebei, Henan and Inner Mongolia. Subsequently, the Company had expanded to serve customers in central part of the PRC which covers Jiangxi, Hubei and Hunan and southwestern part of the PRC which covers Chongqing, Sichuan, Yunnan, Guizhou and Tibet. At the same time, through development of new products, the Company was able to widen its product range and commenced the manufacture and sale of differential spiders. During the years, the Company’s customer base was gradually expanded and ranged from after-sales market to domestic transmission shaft manufacturers.

In 1999, parallel with the development of the Company’s domestic transmission shaft manufacturers networks, the Company began to explore international sales networks by establishing business relations with import and export corporations in the PRC. The Company approached import and export corporations by, among other means, attending nationwide automotive component trade fairs in the PRC, inviting staff from the import and export corporations to visit the Company and distributing product samples to the import and export corporations. Due to the increased demand for its products, the Company expanded its production facilities in 2000. By the end of 2000, its sales amounted to approximately RMB15 million. In 2002, the Company started the manufacture and sale of wing bearing universal joints. Due to continuous expansion, the current aggregate site area and gross floor area of the Company’s production facilities have expanded to approximately 60,739 sq.m. and 15,626 sq.m. respectively. In January 2003, the Company began to export directly to overseas customers. Details of the sales networks of the Company are set out in the paragraph headed “Markets and customers” of the section headed “Business” to this prospectus.

Shaoxing Prospect was converted into and established as a joint stock limited company on 9th August, 2002. A total of 53,600,000 Domestic Shares at par value of RMB1 each were issued to the Promoters in proportion to their respective shareholdings in Shaoxing Prospect based on its net asset value as at 30th June, 2002 which amounted to approximately RMB53.60 million.

### PRINCIPAL STRENGTHS

The Directors believe that the principal strengths of the Company are as follows:

— **Market leader of the industry**

According to the statistics released by the Transmission Shaft Committee of CAAM, it was estimated that in 2002, the Company ranked second in term of sales volume (including sales volume of finished and semi-finished products, universal joints produced and used in-house by automobile repair factories and automobile manufacturers in the PRC but excluding those imported from overseas) among eight manufacturers of universal joints in the PRC as per the study of the Transmission Shaft Committee of CAAM, and such eight manufacturers in aggregate accounted for approximately 98% of the total sales volume of universal joints (including sales volume of finished and semi-finished products, universal joints produced and used in-house by automobile repair factories and automobile manufacturers in the PRC but excluding those imported from overseas) in the PRC in 2002.

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## SUMMARY

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— **Experienced management team**

The Company has an experienced management team which possesses practical experiences and technical expertise. The management team has extensive practical experiences in the industry of universal joints for automobiles. The Directors believe that the knowledge and expertise of the Company's management team will enable the Company to compete for a larger share in the PRC market for universal joints and provide it with a platform to access overseas markets.

— **Strong emphasis on quality control**

The Company's quality management system was accredited by International Standards Certifications Pty. Ltd. and registered as complying with the requirements of ISO9002:94/QS-9000:1998 in August 2001. The accreditation and registration cover the manufacture, sale and service of cruciform type universal joints for the automobile industry.

— **Extensive customer base in the PRC**

The Company has built up an extensive customer base in the PRC, covering 19 provinces and autonomous regions. The Directors believe that such customer base serves as a solid foundation for the Company to increase its market share in the PRC.

— **Enhanced brand image and market recognition**

The quality services provided by the Company encompass (1) direct delivery of products to places designated by customers; (2) timely responses to customers' enquiries and complaints; and (3) regular visits to customers to understand their demands and expectations. Such series of measures designed for customers have enhanced the market image of the Company's products under the "Zhanwang" brand name.

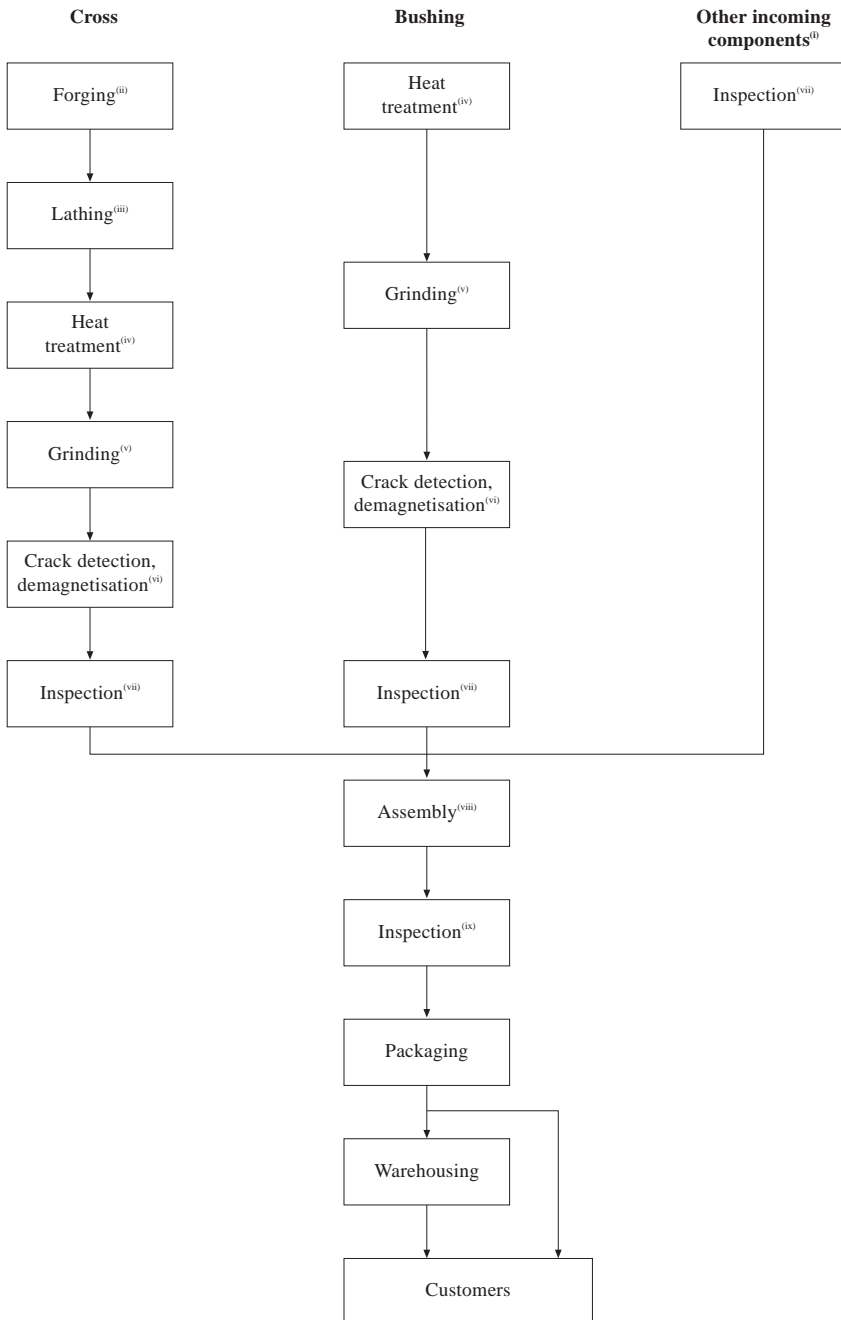
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# SUMMARY

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## PRODUCTION PROCESS

The production flow chart of the major product category of the Company, cardan universal joints, which is principally assembled with a cross and bushing, is set out as follows:



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## SUMMARY

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### *Notes:*

- (i) Other incoming components include semi-finished bushings, needle rollers, grease fittings, inner seals, outer seals, needle retainer rings, oil seal retainer rings and oil seals.
- (ii) Steel materials are heated in a medium-frequency furnace, hammered into the predetermined shape and forged into a cross shape through a press machine. Excessive fins on the shaped forge pieces are removed by the press machine.
- (iii) Conduct several processes on the shaped forge piece, including surface treatment (conduct lathing and drilling of central holes on both end surfaces of the cross to ensure total length and form a basis for subsequent processes), and lathing on the outer surface of the shaft necks of the cross.
- (iv) The cross and bushing undergo carburizing quenching/shine quenching to ensure surface hardness, core hardness and core structure as specified in the layout specifications and to ensure resistance to abrasion and the tough texture of the cross and bushing.
- (v) The cross and bushing undergo a grinding process to achieve the dimension and surface roughness required by the technical specifications.
- (vi) Crack detection is conducted on the cross and bushing to identify any surface crack. The cross and bushing are placed at a demagnetising machine to remove magnetism produced during the grinding process.
- (vii) Quality control is conducted on the cross, bushing and incoming components to check if the products are in conformity with the layout specifications.
- (viii) The cross, bushings and incoming components are assembled into a cardan universal joint.
- (ix) Final check is conducted on the final product to identify any defect.

## **BUSINESS OBJECTIVES AND STRATEGIES**

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 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. In February 2004, the Company will start to implement a technical renovation project for the universal joint production lines, for which approximately RMB20 million (equivalent to approximately HK\$18.69 million) is expected to be required for completion. In addition, the Company intends to renovate its bottleneck craftsmanship to further expand its production capacity.

### **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. The Company intends to recruit more experienced research and development personnel and more

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## SUMMARY

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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 overseas. 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 expand and establish its sales networks in the central and southwestern 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 advertisement, promotional campaigns and participating in automobile exhibitions to enhance the publicity of the Company.

For the period from the Latest Practicable Date to 31st December, 2006, it is intended that approximately HK\$1 million out of the net proceeds from the Placing will be used for expanding sales and distribution networks in the PRC such as Wuhan in Hubei Province and Chengdu in Sichuan Province. It is also intended that approximately HK\$1 million out of the net proceeds from the Placing will be used in advertisement, promotional campaigns and participation in automobile exhibitions.

In addition, the Company will actively procure business with internationally renowned automobile manufacturers in order to become a player of the global market for the procurement of automotive parts and components and enhance the market competitiveness 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, 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 increase the market competitiveness of its products.

## SUMMARY

### REASONS FOR THE PLACING AND USE OF PROCEEDS

The Directors believe that listing on GEM will enhance the Company's profile and competitive advantage. In addition, the Placing will expand the Company's capital base for future growth and development. The net proceeds of the Placing, after deducting related expenses, are estimated to be approximately HK\$21.51 million based on a Placing Price of HK\$1.33 per H Share, being the lower limit of the stated range of the Placing Price. The Directors presently intend to use such net proceeds in the following manner:

	<b>From the Latest Practicable Date to 30th June, 2004</b>	<b>Six months ending 31st December, 2004</b>	<b>Six months ending 30th June, 2005</b>	<b>Six months ending 31st December, 2005</b>	<b>Six months ending 30th June, 2006</b>	<b>Six months ending 31st December, 2006</b>	<b>Total</b>
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Technical renovation project for universal joint production lines (note 1)							
— purchase of equipment	4.00	9.69	—	—	—	—	13.69
— construction of factories	3.00	1.00	—	—	—	—	4.00
— installation and testing of equipment	—	0.63	—	—	—	—	0.63
Research and development							
— purchase of computers and product development software	0.05	0.05	0.05	0.05	0.05	—	0.25
— purchase of equipment	0.20	0.05	0.05	0.05	—	—	0.35
— construction of testing centre	0.05	0.05	—	—	—	—	0.10
— cooperative arrangements	0.05	—	—	—	—	—	0.05
Marketing and promotional activities (note 2)	0.20	0.20	0.20	0.20	0.10	0.10	1.00
Staff recruitment and training	0.05	0.05	0.05	0.05	0.05	—	0.25
Expansion of sales and distribution networks (note 3)	0.20	0.20	0.20	0.20	0.10	0.10	1.00
General working capital	0.05	0.05	0.05	0.04	—	—	0.19
<b>Total</b>	<b>7.85</b>	<b>11.97</b>	<b>0.60</b>	<b>0.59</b>	<b>0.30</b>	<b>0.20</b>	<b>21.51</b>

*Notes:*

- (1) The completion of the project requires approximately RMB20 million (equivalent to approximately HK\$18.69 million), of which approximately HK\$13.69 million will be required for the purchase of equipment, approximately HK\$0.80 million will be required for the installation and testing of equipment, approximately HK\$4.00 million will be required for the construction of factories and approximately HK\$0.20 million will be used for staff training. Accordingly, approximately HK\$18.32 million from the net proceeds of the Placing will be allocated for the purchase of equipment, construction of factories and the installation and testing of equipment, and the shortfall of approximately HK\$0.37 million will be financed by the Company's internally generated resources.
- (2) The marketing and promotional activities include, but not limited to, advertisement, promotional campaigns and participation in automobile exhibitions.
- (3) It includes the recruitment of staff, the purchase or lease of office equipment and tools for transportation purpose.

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## SUMMARY

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If the Placing Price is set at higher than HK\$1.33 per H Share, being the lower limit of the stated price range of the Placing Price, the net proceeds will be increased accordingly and the amount allocated for the respective intended uses described above will be increased proportionally. Should the Placing Price be set at the upper limit of the stated price range of HK\$1.50 per H Share, the Company will receive additional net proceeds of HK\$3.91 million, all of which will be allocated to the expansion of production capacity (as to HK\$3.36 million to the technical renovation project, HK\$0.5 million to renovate the bottleneck craftsmanship and HK\$0.05 million to commence feasibility studies on the production of other automotive parts and components).

It should be noted that the net proceeds from the Placing (based on the lower limit of the stated price range of the Placing Price of HK\$1.33) will not be sufficient to finance the implementation of the Company's business plans as described in the paragraph headed "Implementation of business plan" of the section headed "Statement of business objectives" to this prospectus. The Directors estimate that, in addition to the net proceeds from the Placing, an aggregate of approximately HK\$2.07 million will be required to finance the Company's business plans as described therein for the period from the Latest Practicable Date to 31st December, 2006. The Directors believe that the net proceeds from the Placing together with internally generated funds of the Company will be sufficient to finance all its planned and/or intended projects as described in the section headed "Statement of business objectives" to this prospectus.

In the event that any part of the Company's business plans do not materialise or proceed as planned or that the net proceeds from the Placing are not immediately required for the purposes as stated above, the Directors will carefully evaluate the situation and may re-allocate such unused net proceeds of the Placing to other business plans or new projects of the Company or to hold the same as short-term bank deposits so long as the Directors deem it to be in the best interests of the Company and the Shareholders taken as a whole. In the event that there is any material modification to the business plans or the use of proceeds from the Placing as stated above, the Company will issue an announcement on the GEM Website and comply with other relevant requirements of the GEM Listing Rules.

## SUMMARY

### TRADING RECORD

The following is a summary of the audited results of the Company for each of the two years ended 31st December, 2002 and the nine months ended 30th September, 2003. The summary should be read in conjunction with the accountants' report as set out in Appendix I to this prospectus.

	<i>Note</i>	For the year ended		For the nine
		31st December,	2002	months ended
		2001	2002	30th September,
		<i>RMB'000</i>	<i>RMB'000</i>	2003
				<i>RMB'000</i>
<b>Turnover</b>	1	<b>21,336</b>	<b>42,355</b>	<b>47,643</b>
Cost of sales		<u>(15,243)</u>	<u>(29,999)</u>	<u>(32,520)</u>
<b>Gross profit</b>		<b>6,093</b>	<b>12,356</b>	<b>15,123</b>
<b>Gross profit margin (%)</b>		<b>28.6</b>	<b>29.2</b>	<b>31.7</b>
Other revenue		755	1,537	563
Distribution costs		(636)	(785)	(739)
Administrative expenses		(2,283)	(4,739)	(2,694)
Other operating expenses		<u>(268)</u>	<u>(1,028)</u>	<u>(67)</u>
<b>Profit from operations</b>		<b>3,661</b>	<b>7,341</b>	<b>12,186</b>
Finance costs		<u>(1,719)</u>	<u>(1,734)</u>	<u>(1,399)</u>
<b>Profit from ordinary activities</b>				
<b>before taxation</b>		<b>1,942</b>	<b>5,607</b>	<b>10,787</b>
Taxation		<u>(793)</u>	<u>(2,471)</u>	<u>(3,933)</u>
<b>Net profit after tax</b>		<b><u>1,149</u></b>	<b><u>3,136</u></b>	<b><u>6,854</u></b>
<b>Net profit margin (%)</b>		<b>5.4</b>	<b>7.4</b>	<b>14.4</b>
<b>Dividends</b>				
Interim dividend declared and payable				
during the year/period		—	37	—
<b>Earnings per share (RMB)</b>	2	<b>2.14 cents</b>	<b>5.85 cents</b>	<b>12.79 cents</b>



# SUMMARY

Notes:

- (1) Turnover comprises:

	Year ended		Nine months
	31st December,	2002	ended
	2001	2002	30th September,
	<i>RMB'000</i>	<i>RMB'000</i>	2003
			<i>RMB'000</i>
Cardan universal joints	20,506	41,049	46,170
Wing bearing universal joints	—	538	952
Differential spiders	830	768	521
	21,336	42,355	47,643

- (2) The earnings per Share for each of the two years ended 31st December, 2002 and the nine months ended 30th September, 2003 are calculated based on the profit attributable to shareholders for the relevant periods and the 53,600,000 Shares issued and outstanding upon the establishment of the joint stock limited company on 9th August, 2002 as if such Shares had been outstanding for all periods presented.

## PROFIT ESTIMATED FOR THE YEAR ENDED 31ST DECEMBER, 2003

Estimated profit after tax but before extraordinary items (*Note 1*) . . . . . not less than RMB8,560,000  
 approximately HK\$8,000,000

Estimated earnings per Share on a

— pro forma fully diluted basis (*Note 2*) . . . . . approximately RMB11.2 cents

Notes:

1. The estimated profit after tax but before extraordinary items is based on the bases and assumptions set out in Appendix II to this prospectus. The Directors are not aware of any extraordinary items that have arisen or are likely to arise in the financial year ended 31st December, 2003.
2. The calculation of the estimated earnings per Share on a pro forma fully diluted basis is based on the estimated profit after tax but before extraordinary items for the financial year ended 31st December, 2003 and on the assumptions that the Company has been listed since 1st January, 2003 and that a total number of 76,600,000 Shares were in issue throughout the financial year.

# SUMMARY

## PLACING STATISTICS

	Based on Placing Price of HK\$1.33 per H Share	Based on Placing Price of HK\$1.50 per H Share
Market capitalisation of H Shares ( <i>Note 1</i> ) . . . . .	HK\$30,590,000	HK\$34,500,000
Adjusted net tangible asset value per Share ( <i>Note 2</i> ) . . . . .	HK\$1.11	HK\$1.16

*Notes:*

- (1) Market capitalisation is calculated on the basis of the lower and the upper limits of the stated price range of the Placing Price of HK\$1.33 and HK\$1.50 per H Share respectively and 23,000,000 H Shares in issue immediately after completion of the Placing.
- (2) Adjusted net tangible asset value per Share is arrived at after making the adjustments to the adjusted net tangible asset value referred to in the paragraph headed “Adjusted net tangible assets” of the section headed “Financial information” to this prospectus and based on a total of 76,600,000 Shares in issue immediately after the completion of the Placing.

## INITIAL MANAGEMENT SHAREHOLDERS AND OTHER SHAREHOLDERS OF THE COMPANY

Set out below is the shareholding structure of the Company immediately before and after completion of the Placing.

Name of shareholders	Date on which shareholding interest in the Company was first acquired	Shares held immediately before the Placing		Shares held immediately after the Placing		Approximate total investment cost (RMB) ( <i>Note 5</i> )	Approximate average investment cost (RMB) ( <i>Note 6</i> )	Moratorium period under the GEM Listing Rules	Restriction on transfer of Domestic Shares under the Company Law (commencing from 9th August, 2002)
		Number of Shares	Approximate Percentage	Number of Shares	Approximate Percentage				
<b>Holders of Domestic Shares</b>									
<b>Initial Management Shareholders</b>									
Mr. Tang Li Min <i>(Note 1)</i>	7th June, 1995 <i>(Note 2)</i>	36,626,666	68.33%	36,626,666	47.82%	32,640,000 <i>(Note 6)</i>	0.89 <i>(Note 6)</i>	12 months <i>(Note 7)</i>	3 years
Mr. Tang Liu Jun <i>(Note 3)</i>	11th September, 2003 <i>(Note 4)</i>	4,466,667	8.33%	4,466,667	5.83%	Nil <i>(Note 6)</i>	Nil <i>(Note 6)</i>	12 months <i>(Note 7 &amp; 8)</i>	3 years
Ms. Tang Jing Jing <i>(Note 3)</i>	11th September, 2003 <i>(Note 4)</i>	4,466,667	8.33%	4,466,667	5.83%	Nil <i>(Note 6)</i>	Nil <i>(Note 6)</i>	12 months <i>(Note 7 &amp; 8)</i>	3 years
Mr. Hong Guo Ding	7th June, 1995 <i>(Note 2)</i>	3,216,000	6.00%	3,216,000	4.20%	3,264,000	1.015	12 months <i>(Note 7)</i>	3 years
Mr. Tang Cheng Fang	7th June, 1995 <i>(Note 2)</i>	2,680,000	5.00%	2,680,000	3.50%	2,720,000	1.015	12 months <i>(Note 7)</i>	3 years
Mr. Fei Guo Yang	7th June, 1995 <i>(Note 2)</i>	1,072,000	2.00%	1,072,000	1.40%	1,088,000	1.015	12 months <i>(Note 7)</i>	3 years
Mr. Feng Yun Lin	7th June, 1995 <i>(Note 2)</i>	1,072,000	2.00%	1,072,000	1.40%	1,088,000	1.015	12 months <i>(Note 7)</i>	3 years
<b>Holders of H Shares</b>									
<b>Public</b>		Nil	Nil	23,000,000	30.03%				
<b>Total</b>		53,600,000	100.0%*	76,600,000	100.0%*				

\* The discrepancy between the total and sums of amounts listed is due to rounding.

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## SUMMARY

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*Notes:*

1. Mr. Tang Li Min was the husband of Ms. Hong Yin Juan, who was one of the Promoters and owned 13.4 million Domestic Shares at the time of incorporation of the Company as a joint stock limited company. On 27th August, 2003, Ms. Hong Yin Juan involved in a car accident and passed away on the same date. Pursuant to the Disposal Agreement, 4,466,666 Domestic Shares held by Ms. Hong Yin Juan were transferred to Mr. Tang Li Min at nil consideration. Together with the 32,160,000 Domestic Shares held by Mr. Tang Li Min before such transfer, he holds in aggregate 36,626,666 Domestic Shares.
2. As Mr. Tang Li Min, Mr. Hong Guo Ding, Mr. Tang Cheng Fang, Mr. Fei Guo Yang and Mr. Feng Yun Lin are regarded as the original shareholders of Shaoxing Group (details of which are set out in the paragraph headed “Relationship between Shaoxing Group and the Company” of the section headed “Business” to this prospectus), the date on which Shaoxing Group became a shareholder of Shaoxing Prospect was taken to be the date on which they became Shareholders of the Company.
3. Pursuant to the Disposal Agreement, 8,933,334 Domestic Shares of Ms. Hong Yin Juan were transferred to her children, Mr. Tang Liu Jun and Ms. Tang Jing Jing, in the portion of 4,466,667 Domestic Shares each at nil consideration. Since Mr. Tang Liu Jun and Ms. Tang Jing Jing are minors, they do not have the requisite legal capacity to transfer or dispose of such Domestic Shares even though they are legal owners to their respective Domestic Shares. Mr. Tang Li Min, their father and legal guardian, shall be the person to exercise the rights (including but not limited to rights of transfer and disposal) pertaining to such Domestic Shares transferred to them and responsible for their respective shareholder’s rights and responsibilities in the Company on their behalf until they reach the age of 18. As Mr. Tang Liu Jun and Ms. Tang Jing Jing, together with their father and legal guardian Mr. Tang Li Min, are entitled to exercise, or control the exercise of 30% or more of the voting power at general meeting of the Company, Mr. Tang Liu Jun and Ms. Tang Jing Jing are controlling shareholders (as defined in the GEM Listing Rules) of the Company and each of them is regarded as an Initial Management Shareholder.
4. Pursuant to the Disposal Agreement of 11th September, 2003, the entire equity interests of Ms. Hong Yin Juan in the Company were transferred to Mr. Tang Li Min (as to 4,466,666 Domestic Shares), Mr. Tang Liu Jun (as to 4,466,667 Domestic Shares) and Ms. Tang Jing Jing (as to 4,466,667 Domestic Shares) respectively at nil consideration. As advised by the legal advisers to the Company as to PRC law, the Disposal Agreement is valid and legally binding and in compliance of the relevant PRC law and regulations. On 15th September, 2003, the Leading Group of the Enterprise Listing Work of the People’s Government of Zhejiang Province (浙江省人民政府企業上市工作領導小組) issued an approval for the alteration in the Company’s shareholding structure and the Administrative Bureau of Industry and Commerce of Zhejiang Province (浙江省工商行政管理局) had subsequently approved the registration of such alteration on 23rd October, 2003.
5. Total investment cost refers to the cash contribution made by each of the Shareholders (i.e. the consideration paid under their respective share transfer agreements dated 29th May, 2002 and the capital injection made on 5th June, 2002 but without taking into account any capitalization issue made at the time of the conversion of Shaoxing Prospect into the Company and the contribution made by Shaoxing Group).
6. The total investment cost and average investment cost of Mr. Tang Li Min, Mr. Tang Liu Jun and Ms. Tang Jing Jing does not take into account of the consideration paid by Ms. Hong Yin Juan in acquiring the respective number of Domestic Shares transferred to each of Mr. Tang Li Min, Mr. Tang Liu Jun and Ms. Tang Jing Jing as detailed in notes 1, 3 and 4 above.
7. Each of the Initial Management Shareholders has undertaken to the Stock Exchange, the Company and the Sponsor (for itself and on behalf of the Underwriters) that he/she will not dispose of (nor enter into any agreements to dispose of) nor permit the registered holder to dispose of (or to enter into any agreements to dispose of) any of his/her direct or indirect interests in his/her Relevant Securities for a period of 12 months from the Listing Date, details of which are set out in the paragraph headed “Restriction on Disposal of Shares” of the section headed “Substantial Shareholders, Significant Shareholders and Initial Management Shareholders” to this prospectus.
8. Mr. Tang Li Min, as the legal guardian of Mr. Tang Liu Jun and Ms. Tang Jing Jing, has undertaken to the Stock Exchange, the Company and the Sponsor (for itself and on behalf of the Underwriters) that he will not dispose of (nor enter into any agreements to dispose of) any of Mr. Tang Liu Jun and Ms. Tang Jing Jing’s interests in their respective Relevant Securities for a period of 12 months from the Listing Date, details of which are set out in the paragraph headed “Restriction on Disposal of Shares” of the section headed “Substantial Shareholders, Significant Shareholders and Initial Management Shareholders” to this prospectus.

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## SUMMARY

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### RISK FACTORS

There are risks associated with any investment. Some of the particular risks in investing in the Company are set out in the section headed “Risk factors” to this prospectus. You should read this section carefully and evaluate the risks as set out herein before you decide to invest in the Company.

The Directors consider that the operations of the Company is subject to a number of risk factors which can be categorised into (i) risks relating to the Company; (ii) risks relating to the industry; and (iii) risks relating to the PRC, which are summarised as follows:

#### **Risks relating to the Company**

- Relationship between Shaoxing Group and the Company
- Reliance on a principal product category
- Risks associated with research and development
- Increase in trade receivables
- Directors’ and Supervisors’ remuneration

#### **Risks relating to the industry**

- Rapid technological advancement
- Competition

#### **Risks relating to the PRC**

- Political and economic factors
- Foreign exchange risks
- Environmental issues
- Legal and other regulatory considerations of the PRC
- The PRC’s accession into the WTO

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## DEFINITIONS

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*In this prospectus, unless the context otherwise requires, the following expressions have the following meanings:*

“Articles” or “Articles of Association”	the articles of association of the Company, adopted on 3rd February, 2004 (as amended from time to time)
“associate(s)”	has the meaning ascribed thereto in the GEM Listing Rules
“Board”	the board of Directors
“Business Day”	a day that is not Saturday, Sunday or a public holiday in Hong Kong
“CAAM”	China Association of Automobile Manufacturers (中國汽車工業協會), a national industry association established in May 1987, representing China’s automobile industry and is constituted by enterprises engaged in the business of automobile, motorcycle and automotive component
“CAGR”	compound annual growth rate
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CIETAC”	China International Economic and Trade Arbitration Commission (中國國際經濟貿易仲裁委員會)
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company”	Zhejiang Prospect Company Limited* (浙江展望股份有限公司), a joint stock limited company established in the PRC with limited liability under the Company Law on 9th August, 2002, and where the context so requires in respect of any time prior to its establishment as a joint stock limited company, Shaoxing Prospect
“Company Law”	the Company Law of the PRC (中華人民共和國公司法), enacted by the Standing Committee of the 8th National People’s Congress on 29th December, 1993, which became effective on 1st July, 1994, as amended, supplemented or otherwise modified from time to time
“connected person(s)”	has the meaning ascribed thereto in the GEM Listing Rules
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會), a regulatory body responsible for the supervision and regulation of the PRC national securities markets
“Director(s)”	the director(s) of the Company
“Disposal Agreement”	an agreement dated 11th September, 2003 signed among all the beneficiaries of Ms. Hong Yin Juan’s intestacy in relation to the disposal of her entire equity interests in the Company to Mr. Tang Li Min, Mr. Tang Liu Jun and Ms. Tang Jing Jing at nil consideration
“Domestic Share(s)”	ordinary shares in the share capital of the Company with a nominal value of RMB1.00 each, fully paid or credited as fully paid in RMB

\* for identification purpose only

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## DEFINITIONS

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“Forward Looking Period”	the period from the Latest Practicable Date to 31st December, 2006
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Committee”	the listing committee of the board of directors of the Stock Exchange with responsibility for GEM
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM, as amended, supplemented, or otherwise modified from time to time
“GEM Website”	the internet website <a href="http://www.hkgem.com">www.hkgem.com</a> operated by the Stock Exchange for the purpose of GEM
“H Share(s)”	overseas listed foreign invested share(s) in the share capital of the Company with a nominal value of RMB1.00, which are to be listed on GEM, and subscribed for and traded in HK\$
“HKIAC”	Hong Kong International Arbitration Centre
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Initial Management Shareholder(s)”	has the meaning ascribed thereto in the GEM Listing Rules and in the context of the Company, refers to Mr. Tang Li Min (唐利民先生), Mr. Tang Cheng Fang (唐成芳先生), Mr. Hong Guo Ding (洪國定先生), Mr. Fei Guo Yang (費國揚先生), Mr. Feng Yun Lin (馮雲林先生), Mr. Tang Liu Jun (唐瀏君先生) and Ms. Tang Jing Jing (唐曠晶小姐), details of whom are set out in the section headed “Substantial Shareholders, Significant Shareholders and Initial Management Shareholders” to this prospectus
“Latest Practicable Date”	31st January 2004, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information included in this prospectus
“Lead Managers”	Partners Capital and South China Securities
“Listing Date”	the date on which dealings in and trading of the H Shares first commence on GEM
“Macau”	the Macau Special Administrative Region of the PRC
“Main Board”	the stock market operated by the Stock Exchange (excluding the options market) other than GEM
“Mandatory Provisions”	the Mandatory Provisions for the Articles of Association of Companies to be Listed Overseas (到境外上市公司章程必備條款), for inclusion in the articles of association of companies incorporated in the PRC to be listed overseas (including Hong Kong), which were promulgated by the former Securities Commission of the State Council and the former State Commission for Restructuring the Economic System of the PRC on 27th August, 1994, as amended, supplemented or modified from time to time

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## DEFINITIONS

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“Partners Capital”	Partners Capital International Limited, a deemed licensed corporation for types 1 and 6 regulated activities under the SFO
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“Placing”	the conditional placing of the Placing Shares at the Placing Price in accordance with terms and conditions set out in the section headed “Structure and conditions of the Placing” to this prospectus
“Placing Price”	the price per H Share (exclusive of brokerage of 1%, SFC transaction levy of 0.005%, SFC investor compensation levy of 0.002% and Stock Exchange trading fee of 0.005%) at which H Shares are to be subscribed pursuant to the Placing and to be determined by agreement between the Lead Managers (on behalf of the Underwriters) and the Company on or before the Price Determination Date, which price will not be higher than HK\$1.50 per H Share and expected to be not less than HK\$1.33 per H Share, details of which are set out in the section headed “Structure and conditions of the Placing” of this prospectus
“Placing Share(s)”	the 23,000,000 new H Share(s) being offered at the Placing Price pursuant to the Placing as set out in the section headed “Structure and conditions of the Placing” to this prospectus
“PRC” or “China”	the People’s Republic of China which, for the purposes of this prospectus, excludes Hong Kong, Macau and Taiwan
“Price Determination Date”	the date, expected to be on 10th February, 2004, and in any event no later than 13th February, 2004 on which the Placing Price will be fixed for the purpose of the Placing
“Promoters”	Mr. Tang Li Min (唐利民先生), Ms. Hong Yin Juan (洪銀娟女士), Mr. Tang Cheng Fang (唐成芳先生), Mr. Hong Guo Ding (洪國定先生), Mr. Fei Guo Yang (費國楊先生) and Mr. Feng Yun Lin (馮雲林先生)
“Promoters Agreement”	the promoters agreement dated 15th July, 2002 entered into by the Promoters in relation to the conversion of Shaoxing Prospect to a joint stock limited company
“Relevant Securities”	has the meaning ascribed thereto in Rule 13.15(4) of the GEM Listing Rules
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局), the PRC government authority responsible for matters relating to foreign exchange administration
“Securities Law”	the Securities Law of the PRC (中華人民共和國證券法), enacted by the Standing Committee of the National People’s Congress on 29th December, 1998 and came into force on 1st July, 1999, as amended, supplemented or otherwise modified from time to time
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

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## DEFINITIONS

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“Shaoxing Prospect”	Shaoxing Prospect Universal Joint Company Limited* (紹興展望萬向節有限公司), a company established in the PRC with limited liability on 7th June, 1995 and the predecessor of the Company
“Shaoxing Group”	Zhejiang Prospect Industrial Group Limited* (浙江展望實業集團有限公司), formerly known as Zhejiang Prospect Industrial Company Limited* (浙江展望實業有限公司) and Shaoxing Prospect Enterprise Group Company* (紹興展望企業集團公司)
“Share(s)”	Domestic Share(s) and/or H Share(s), as the case may be
“Shareholder(s)”	holder(s) of the Share(s)
“Significant Shareholder(s)”	has the meaning ascribed thereto in the GEM Listing Rules
“South China Capital” or “Sponsor”	South China Capital Limited, a deemed licensed corporation for types 4, 6 and 9 regulated activities under the SFO, and the sponsor to the Placing
“South China Securities”	South China Securities Limited, a deemed licensed corporation for types 1, 4, 6, 7 and 9 regulated activities under the SFO
“Special Regulations”	the PRC Special Regulations on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies (國務院關於股份有限公司境外募集股份及上市的特別規定), issued by the State Council on 4th August, 1994, as amended, supplemented, or otherwise modified from time to time
“State” or “PRC Government”	The central government of the PRC including all governmental subdivisions, provincial, municipal and other regional or local government entities and instrumentalities thereof
“State Council”	the State Council of the PRC (中華人民共和國國務院)
“State Securities Commission”	the State Securities Commission of the PRC (中國國務院證券委員會)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Substantial Shareholder(s)”	has the meaning ascribed thereto in the GEM Listing Rules and in the context of the Company, refers to Mr. Tang Li Min (唐利民)
“Supervisor(s)”	member(s) of the supervisory committee of the Company
“Takeover Code”	The Hong Kong Code on Takeovers and Mergers issued by the SFC, as amended, supplemented, or otherwise modified from time to time

\* for identification purpose only



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## DEFINITIONS

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“Transmission Shaft Committee of CAAM”	The Transmission Shaft Committee of CAAM (中國汽車工業協會傳動軸委員會), one of the professional branches established by CAAM responsible for the activities of transmission shaft industry and universal joint industry of the PRC, the responsibilities of which includes, among other things, carrying out statistics, investigation and analysis of information regarding transmission shaft and universal joint industries of the PRC and publishing the related statistical information and figures
“Underwriters”	the underwriters listed in the paragraph headed “Underwriters” in the section headed “Underwriting” to this prospectus
“Underwriting Agreement”	the underwriting agreement dated 9th February, 2004 relating to the Placing entered into between, inter alia, the Company, the Initial Management Shareholders and the Underwriters, details of which are set out in the section headed “Underwriting” to this prospectus
“United States” or “US”	the United States of America
“VAT”	value-added tax
“WTO”	the World Trade Organisation
“Zhanwang Village Committee”	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), which is the collective-administration organization of Zhanwang Village, Yangxunqiao Town, Shaoxing County, Zhejiang Province, the PRC
“HK\$” and “cents”	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“US\$” or “US dollars”	United States dollars, the lawful currency of the United States
“sq.m.”	square metre(s)
“%”	per cent.

*Unless otherwise specified in this prospectus, amounts denominated in US\$ and RMB have been translated, for the purpose of illustration only, into HK\$ at a rate of HK\$7.80 = US\$1.00 and HK\$1.00 = RMB1.07 respectively. No representation is made that any amounts in US\$ or HK\$ or RMB have been or could have been or could be converted at the above rate or at any other rates or at all.*

*For ease of reference, the names of the PRC-incorporated companies and entities have been included in this prospectus in both the Chinese and English languages. In the event of any inconsistency, the Chinese name prevails.*

\* for identification purpose only

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## GLOSSARY

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*This glossary contains explanations of certain terms used in this prospectus in connection with the Company and its business. The terminology and their meanings may not correspond to standard industry meanings or usage of those terms.*

“Bushing”	the outer ring of a universal joint, referred to as bearing after being assembled with needle rollers and oil seals. The bearings are then assembled on the cross to become a universal joint
“CAD/CAM system”	computer-aided design/computer-aided manufacturing system, a computer system that displays the objects under design graphically on computer screen and facilitate on-line revisions
“cardan universal joint”	a connecting piece in the chassis transmission system, acting as a flexible coupling between two shafts and permits one shaft to drive another shaft that is at an angle to it. It permits power to be transmitted from the engine through the transmission shaft to the driving axle, even when the engine is mounted in a frame at a higher level than the driving axle
“cross”	the main component for a universal joint, assemble with bearings on its four ends to become a cardan universal joint
“differential spider”	the gears that convey engine power to the driving axles
“GD&T”	Geometric Dimensioning and Tolerancing, a language used on mechanical engineering drawings composed of symbols that are used to efficiently and accurately communicate geometry requirements for associated features on components and assemblies. It has been used for many years in the automobile, aerospace, electronic and commercial design and manufacturing industries. A technical specification relating to the extent of form and positional deviation permissible in mechanical products
“grease fitting”	an accessory part for adding lubricant to universal joints
“ISO9002”	a constituent programme of the ISO9000 series covering areas such as management responsibilities, quality systems, procurement, process controls, controls over non-compliant products, remedial and prevention actions and others
“needle rollers”	a roller-shaped part in a bearing with a length-diameter ratio greater than 3 but a diameter of less than or equivalent to 3 mm
“oil seal”	a sealed rubber part in a universal joint, the main use of which is to prevent leakage of oil grease and to keep out dust and dirt from the inner cylinder of a universal joint, so as to avoid fast wear-out and malfunction of the product
“PFMEA”	Process Failure Modes Effects Analysis, a systemized group of activities intended to: (a) recognize and evaluate the potential failure of a product/process and its effect; (b) identify actions which could eliminate or reduce the occurrence; (c) document the process; and (d) track changes to process-incorporated to avoid potential failures

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## GLOSSARY

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“universal joint”	coupling that connects two rotating shafts allowing freedom of movement in all directions
“wing bearing universal joint”	a type of universal joint of wing-shaped outer rings with installation holes instead of the usual spherical outer ring bearings. It is applicable to engineering machineries

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## RISK FACTORS

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*This prospectus contains forward looking statements that include, among other things, statements of business objectives relating to the Company's business, statements as to the revenue and profitability of the Company and other statements of expectation, belief, business plans and strategies, anticipated developments and other matters that are not historical facts. The Directors caution potential investors that there are risks and uncertainties associated with investment in the Company and actual events or results may differ materially from those expressed or implied by the statements contained in this prospectus. Potential investors should carefully consider all the information set out in this prospectus and in particular should evaluate the following risks before deciding to invest in the Company.*

### RISKS RELATING TO THE COMPANY

#### Relationship between Shaoxing Group and the Company

Shaoxing Prospect, the predecessor of the Company, was founded by Shaoxing Group and Shaoxing Jiangzhong Industrial Company (紹興縣江中實業公司) in 1995. Shaoxing Group was registered as a collectively owned enterprise in 1994, the entire registered capital of which was held by Zhanwang Village Committee on behalf of Mr. Tang Li Min, Mr. Hong Guo Ding, Mr. Tang Cheng Fang, Mr. Fei Guo Yang and Mr. Feng Yun Lin, five of the six Promoters, before 2002. Shaoxing Group underwent a corporate reorganization in 2002 to revert its corporate form from a collectively owned enterprise to a privately owned enterprise. Details of the procedures and approvals in respect of such reorganization are set out under the paragraph headed "Relationship between Shaoxing Group and the Company" in the section headed "Business" to this prospectus. The legal advisers to the Company as to PRC law confirmed that there was no law in the PRC which would restrict or prohibit such arrangement and the arrangement was therefore legally valid under the PRC law.

Mr. Tang Li Min, Mr. Hong Guo Ding, Mr. Tang Cheng Fang, Mr. Fei Guo Yang and Mr. Feng Yun Lin acquired their respective interests in Shaoxing Prospect from Shaoxing Group in May 2002. If any of the above arrangement, or the procedures or approvals in respect of the reorganization of Shaoxing Group is declared invalid or unenforceable under PRC law, the legitimate title of Mr. Tang Li Min, Mr. Hong Guo Ding, Mr. Tang Cheng Fang, Mr. Fei Guo Yang and Mr. Feng Yun Lin to their interests in Shaoxing Group may be affected. It may in turn affect the subsequent transfer of equity interests in Shaoxing Prospect from Shaoxing Group to Mr. Tang Li Min, Mr. Hong Guo Ding, Mr. Tang Cheng Fang, Mr. Fei Guo Yang and Mr. Feng Yun Lin in May 2002 and hence their legitimate title to their interests in the Company and, as a result, may have a material adverse impact on the Company's business, operations and financial conditions.

Pursuant to a deed of indemnity dated 9th February, 2004, each of Mr. Tang Li Min, Mr. Hong Guo Ding, Mr. Tang Cheng Fang, Mr. Fei Guo Yang and Mr. Feng Yun Lin has covenanted and undertaken to indemnify and keep the Company fully indemnified against any actions, claims, depletion in value and assets, losses, damages, penalties, charges, fines, payments, interests, costs and expenses which may be made against, suffered or incurred by the Company in respect of (a) all matters relating to the establishment or reorganization of Shaoxing Group; (b) any procedure in respect of the establishment or reorganization of Shaoxing Group or any part thereof as mentioned in this prospectus not being completed or, if completed, not being consistent with that described in this prospectus in any respect; (c) the establishment or reorganization of Shaoxing Group or any part thereof being declared or determined by any PRC court or government authority to be illegal, invalid or unenforceable in any respect, and/or (d) the transfer of equity interests in Shaoxing Prospect from Shaoxing Group to Mr. Tang Li Min, Mr. Hong Guo Ding, Mr. Tang Cheng Fang, Mr. Fei Guo Yang and Mr. Feng Yun Lin in May 2002 being declared or determined by any PRC court or government authority to be illegal or invalid in any respect.

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## RISK FACTORS

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### **Reliance on a principal product category**

The principal product category of the Company is cardan universal joints. For the two years ended 31st December, 2002 and the nine months ended 30th September, 2003, its turnover accounted for 96.1%, 96.9% and 96.9% of the total turnover for the Company respectively. If the demand or price of such product category declines, the Company's turnover and profitability could be adversely affected.

### **Risks associated with research and development**

Before the implementation of any research and development projects, the Company will carefully evaluate various factors, such as market analysis, technological feasibility, costs of research and development, reputation of research and development partners, the period of time required for the research and development and the applications of the research results. However, as there are many uncertainties including changes in market demand and unexpected increase in investment costs, there is no assurance that all the research and development projects can be completed within their budget and expected timetable. Also, there is no assurance that the research results can be put into commercial production or such new products will be accepted by the market. If any of such events arise, the Company's operation and profitability will be adversely affected.

### **Increase in trade receivables**

The debtors' turnover days for the two years ended 31st December, 2001, 31st December, 2002 and the nine months ended 30th September, 2003 were 147 days, 107 days and 99 days respectively. The decrease in debtors' turnover days was mainly due to the introduction of a tighter policy on the collection of debts. Pursuant to the credit policy of the Company, particulars of which are set forth in the paragraph headed "Credit policy" of the section headed "Business" to this prospectus, the Company grants credit period ranging from 30 days to 120 days to its customers. For certain customers with long established relationship and good records of repayment history, a longer credit period up to 120 days may, upon their request, be granted.

As at 31st December, 2001, 31st December, 2002 and 30th September, 2003, the trade receivables of the Company amounted to approximately RMB9.3 million, RMB18.9 million and RMB21.4 million respectively. Particulars of the aging analysis of these trade receivables are contained in the accountants' report, the text of which is set forth in Appendix I to this prospectus. The increase in the amount of trade receivables as at 31st December, 2002 and 30th September, 2003 were principally due to the increase in turnover for the year ended 31st December, 2002, representing approximately 98.5% over the turnover for the year ended 31st December, 2001. Significant turnover growth for the year ended 31st December, 2002 was primarily contributed by expansion in production scale and introduction of a number of new customers and a development of series of new products.

## RISK FACTORS

The analysis of trade receivables as at 31st December, 2001, 31st December, 2002 and 30th September, 2003 are set out in the following tables.

	<b>As at 31st December, 2001</b>	<b>2002</b>	<b>As at 30th September, 2003</b>	
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	
Trade receivables aged more than 180 days	1.9	4.3	6.0	
Trade receivables aged more than 180 days as a percentage of total trade receivables	20%	23%	28%	
Total trade receivables after provision as a percentage of net assets	228%	29%	29%	
			<b>Top 5</b>	
			<b>Trade</b>	<b>Trade</b>
			<b>receivables</b>	<b>receivables</b>
			<b>aged more</b>	<b>aged more</b>
			<b>than 180</b>	<b>than 180</b>
			<b>days</b>	<b>days</b>
	<b>Total trade</b>	<b>receivables</b>	<b>largest trade</b>	<b>largest trade</b>
	<b>receivables</b>	<b>aged more</b>	<b>receivables</b>	<b>receivables</b>
	<b>RMB'million</b>	<b>than 180</b>	<b>aged more</b>	<b>aged more</b>
		<b>days</b>	<b>than 180</b>	<b>than 120</b>
		<b>RMB'million</b>	<b>days</b>	<b>days</b>
			<b>RMB'million</b>	<b>RMB'million</b>
Balance as at 30th September, 2003	21.4	6.0	2.4	9.0
Subsequent settlements for the period from 1st October, 2003 to 31st December, 2003	16.0	2.0	0.7	4.4
Outstanding balance remained unsettled as at 31st December, 2003	5.4	4.0	1.7	4.6
Percentage of outstanding balance remained unsettled as at 31st December, 2003	25%	67%	71%	51%
Provision for bad and doubtful debts as at 30th September, 2003	3.0	2.3	1.0	2.8

The Directors believe that the Company can collect the above outstanding balance that remained unsettled as at 31st December, 2003 before the end of 2004. The Company has already ceased sales to 3 customers in 2003 and the trade receivables of these 3 customers amounted to approximately 5% of the total trade receivables of the Company as at 30th September, 2003. In the event that the trade receivables aged more than 180 days continue to increase, the burden on the Company's working capital will increase due to long settlement period for such trade receivables. Accordingly, the Company's financial position may be adversely affected.

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## RISK FACTORS

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Although the Company constantly monitors the creditworthiness of its customers, there is no assurance that the Company will not encounter difficulty in collecting trade receivables in the future. The amount of provisions for bad and doubtful debts as at 31st December, 2001, 31st December, 2002 and 30th September, 2003 were approximately RMB0.7 million, RMB2.7 million and RMB3.0 million respectively. If the Company encounters difficulty in collecting its trade receivables, the Company may be exposed to the risk of having a significant amount of bad and doubtful debts and as such, the business and the profitability of the Company could be adversely affected.

### **Directors' and Supervisors' remuneration**

Under the current arrangements, the Directors and the Supervisors will be entitled to receive remuneration as a Director or Supervisor (as the case may be) which, for the year ending 31st December, 2004, are expected to be a total of approximately RMB160,935 and RMB141,870 respectively. For the year ended 31st December, 2002, an aggregate of approximately RMB31,086 and RMB13,825 were paid to the Directors and Supervisors as remuneration respectively. For the year ended 31st December, 2003, an aggregate of approximately RMB51,003 and RMB24,982 were paid to the Directors and Supervisors as remuneration respectively. Further information in respect of the Directors' and Supervisors' remuneration are set out in the accountants report set out in Appendix I and Appendix VI to this prospectus. The substantial increase in the Directors' and Supervisors' remuneration for the year ending 31st December, 2004, as compared to those for each of the two years ended 31st December, 2003, is attributable to (i) substantial salary increment and (ii) the inclusion of remuneration of additional non-executive Directors, independent non-executive Directors and Supervisors. This substantial increase in the remuneration of the Directors and Supervisors may adversely affect the Company's profitability.

### **RISKS RELATING TO THE INDUSTRY**

#### **Rapid technological advancement**

Due to the frequent introduction of new or upgraded products to the automotive parts and components industry, it is difficult to predict the impact of future technological advancement on the Company's market share and competitiveness. Thus, the future success of the Company largely depends on its ability to improve its existing products and introduce new products to satisfy market demand. In order to keep abreast with the most up-to-date technologies, the Company has to adopt new research and development projects, new manufacturing processes and technologies. As such, if the Company cannot tailor itself to the new technologies, there may be adverse effect on its operation and profitability.

#### **Competition**

The Company faces fierce competition in both the PRC and overseas markets. Apart from the existing competitors within and outside the PRC, new competitors may enter the market with lower prices and/or more advanced technologies targeting the Company's market share.

Since the PRC became an official member of WTO in December 2001, the Company may face competition from foreign competitors. Such competitors may possess stronger capital base, larger resources for research and development, more sophisticated manufacturing and operating capabilities and better reputation. Due to fierce competition, product price may decline and the Company's market share may be eroded. This may have adverse effect on the operation and profitability of the Company.

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## RISK FACTORS

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### RISKS RELATING TO THE PRC

Currently, all of the assets and operations of the Company are located in the PRC and a substantial portion of the revenue is derived from the PRC. Accordingly, the results of operations, financial position and prospects are subject to a significant degree to the economic, political and legal developments of the PRC.

#### Political and economic factors

Prior to the adoption of reform and open policies in early 1978, the PRC was primarily a planned economy. Since that time, the PRC government has been reforming the PRC economic system, and has also begun reforming the government structure in recent years. Such reforms have resulted in significant economic growth and social progress. Although the majority of the production assets in the PRC are still state-owned, economic reform policies have emphasised autonomous enterprises and the utilisation of market mechanisms. The Directors currently expect that the State will continue its reform by further reducing governmental intervention with enterprises and rely more heavily on market mechanisms to allocate resources. Although the Directors expect that there will be a positive impact on the Company's overall and long-term development, any adverse changes in political, economic and social conditions in the PRC, or any adverse changes in the policies, laws and regulations in the PRC, could have a material adverse effect on the current and future operation of the Company.

#### Foreign Exchange Risks

The PRC Government has strict restrictions on free conversion of RMB into foreign currencies. Since 1st January, 1994, the PRC has implemented unified controlled exchange rate system based on market supply and demand. Based on the new system, the PBOC quotes a daily exchange rate of RMB against US dollars based on the market rate for foreign exchange transactions conducted by the designated banks in the PRC foreign exchange market during the preceding day. The PBOC also quotes the exchange rates of RMB against other foreign currencies based on the international market rate. Although the new system increases the liquidity of RMB, RMB can still not be freely converted.

Foreign exchange transactions under capital account (including principal payments in respect of foreign currency-denominated obligations) continue to be subject to foreign exchange controls and the approval of SAFE. These limitations could affect the Company's ability to obtain foreign exchange through debt or equity financing, or to obtain foreign exchange for capital expenditures, or the ability to pay dividend to the H Share shareholders.

According to the current legislation relating to foreign currency, subsequent to the Placing, the Company can conduct foreign exchange transactions (including dividend payments) under current account without the approval from SAFE, provided that the Company provides all the relevant documents and those transactions are conducted through authorised PRC banks (including their branch and representative offices overseas) which are approved to conduct such transactions.

The value of RMB is subject to many factors, including any changes in the PRC Government's policy, domestic and international economic and political developments, as well as supply and demand in the local market. Since the revenue and profit of the Company are calculated based on RMB, any depreciation in RMB will have adverse effect on the pricing of the H Shares (which is valued based on foreign currency) and the dividend payments.



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## RISK FACTORS

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### **Environmental issues**

The Company is required to comply with the environmental protection laws, rules and regulations promulgated by the national and local governments of the PRC. As at the Latest Practicable Date, the Company has not breached any relevant environmental protection laws, rules and regulations. However, should there be any new or stricter change in national or local environmental protection standards, the Company may incur significant environmental protection costs which will in turn increase the Company's production costs.

### **Legal and other regulatory considerations of the PRC**

#### *PRC legal system*

The PRC legal system is based on statutory law. While prior court decisions may be cited as persuasive authority, they do not constitute binding precedents. Since 1979, the PRC Government has been developing a comprehensive system of commercial laws and a considerable number of laws and regulations dealing with economic matters such as corporate organisation and governance, securities, foreign investment, taxation and trade have been introduced. Since these laws and regulations are relatively new and there is only a limited volume of published case law and judicial interpretations, the interpretation and enforcement of these laws and regulations involve uncertainties.

#### *Different regulatory frameworks*

As the operation of the Company is solely carried out in the PRC, the Company is subject to legal regulations of the PRC. Being a PRC-incorporated company issuing shares and listed outside the PRC, the Company is subject to the Special Regulations and the Mandatory Provisions. The Mandatory Provisions contain certain provisions required to be included into the articles of association of PRC companies to be listed outside the PRC, including those to be listed in Hong Kong. Such provisions are included for monitoring the internal affairs of the companies. Generally, the Company Law and the Special Regulations, in particular those relating to the protection of shareholders' rights of knowledge, are not as developed as those applicable to companies incorporated in Hong Kong, the United Kingdom, the US and other developed countries or regions.

There are material differences between the Company Law and the company laws in Hong Kong, the US and other common law jurisdictions, particularly in respect of investors' protection, including those relating to minority derivative action, minority protection, restrictions on directors, financial disclosure, changes to class rights, procedures at general meetings and payment of dividends, etc.

The limited protection for investors offered by the Company Law may be compensated to a certain extent by the introduction of the Mandatory Provisions and certain additional provisions required by the GEM Listing Rules. This narrows the gap between the Companies Ordinance and the Company Law. The Mandatory Provisions and additional provisions are required to be included into the articles of association of the PRC companies listed in Hong Kong. The Articles already includes Mandatory Provisions and the provisions required by the GEM Listing Rules. However, the inclusion of such provisions does not guarantee that holders of the H Shares can enjoy similar protections offered to them in other jurisdictions.

#### *Securities laws and regulations*

The securities regulatory framework in the PRC is still in an early stage of development. The securities markets of the PRC are regulated and administered by the CSRC, which is also responsible for drafting the relevant laws and regulations. Laws and regulations promulgated by the State Council and relevant measures implemented by the CSRC, such as acquisition and disclosure rules of listed PRC companies, are applicable to all listed companies and not only limited to companies listed on any particular

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## RISK FACTORS

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stock exchanges. As a result, such provisions may be applicable to a joint stock limited company incorporated in the PRC whose shares are listed on stock exchanges outside the PRC, such as the Company after completion of the Placing.

The Securities Law became effective on 1st July, 1999. This is the fundamental legislation that regulates the PRC securities markets. The Securities Law is applicable to, inter alia, the issue and sale and purchase of shares within the PRC. The Company Law, relevant laws and regulations promulgated recently and other legislations relating to the PRC companies with public share offerings outside the PRC (including Hong Kong), to a certain extent, form the legal framework regulating the behaviour of companies (such as the Company) and their directors and shareholders. Investors are reminded that the regulatory framework for the PRC securities industry is still at an early stage of development. Any changes to this framework are beyond the control of the Company.

### *Enforcement of court judgments and arbitrations*

The PRC is not a party to any treaties or arrangements for the endorsement and enforcement of any judgment of the courts of Hong Kong or in most of the other jurisdictions. As a result, it may be difficult for the Company to seek endorsement and enforcement in the PRC of any judgment of the courts of Hong Kong or other jurisdictions. It should be stressed that, pursuant to the Articles, any disputes between holders of H Shares and the Company, the Directors, the Supervisors, managers or members of the management, or any claims related to any matters of the Company, arising out of the rights or obligations under the Articles, the Company Law or the Companies Ordinance, should be put before HKIAC or CIETAC for arbitration. Arbitral award from such organization shall be final and binding on all parties involved.

The PRC is one of the signatories of the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the “New York Convention”) and accordingly allows the enforcement of arbitral awards given by the arbitration bodies of other New York Convention signatories. Since the sovereignty over Hong Kong was reverted to the PRC on 1st July, 1997, the New York Convention is no longer applicable for the enforcement of arbitral awards of Hong Kong in other regions of the PRC. The new mutual arrangement for the enforcement of arbitral awards of the PRC and Hong Kong in such regions, which has been approved by the Supreme People’s Court of the PRC (中國最高人民法院) and the Legislative Council of Hong Kong, became effective on 1st February, 2000.

Additional information relating to arbitrations, including the Arbitration Law of the PRC (中華人民共和國仲裁法) which became effective on 1st September, 1995, are set out in the paragraph headed “Arbitration and enforcement of arbitral awards” in appendix IV to this prospectus.

### **The PRC’s accession into the WTO**

The PRC became an official member of WTO in December, 2001 and implemented its initiative in connection with WTO-related tariff reductions among which include lowering of tariffs from the current level of 80%–100% to 25% and tariffs on the import of automotive parts and components to 10% by 2006. The Directors believe that this may result in increased competition and any further reduction in the amount of import tariff payable in respect of imported products similar to those produced by the Company may further intensify the market competition for the Company.

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# WAIVER FROM STRICT COMPLIANCE WITH THE GEM LISTING RULES AND THE COMPANIES ORDINANCE

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For the purposes of the listing of the H Shares on GEM, the Company has sought waivers from the Stock Exchange and the SFC in relation to certain requirements under the GEM Listing Rules and the Companies Ordinance respectively, details of which are set out below.

## ESCROW ARRANGEMENTS

Pursuant to Rule 13.16(1) of the GEM Listing Rules, every initial management shareholder (as defined in the GEM Listing Rules) who is a shareholder immediately prior to the Listing Date, shall place in escrow, with an escrow agent and on such terms as are acceptable to the Stock Exchange, all Relevant Securities for a period of 12 months from the Listing Date, or where that initial management shareholder's Relevant Securities represent no more than 1% of the issued share capital of the Company as at the Listing Date, 6 months from the Listing Date.

As set out in the paragraph headed "Initial Management Shareholders" in the section headed "Substantial Shareholders, Significant Shareholders and Initial Management Shareholders" to this prospectus, the Domestic Shares held by Mr. Tang Li Min, Mr. Fei Guo Yang, Mr. Tang Cheng Fang, Mr. Hong Guo Ding, Mr. Feng Yun Lin, Mr. Tang Liu Jun and Ms. Tang Jing Jing, each of whom being an Initial Management Shareholder, are subject to physical escrow arrangements as required under Rule 13.16(1) of the GEM Listing Rules.

The Directors consider that Rule 13.16(1) of the GEM Listing Rules are not applicable to the Domestic Shares held by the Initial Management Shareholders since the Domestic Shares held by them are not represented by any form of physical scrip or title documents. This means that the Initial Management Shareholders may not be able to create any pledge or charge by deposit of the title documents of their respective Domestic Shares or any part thereof. This also means that the subject matter for custody by the escrow agent under Rule 13.16(1) of the GEM Listing Rules does not physically exist in any form available for custody purpose.

Under the relevant law and regulations of the PRC, the Domestic Shares held by Mr. Tang Li Min, Mr. Fei Guo Yang, Mr. Tang Cheng Fang, Mr. Hong Guo Ding, Mr. Feng Yun Lin, Mr. Tang Liu Jun and Ms. Tang Jing Jing are subject to the following legal restrictions:

1. Article 147 of the Company Law provides that promoters' shares of a joint stock limited company established under the Company Law are not transferable within three years after the date of establishment of such company; and
2. Article 75 of the Law of Guarantee of the PRC provides that only shares which are transferable may form lawful security for the purposes of pledge or charge in the PRC.

As advised by the legal advisers to the Company as to PRC law, the Domestic Shares held by Mr. Tang Li Min, Mr. Tang Liu Jun and Ms. Tang Jing Jing as a result of the transfer of the Domestic Shares from Ms. Hong Yin Juan are deemed to be promoters' Shares as Ms. Hong Yin Juan was one of the Promoters and such transfer were caused by her death. Such Domestic Shares are subject to the same moratorium as the other Promoters.

As the Company was converted into a joint stock limited company on 9th August, 2002 in the PRC, the Domestic Shares held by Mr. Tang Li Min, Mr. Fei Guo Yang, Mr. Tang Cheng Fang, Mr. Hong Guo Ding, Mr. Feng Yun Lin, Mr. Tang Liu Jun and Ms. Tang Jing Jing are subject to the restrictions imposed by the Company Law and are therefore not transferable for three years until 9th August, 2005.

As the Domestic Shares held by Mr. Tang Li Min, Mr. Fei Guo Yang, Mr. Tang Cheng Fang, Mr. Hong Guo Ding, Mr. Feng Yun Lin, Mr. Tang Liu Jun and Ms. Tang Jing Jing are not transferable before 9th August, 2005, they cannot constitute lawful security for pledge or charge in the PRC under Article 75 of

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## WAIVER FROM STRICT COMPLIANCE WITH THE GEM LISTING RULES AND THE COMPANIES ORDINANCE

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the Law of Guarantee of the PRC. The Company has therefore applied for, and been granted by the Stock Exchange, a waiver from strict compliance with Rule 13.16(1) of the GEM Listing Rules. However, if Article 147 of the Company Law and Article 75 of the Law of Guarantee of the PRC are repealed or amended prior to 9th August, 2005 such that the escrow arrangement requirements under the GEM Listing Rules become applicable to the Domestic Shares held by Mr. Tang Li Min, Mr. Fei Guo Yang, Mr. Tang Cheng Fang, Mr. Hong Guo Ding, Mr. Feng Yun Lin, Mr. Tang Liu Jun and Ms. Tang Jing Jing, they would have to respectively comply with the escrow arrangement requirements under the GEM Listing Rules.

### CONNECTED TRANSACTIONS

Prior to the Placing, the Company entered into an agreement in relation to the provision of electricity tariff agency service by Zhejiang Prospect New Synthetic Fibre Company Limited (浙江展望新合纖有限公司) to the Company for a term of 3 years commencing from 1st July, 2002, details of which are set out in the paragraph headed “Connected Transactions” under the section headed “Business” to this prospectus.

Pursuant to the GEM Listing Rules, the agreement will constitute a continuing connected transaction of the Company once the H Shares are listed on GEM, and, accordingly, would normally be required to comply with the reporting, announcement and shareholders’ approval requirements under Rules 20.34, 20.35 and 20.36 of the GEM Listing Rules.

The Directors (including the independent non-executive Directors), have confirmed that the agreement has been entered into in the Company’s ordinary and usual course of business and on normal commercial terms determined on an actual cost basis and on terms that are fair and reasonable so far as the Shareholders taken as a whole are concerned. Accordingly, the Directors consider that disclosure and approval of the agreement by the Shareholders on a recurring basis will be impractical, unduly onerous and not of benefit to the Shareholders.

The Sponsor is of the view that the agreement has been and will be conducted on arm’s length basis on normal commercial terms, in the ordinary and usual course of the Company’s business and are fair and reasonable so far as the Shareholders as a whole are concerned.

Accordingly, the Sponsor, on behalf of the Company, has applied to the Stock Exchange for a waiver in respect of the agreement for the period up to 30th June 2005 from strict compliance with the announcement and shareholders’ approval requirements under Rules 20.35 and 20.36 of the GEM Listing Rules, on the conditions that:

- Such transaction, and the agreement governing such transaction, will be entered into:
  - (1) in the ordinary and usual course of business of the Company;
  - (2) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether it is on normal commercial terms, on terms no less favorable than terms available from/to (as appropriate) independent third parties;
  - (3) on terms that are fair and reasonable so far as the Shareholders are concerned; and
  - (4) with the aggregate value of amount payable by the Company under the agreement not exceeding the limit of RMB3,600,000 for the year ending 31st December, 2004 and RMB2,150,000 for the six months ending 30th June, 2005.

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## WAIVER FROM STRICT COMPLIANCE WITH THE GEM LISTING RULES AND THE COMPANIES ORDINANCE

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- Details of the transaction, including the date, the identity of the parties, a brief description of the transaction and its purposes, the consideration, the nature of the parties' relationship and the extent of interest of the connected persons, as set out in rule 20.34 (1) to (5) of GEM Listing Rules, shall be disclosed in the Company's annual report.
- The Company's independent non-executive Directors who are not involved in the management of the Company shall review the transaction annually and confirm in the Company's annual report and accounts covering that year 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 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; and
  - (4) the transaction has been entered into in accordance with the terms of the agreement governing such transaction.
- The auditors of the Company shall review annually the transaction, details of which shall be set forth in the Company's annual report and accounts as well as provide the Board with a letter stating that:
  - (1) the transaction has been approved by the Board;
  - (2) the transaction has been entered into in accordance with the terms of the agreement governing such transaction; and
  - (3) the transaction has not exceeded the annual limit as stated above and as agreed by the Stock Exchange.
- For the purpose of the above review by the Company's auditors, each of the parties to the continuing connected transaction has undertaken to the Company that it will provide the Company's auditors with access to its accounting records as well as its subsidiaries' and associates' accounting records, where possible.
- The Company shall promptly notify the GEM Listing Division of the Stock Exchange if it knows or has reason to believe that the independent non-executive Directors and/or the auditors will not be able to confirm the matters set out in Rules 20.27 and/or 20.28, as required under Rule 20.29 of the GEM Listing Rules respectively, in which case the Company may have to re-comply with Rules 20.26(3) and (4) of the GEM Listing Rules and any other conditions the Stock Exchange considers appropriate in respect of the non-exempt continuing connected transaction.
- In the event that any of the limits is to be greater than the higher of HK\$10,000,000 or 3 per cent. of the net tangible assets of the Company in any year, the non-exempt continuing connected transaction and the annual limit are subject to review and re-approval by independent Shareholders at the annual general meeting of the Company following the initial approval and at each subsequent annual general meeting so long as the relevant non-exempt continuing connected transaction continue.
- The independent non-executive Directors will be required to opine in the annual report of the Company as to whether or not the Company should continue with the agreement for the non-exempt continuing connected transaction as required under Rule 20.30 of the GEM Listing Rules.

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## WAIVER FROM STRICT COMPLIANCE WITH THE GEM LISTING RULES AND THE COMPANIES ORDINANCE

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- In the event that the limit is exceeded or if the Company enters into any new transactions or agreements with any connected persons (within the meaning of the GEM Listing Rules) in the future, the Company will comply with the provisions of Chapter 20 of the GEM Listing Rules dealing with connected transactions unless it applies for, and obtains, a separate waiver from the Stock Exchange.
- Should the transaction continue after 30th June, 2005, the Company will have to re-comply strictly with the GEM Listing Rules, unless a waiver from strict compliance thereof could be obtained.

The Stock Exchange has granted a waiver for the period up to 30th June, 2005 as described above. This means that the Company has to comply strictly with the requirements of Chapter 20 of the GEM Listing Rules in respect of the non-exempt continuing connected transaction if such transaction continues after the expiry of the waiver.

### FINANCIAL PERIODS

According to paragraph 27 of Part I of the Third Schedule to the Companies Ordinance as amended by the Companies Ordinance (Exemption of Companies and Prospectus from Compliance with Provisions) Notice (L.N.76 of 2001) (the “Exemption Notice”), the Company is required to include in this prospectus a statement as to the gross trading income or sales turnover (as may be appropriate) of the Company during the two financial years immediately preceding the issue of this prospectus.

According to paragraph 31 of Part II of the Third Schedule to the Companies Ordinance as amended by the Exemption Notice, the Company is required to include in this prospectus a report by the auditors and reporting accountants of the Company with respect to the financial results of the Company for each of the two financial years immediately preceding the issue of this prospectus.

Pursuant to Rules 7.03(1) and 11.10 of the GEM Listing Rules, the Company is required to include in this prospectus an accountants’ report covering at least the two financial years immediately preceding the issue of this prospectus.

The accountants’ report for each of the two years ended 31st December, 2002 and the nine months ended 30th September, 2003 has been prepared and is set out in Appendix I to this prospectus. However, as this prospectus is issued within a short period of time after 31st December, 2003, the accountants’ report has not been prepared for the full year ended 31st December, 2003 as it would be unduly burdensome for the Company to do so.

In the circumstances, an application was made to the SFC for a Certificate of Exemption from strict compliance with Paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance in relation to the inclusion of the accountants’ report for the full year ended 31st December, 2003 in this prospectus on the ground that it would be unduly burdensome for the Company to do so and a Certificate of Exemption has been granted by the SFC under section 342A(1) of the Companies Ordinance.

An application has also been made to the Stock Exchange for a waiver from strict compliance with Rules 7.03(1) and 11.10 of the GEM Listing Rules, and such waiver has been granted by the Stock Exchange.

The Directors have confirmed that they have performed sufficient due diligence on the Company to ensure that, save as disclosed herein, up to the date of issue of this prospectus, there has been no material adverse change in the financial position of the Company since 30th September, 2003, and there is no event which would materially affect the information shown in the accountants’ report as set out in Appendix I to this prospectus.



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## INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

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### DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable inquiries, confirm that, to the best of their knowledge and belief:

- (a) the information contained in this prospectus is accurate and complete in all material respects and is not misleading;
- (b) there are no other matters the omission of which would make any statement in this prospectus misleading; and
- (c) all opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

The Placing Shares are solely offered for subscription pursuant to the information and representations contained in this prospectus. The Company has not authorised anyone to provide information that is different from what is contained in this prospectus. Any information or representation not contained in this prospectus must not be relied upon as having been authorised by the Company, the Sponsor, the Underwriters, any of their respective directors or any other person involved in the Placing.

### CONSENT OF CSRC

The CSRC has given its consent to the Placing and the Company's application to list the H Shares on GEM on 4th November, 2003. In granting such consent, the CSRC accepts no responsibility for the financial soundness of the Company nor the accuracy of any of the statements made or opinions expressed in this prospectus.

### FULLY UNDERWRITTEN

This prospectus is published solely in connection with the Placing. It is sponsored by the Sponsor and, subject to the terms and conditions of the Underwriting Agreement, fully underwritten by the Underwriters. For detailed information about the underwriting arrangements, please refer to the section headed "Underwriting" to this prospectus.

### DETERMINATION OF THE PLACING PRICE

The Placing Shares are being offered at the Placing Price which will be determined in Hong Kong dollars by the Lead Managers (on behalf of the Underwriters) and the Company on or before the Price Determination Date, or such later time as may be agreed by the Lead Managers (on behalf of the Underwriters) and the Company (but in any event not later than 13th February, 2004. For more information relating to the determination of the Placing Price, please refer to the section headed "Structure and conditions of the Placing" to this prospectus.

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## INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

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### **PLACING SHARES TO BE OFFERED IN HONG KONG ONLY**

No action has been taken to permit an offering of the Placing Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, and without limitation to the following, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation or to any person to whom it is unlawful to make such an offer or invitation.

#### **PRC**

This prospectus does not constitute an offer of the H Shares, whether by sale or subscription, in the PRC. The H Shares are not being offered or sold within the PRC, by means of this prospectus.

#### **Japan**

The H Shares have not been and will not be registered under the Securities and Exchange Law of Japan and are not being offered or sold and may not be offered or sold directly or indirectly, in Japan or to or for the benefit of any resident of Japan, except pursuant to an exemption from the registration and prospectus delivery requirements of the Securities and Exchange Law of Japan, and otherwise in compliance with any other applicable requirements of Japanese law and in compliance with any other applicable requirements of Japanese law. As used in this paragraph, a “resident of Japan” means any person residing in Japan and business offices located in Japan, including any corporation or other entity organized under the laws of Japan.

#### **Singapore**

This prospectus has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other offering document or material in connection with the offer of the H Shares may not be issued, circulated or distributed in Singapore nor may any of the H Shares be offered for subscription or purchased or sold, directly or indirectly, nor may an invitation or offer to subscribe for or purchase any H Shares be made, directly or indirectly, to the public or any member of the public in Singapore other than (a) pursuant to, and in accordance with the conditions of, exemptions invoked under section 274 and section 275 of the Securities and Futures Act (Cap 289, 2002 Rev Edn) of Singapore (the “SFA”) and to persons to whom the Placing Shares may be offered or sold under such exemption; or (b) otherwise pursuant to, and in accordance with other conditions of any other applicable provision of the SFA.

#### **Taiwan**

The H Shares have not been and will not be registered with the Securities and Futures Commission of Taiwan and are not being offered or sold and may not be offered or sold, directly or indirectly, in Taiwan or to, or for the benefit of, any resident of Taiwan, except (a) pursuant to the requirements of the securities related laws and regulations in Taiwan and (b) in compliance with any other applicable requirements of Taiwanese laws.

#### **United States**

The H Shares have not been, and will not be, registered under the US Securities Act of 1933 (the “US Securities Act”), and subject to certain exceptions may not be offered, sold, pledged or otherwise transferred within the US, except outside the US in accordance with Rule 903 or Rule 904 of Regulation S. The H Shares are being offered and sold outside the US in reliance on Regulation S. In addition, until 40 days after the later of the commencement of the Placing and the completion of the distribution of the H



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## INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

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Shares, an offer or sale of the H Shares within the US by any dealer (whether or not participating in the Placing) may violate the registration requirements of the US Securities Act if such offer or sale is made otherwise than in accordance with an exemption from, or in a transaction not subject to, such requirements.

The H Shares have not been approved or disapproved by the United States Securities and Exchange Commission, any state securities commission in the US or any other US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the Placing or the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offence in the US.

### **United Kingdom**

This prospectus has not been and will not be approved by an authorised person in the United Kingdom and has not been and will not be registered with the Registrar of Companies in the United Kingdom. The H Shares may not be offered or sold in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995, as amended, or the Financial Services and Markets Act 2000 (the “FSMA”). In addition, no person may communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) received by such person in connection with the issue or sale of the Placing Shares except in circumstance in which section 21(1) of the FSMA does not or will not apply to the Company.

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

Potential investors for the Placing Shares are recommended to consult their professional advisers if they are in doubt as to the taxation implications of subscribing for, purchasing, holding and dealing in the H Shares. None of the Company, the Directors, the Sponsor, the Underwriters, any of their respective directors or any other person or party involved in the Placing accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding or disposal of H Shares.

### **HONG KONG H SHARE REGISTER AND STAMP DUTY**

All H Shares issued pursuant to the Placing will be registered on the Company’s branch register of members to be maintained in Hong Kong. The Company’s principal register of members will be maintained by the Company at its registered office in the PRC. Dealings in the Placing Shares registered on the Hong Kong branch register of members of the Company will be subject to Hong Kong stamp duty.

### **APPLICATION FOR LISTING ON GEM**

The Company has applied to the GEM Listing Committee for listing of, and permission to deal in, on the GEM, the H Shares to be issued as mentioned in this prospectus. No part of the Company’s share or loan capital is listed or dealt with on the Main Board or any other stock exchange. At present, the Company is not seeking or proposing to seek listing of or permission to deal in any part of its share or loan capital on any other stock exchanges.

In compliance with Rules 25.08 and 25.09 of the GEM Listing Rules, the Company must ensure that all H Shares are held by the public, the H Shares must normally constitute not less than 10% of the total existing issued share capital of the Company, and the aggregate amount of the H Shares and such other securities of the Company which are held by the public must constitute not less than 25% of the total issued share capital of the Company.

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## INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

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Under section 44B(1) of the Companies Ordinance, if the permission for the listing of, and dealing in the H Shares on GEM has been refused before the expiration of three weeks from the date of the closing of the subscription lists under the Placing or such longer period not exceeding six weeks as may, within the said three weeks, be notified to the Company for permission by or on behalf of the Stock Exchange, then any allotment made on an application in pursuance of this prospectus shall, whenever made, be void.

Only securities registered on the register of members of the Company kept in Hong Kong may be traded on GEM unless the Stock Exchange otherwise agrees.

### **H SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS**

Subject to the granting of listing of, and permission to deal in, the H Shares on GEM and the compliance with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice from their stockbroker or other professional advisers for details of those settlement arrangements and how such arrangements will affect their rights and interests.

All necessary arrangements have been made for the H Shares to be admitted into CCASS.

### **REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF H SHARES**

The Company has instructed Computershare Hong Kong Investor Services Limited, its Hong Kong H Share registrar, and Computershare Hong Kong Investor Services Limited has agreed not to register the subscription, purchase or transfer of any H Shares in the name of any particular holder unless and until the holder delivers a signed form to the share registrar in respect of those H Shares bearing statements to the effect that the holder:

- (i) agrees with the Company and each Shareholder, and the Company agrees with each Shareholder, to observe and comply with the Company Law, the Special Regulations and the Articles;
- (ii) agrees with the Company, each Shareholder, Director, Supervisor, manager and officer of the Company, and the Company acting for itself and for each Director, Supervisor, manager and officer of the Company agrees with each Shareholder to refer all differences and claims arising from the Articles or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles, and any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct hearings in open session and to publish its award. Such arbitration shall be final and conclusive;
- (iii) agrees with the Company and each Shareholder that H Shares are freely transferable by the holders thereof; and
- (iv) authorises the Company to enter into a contract on such holder's behalf with each Director, Supervisor and officer of the Company, whereby such Directors, Supervisor and officers of the Company undertake to observe and comply with their obligations to shareholders as stipulated in the Articles.

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## INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

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### DEALINGS AND SETTLEMENT

Dealings in the H Shares on GEM are expected to commence on 18th February, 2004. The H Shares will be traded in board lots of 2,000 H Shares each.

The GEM stock code for the H Shares is 8273.

The Company will not issue any temporary documents of title.

Dealings in the H Shares on GEM will be effected by participants of the Stock Exchange whose bid and offer quotations will be made available on GEM Website and the Stock Exchange's teletext page information system.

Delivery and payment for H Shares traded on GEM will be effected two trading days following the transaction date ("T+2"). Dealings in H Shares on GEM are settled by physical delivery of share certificates against payment with a valid instrument of transfer and bought and sold notes correctly stamped in accordance with the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong). For an investor in Hong Kong who has deposited his H Shares in his stock account in CCASS or through a CCASS participant, settlement will be effected in CCASS in accordance with the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. Only certificates for H Shares registered on the H Share register of members will be valid for delivery in respect of transactions effected on GEM.

If you are unsure about the procedures for dealings and settlement arrangements on the Stock Exchange on which H Shares are listed and how such arrangements will affect your rights and interests, you should consult your stockbroker or other professional advisers.

### STRUCTURE AND CONDITIONS OF THE PLACING

Details of the structure and conditions of the Placing are set out under the section headed "Structure and Conditions of the Placing" to this prospectus.

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## DIRECTORS AND SUPERVISORS

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### DIRECTORS

Name	Address	Nationality
<i>Executive Directors</i>		
Mr. Tang Li Min	Zhanwang Village Yangxunqiao Town Shaoxing County Zhejiang Province The PRC (Note)	Chinese
Mr. Hong Guo Ding	Zhanwang Village Yangxunqiao Town Shaoxing County Zhejiang Province The PRC (Note)	Chinese
Mr. Fei Guo Yang	Zhanwang Village Yangxunqiao Town Shaoxing County Zhejiang Province The PRC (Note)	Chinese
<i>Non-executive Directors</i>		
Mr. Tang Cheng Fang	122 Hongqi Road Yuecheng District Shaoxing City Zhejiang Province The PRC	Chinese
Mr. Li Zhang Rui	Room 501, Unit 1, Block 12 11 Dayingpen Xiacheng District Hangzhou City The PRC	Chinese
<i>Independent non-executive Directors</i>		
Mr. Wang He Rong	Room 601, Block C Luzhou New Village Jianhu Town Shaoxing County Zhejiang Province The PRC	Chinese
Mr. Lu Guo Qing	Room 405, Block 13 No. 17 Fushan Road West Yuecheng District Shaoxing City Zhejiang Province The PRC	Chinese

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## DIRECTORS AND SUPERVISORS

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### SUPERVISORS

Name	Address	Nationality
<i>Supervisors</i>		
Mr. Hong Chun Qiang	Jiangqiao Residents' Committee Yangxunqiao Town Shaoxing County Zhejiang Province The PRC	Chinese
Mr. Feng Yun Lin	Zhanwang Village Yangxunqiao Town Shaoxing County Zhejiang Province The PRC <i>(Note)</i>	Chinese
Mr. Chen Jin Long	Hulichen Village Yangxunqiao Town Shaoxing County Zhejiang Province The PRC	Chinese
<i>Independent Supervisors</i>		
Mr. Wang Zhong	Room 805, 555 Nanjing Road West Shanghai The PRC	Chinese
Mr. Wang Ye Gang	Room 301, Block 30 Hui Lan Nan Chengxiang Road Xiaoshan District Hangzhou City Zhejiang Province The PRC	Chinese

*Note:* The residential addresses of Mr. Tang Li Min, Mr. Hong Guo Ding, Mr. Fei Guo Yang and Mr. Feng Yun Lin and the Company's registered office and principal place of business in the PRC are the same as they are all located in Zhanwang Village, Yangxunqiao Town, Shaoxing County, Zhejiang Province, the PRC. There is no further differentiation in terms of address code as far as Zhanwang Village is concerned. As confirmed by the Directors and Mr. Feng Yun Lin, each of them is not sharing the same residence or living at the registered office of the Company in the PRC.

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## PARTIES INVOLVED IN THE PLACING

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### PARTIES INVOLVED

#### Sponsor

South China Capital Limited  
28/F, Bank of China Tower  
No. 1 Garden Road, Central  
Hong Kong

#### Financial adviser and bookrunner

Partners Capital International Limited  
Room 1305, 13th Floor  
No. 9, Queen's Road Central  
Central  
Hong Kong

#### Lead managers

South China Securities Limited  
28/F, Bank of China Tower  
No. 1 Garden Road, Central  
Hong Kong

Partners Capital International Limited  
Room 1305, 13th Floor  
No. 9, Queen's Road Central  
Hong Kong

#### Co-managers

Barits Securities (Hong Kong) Limited  
Room 3406, 34/F., Edinburgh Tower  
The Landmark  
15 Queen's Road Central  
Hong Kong

Core Pacific-Yamaichi International (H.K.) Limited  
36/F, Cosco Tower, Grand Millennium Plaza  
183 Queen's Road Central  
Hong Kong

G.K. Goh Securities (H.K.) Limited  
Suite 1808, Alexandra House  
16–20 Chater Road, Central  
Hong Kong

Gransing Securities Co., Limited  
Room 805–806, Far East Consortium Building  
121 Des Voeux Road Central  
Hong Kong

Hantec International Finance Group Limited  
45/F, COSCO Tower  
183 Queen's Road Central  
Hong Kong

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## PARTIES INVOLVED IN THE PLACING

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Hong Tong Hai Securities Limited  
Unit 3606, China Merchants Tower  
Shun Tak Centre  
168–200 Connaught Road Central  
Sheung Wan  
Hong Kong

Magnum International Securities Limited  
1301A, 13th Floor, Bank of America Tower  
12 Harcourt Road  
Hong Kong

Worldwide Finance (Securities) Limited  
Flat A, 16/F., Guangdong Investment Tower  
148 Connaught Road Central  
Hong Kong

### **PRC financial adviser**

Guodu Securities Co., Ltd.  
4502-3, 45th Floor, SEG Square  
Huaqiang North Road  
Futian District  
Shenzhen  
The PRC

### **Legal advisers to the Company**

*As to Hong Kong law*  
Loong & Yeung  
in association with Rodyk & Davidson  
Suites 2911–2912, 29th Floor  
Two International Finance Centre  
8 Finance Street  
Central  
Hong Kong

*As to PRC law*  
GF Law Firm Shanghai  
20/F, CIMIC Tower  
1090 Century Avenue  
Shanghai  
The PRC

### **Legal adviser to the Sponsor and the Underwriters**

Tsun and Partners  
Suites 1002–03  
10th Floor  
Aon China Building  
29 Queen's Road Central  
Hong Kong

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## PARTIES INVOLVED IN THE PLACING

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**Auditors and reporting accountants**

Charles Chan, Ip & Fung CPA Ltd.  
*Certified Public Accountants*  
37th Floor, Hennessy Centre  
500 Hennessy Road  
Causeway Bay  
Hong Kong

**Property valuer**

Sallmanns (Far East) Limited  
15th Floor, Lucky Centre  
No. 165, Wanchai Road  
Wanchai  
Hong Kong



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## CORPORATE INFORMATION

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<b>Registered office and principal place of business in the PRC</b>	Zhanwang Village Yangxunqiao Town Shaoxing County Zhejiang Province The PRC <i>(Note)</i>
<b>Principal place of business in Hong Kong</b>	Suites 2911–2912, 29th Floor Two International Finance Centre 8 Finance Street Central Hong Kong
<b>Company secretary</b>	Ms. Kwok Pui Ching <i>AHKSA</i>
<b>Compliance officer</b>	Mr. Hong Guo Ding
<b>Qualified accountant</b>	Ms. Kwok Pui Ching <i>AHKSA</i>
<b>Audit committee</b>	Mr. Wang He Rong and Mr. Lu Guo Qing
<b>Authorized representatives</b>	Mr. Tang Li Min Zhanwang Village Yangxunqiao Town Shaoxing County Zhejiang Province The PRC <i>(Note)</i>  Mr. Fei Guo Yang Zhanwang Village Yangxunqiao Town Shaoxing County Zhejiang Province The PRC <i>(Note)</i>
<b>Hong Kong share registrar</b>	Computershare Hong Kong Investor Services Limited Shops 1712–1716, 17th Floor, Hopewell Centre 183 Queen’s Road East Hong Kong
<b>Principal bankers</b>	China Construction Bank, Shaoxing City Branch 6 Renmin Road Central Shaoxing City Zhejiang Province The PRC

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## CORPORATE INFORMATION

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Shanghai Pudong Development Bank, Shaoxing  
Sub-branch  
236 Renmin Road West  
Shaoxing City  
Zhejiang Province  
The PRC

Shaoxing County Credit Union, Jiangqiao  
Sub-office  
Jiangqiao  
Yangxunqiao Town  
Shaoxing County  
Zhejiang Province  
The PRC

Shaoxing County Agriculture Bank  
333 Jinkeqiao Avenue  
Keqiao  
Shaoxing County  
Zhejiang Province  
The PRC

*Note:* The residential addresses of Mr. Tang Li Min, Mr. Hong Guo Ding, Mr. Fei Guo Yang and Mr. Feng Yun Lin and the Company's registered office and principal place of business in the PRC are the same as they are all located in Zhanwang Village, Yangxunqiao Town, Shaoxing County, Zhejiang Province, the PRC. There is no further differentiation in terms of address code as far as Zhanwang Village is concerned. As confirmed by the Directors and Mr. Feng Yun Lin, each of them is not sharing the same residence or living at the registered office of the Company in the PRC.

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## INDUSTRY OVERVIEW

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*The information presented in this section, including all research data and statistics presented herein and identified as having been extracted from publicly available documents and/or government publications, has not been independently verified by the Company, the Sponsor or any of their respective advisers or affiliates in connection with the Placing.*

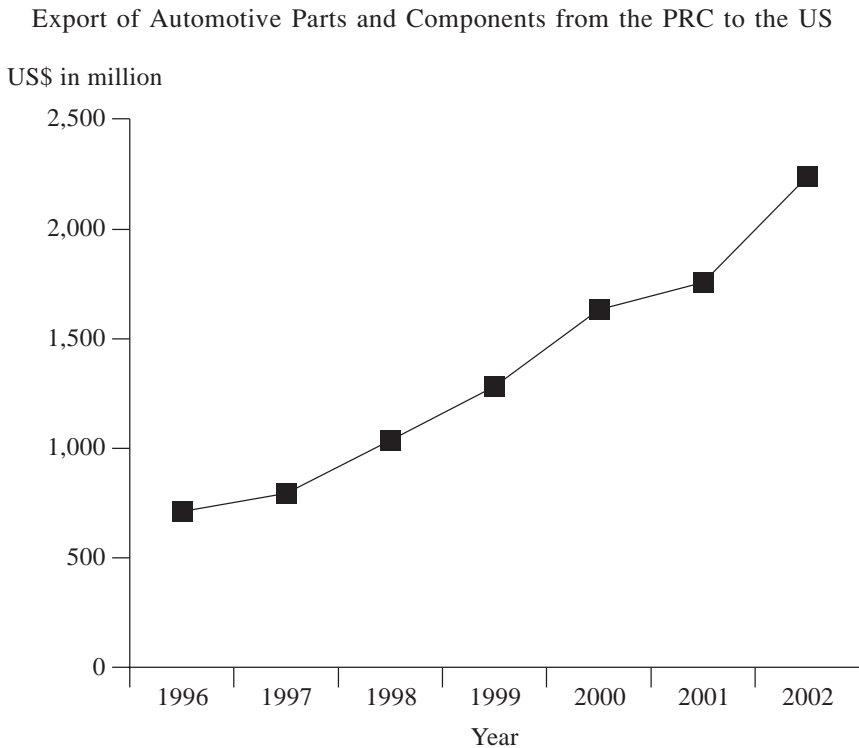
### OVERVIEW

Universal joints are employed in a wide range of machinery that uses driving power transmission equipment incorporating two or more drive shafts that are coupled together at an angle. Universal joints are required not only in the manufacture of automobiles but are also widely used in commercial, industrial, military, wood working and agricultural machinery applications. In respect of universal joints for the automobile market, the demand for universal joints is derived from the demand of automobile manufacturing and repairing markets. Universal joints are mainly used in transmission system and steering system of automobiles and are required for all types of automobiles.

### WORLDWIDE AUTOMOBILE AND AUTOMOTIVE PARTS AND COMPONENTS INDUSTRIES

#### Analysis of the current situation

The PRC is one of the significant trading partners in respect of automotive parts and components of the US in Asia and the Pacific. The following graph shows the total values of automotive parts and components exported from the PRC to the US for the period from 1996 to 2002.



Source: US Census Bureau, 2003

## INDUSTRY OVERVIEW

The following table shows the export of automotive parts from various countries/regions to the US during the period of 1996 to 2002:

### EXPORT OF AUTOMOTIVE PARTS FROM VARIOUS COUNTRIES/REGIONS TO THE US (1996–2002)

Region/Country	1996	1997	1998	1999	2000	2001	2002	CAGR
	<i>In millions of US dollars</i>							
<b>WORLD</b>	<b>48,459</b>	<b>50,802</b>	<b>54,365</b>	<b>61,619</b>	<b>66,959</b>	<b>62,726</b>	<b>69,089</b>	<b>6.09%</b>
<b>ASIA and the PACIFIC</b>								
<b>Select ASEAN</b>								
Indonesia	176	178	204	264	269	282	320	10.48%
Philippines	303	299	267	324	408	360	349	2.38%
Singapore	238	219	192	178	156	147	134	-9.13%
Thailand	317	345	368	421	415	411	546	9.49%
<b>Total ASEAN <sup>(1)</sup></b>	<b>1,267</b>	<b>1,271</b>	<b>1,260</b>	<b>1,462</b>	<b>1,535</b>	<b>1,444</b>	<b>1,619</b>	<b>4.17%</b>
<b>Chinese Economic Area</b>								
China	711	795	1,037	1,284	1,635	1,758	2,242	21.10%
Hong Kong	52	46	55	61	57	41	51	-0.32%
Taiwan	793	851	931	1,062	1,033	1,085	1,294	8.50%
<b>Total Chinese Economic Area</b>	<b>1,556</b>	<b>1,692</b>	<b>2,023</b>	<b>2,407</b>	<b>2,725</b>	<b>2,885</b>	<b>3,587</b>	<b>14.94%</b>
<b>Select other Asia and the Pacific</b>								
Australia	104	150	179	248	251	186	198	11.33%
India	110	134	162	161	190	179	202	10.66%
Japan	13,436	11,855	11,878	12,775	14,535	13,150	13,498	0.08%
Korea	606	664	762	919	1,082	1,122	1,383	14.74%
<b>Total other Asia and the Pacific</b>	<b>14,256</b>	<b>12,803</b>	<b>12,981</b>	<b>14,103</b>	<b>16,058</b>	<b>14,637</b>	<b>15,281</b>	<b>1.16%</b>
<b>EUROPE</b>								
<b>Select European Union</b>								
Austria	209	261	238	211	230	201	222	1.01%
Belgium	73	88	83	90	97	82	89	3.36%
France	959	961	1,094	1,303	1,133	1,165	1,197	3.76%
Germany	2,549	2,626	3,114	3,451	3,874	3,746	4,336	9.26%
Italy	367	400	432	447	474	525	652	10.05%
Netherlands	56	60	59	60	60	66	71	4.03%
Spain	264	277	275	346	301	269	349	4.76%
Sweden	280	319	319	292	241	188	212	-4.53%
United Kingdom	652	809	1,031	1,118	1,190	976	1,106	9.21%
<b>Total European Union <sup>(2)</sup></b>	<b>5,483</b>	<b>5,889</b>	<b>6,742</b>	<b>7,451</b>	<b>7,716</b>	<b>7,375</b>	<b>8,425</b>	<b>7.42%</b>
<b>Select Other Europe</b>								
Czech Republic	6	17	29	53	60	86	125	65.88%
Hungary	81	111	120	95	97	100	180	14.23%
Poland	15	14	19	19	42	43	57	24.92%
<b>Total Other Europe</b>	<b>109</b>	<b>149</b>	<b>172</b>	<b>172</b>	<b>203</b>	<b>230</b>	<b>364</b>	<b>22.26%</b>

Source: US Census Bureau, 2003

# INDUSTRY OVERVIEW

Notes:

1. The ASEAN region comprises Brunei, Burma (Myanmar), Cambodia, Indonesia, Laos, Malaysia, Philippines, Singapore, Thailand and Vietnam.
2. The European Union comprises Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, and the United Kingdom. As of 1995, Austria, Finland, and Sweden are included in the total.

According to the table above, the export of automotive parts from the PRC to the US experienced significant growth during the period from 1996 to 2002, with six-year CAGR of approximately 21.10%, while the world's six-year CAGR was approximately 6.09%. The PRC experienced the highest six-year CAGR within the Asia Pacific region and ranked the third, behind Czech Republic (65.88%) and Poland (24.92%) among the countries as shown in the table above. However, the PRC exported approximately US\$2,242 million of automotive parts to the US in 2002, while Czech Republic and Poland only exported US\$182 million in aggregate in the same year.

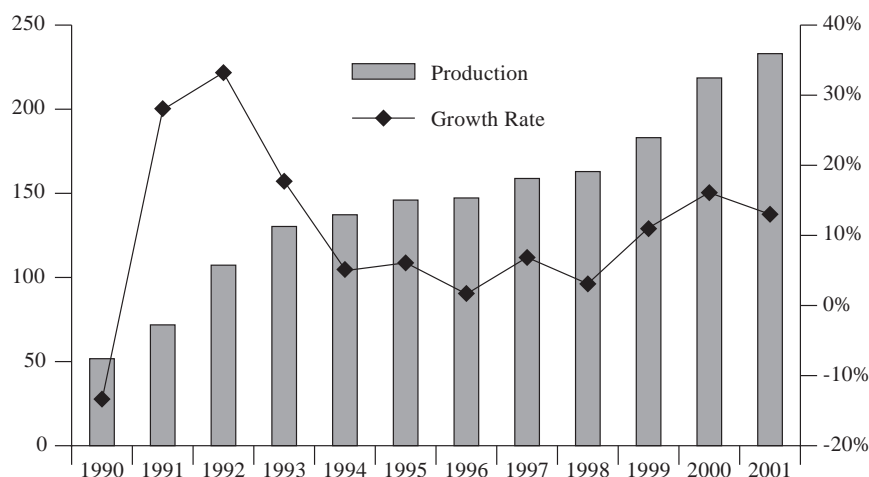
Putting all these into perspective, the automotive parts and components manufacturers in the PRC was quite successful in penetrating into the US market. Following the accession of the PRC into the WTO, this trend is expected to continue.

## THE AUTOMOBILE INDUSTRY IN THE PRC

### The current situation of the automobile industry

Since the open-door reform of the PRC in the 1980s, the PRC economy has experienced significant growth. The PRC automobile industry has also experienced fast development. From 1990 to 2001, the annual CAGR of automobile production maintained at around 15%, with the average growth rate of ownership at around 12%. Up to the end of 1999, there were approximately 118 automobile production enterprises and 1,540 parts and components production enterprises, and the numbers of ownership of automobile was approximately 14.53 million nationwide.

### Comparison of automobile production volume and growth rate between 1990 and 2001



Source: "Report on Investment in Automobile Production Industry" (汽車製造行業生產工業投資研究報告), the Special Economic Development Zone Research Institute (特區證券研究所), June 2002

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## INDUSTRY OVERVIEW

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According to the statistics of the China Association of Automobile Manufacturers, the nationwide automobile production increased from 2.59 million in 2001 to 3.25 million in 2002. This means that the production target of 3.2 million set for 2005 in the “Tenth Five-Year Plan for the Automobile Industry” issued by the State Economic and Trade Commission of the PRC has been accomplished 3 years earlier than expected. The production between January and September 2003 reached 3.2 million, representing an increase of 35.77% compared with that of the same period last year and demonstrating a trend of rapid growth in the PRC automobile industry. As a result, the worldwide ranking of the PRC in term of automobile production raised from number 8 in 2001 to number 5 in 2002.

### The overall situation and policies

In 1984, the PRC Government decided to develop the machinery and automobile industry to be a “pillar industry” of the national economy and implemented various measures to encourage domestic production of automobiles. Such measures included the encouragement of foreign investment in automobile industry and the provision of tax incentives for domestic automobile manufacturers. The “Tenth Five-Year Plan for the Automobile Industry” stated the directions of the development of the industry is to “accelerate the realignments and upgrades of product composition by focusing on parts and components and economy passenger cars”. The total automobile production target for 2005 under the “Tenth Five-Year Plan for the Automobile Industry” shall be around 3.2 million inclusive of passenger cars of around 1.1 million. The increase in value (工業增加值) of the automobile industry shall be RMB130 billion, representing an increase of 1% of GDP, with automotive products being able to satisfy domestic market demand. Exports of automotive products shall account for around 8% of sales revenue.

### Analysis of market outlook and forecast of demand

The PRC’s accession into the WTO, economic construction and improvement in transportation and other factors, have induced further expansion of the market for automobiles.

The following table sets forth the forecast of ownership and demand for automobile in 2005 in the PRC:

	Trucks	Coaches	Passenger cars	Total Amount
	(’000)	(’000)	(’000)	(’000)
Ownership	8,650–8,850	7,700–7,900	8,300–8,700	24,650–25,450
Demand	950–1,000	1,050–1,100	1,100–1,200	3,100–3,300

Source: “Tenth Five-Year Plan for the Automobile Industry” by the State Economic and Trade Commission of the PRC

## THE AUTOMOTIVE PARTS AND COMPONENTS INDUSTRY IN THE PRC

### Analysis of the current situation

With the support of the State and the guidance of the “Industry Policy of the Automobile Industry” issued by the State since the 1990s, investments in the automotive parts and components industry of the PRC have increased through the utilization of foreign investments and multi-channel capital raising. Through the introduction and adoption of advanced foreign technology and implementation of special technology renovation of “double plus construction”, the product structure has been changed and the overall production standard has been raised significantly.

## INDUSTRY OVERVIEW

Along with the rapid growth of production and sales of automobiles, the key economic indicators of the automotive parts and components industry in the PRC in the year 2002 have also shown continuous rapid growth, which surpassed the figures of the industries of passenger cars, buses and trucks. In respect of exports, the PRC is even more competitive in its export of automotive parts and components and enjoys a faster pace of development than its export of whole-set automobiles. The export value of automotive parts and components were US\$3.94 billion in 2001, up from US\$0.59 billion in 1993, representing 6.7 times growth and a CAGR of 26.8%. The export of automotive parts and components in 2002 saw a growth rate of over 35% with an export value exceeding US\$5 billion. The inclusion of the PRC automotive parts and components industry into the list of suppliers by some international enterprises has rendered the automotive parts and components industry of the PRC an important part of the global industry.

### Import and export of automotive parts and components in the PRC between 1993 and 2001 (US\$'000)

Year	1993	1994	1995	1996	1997	1998	1999	2000	2001
Import value	1,792,178	1,296,233	1,436,456	1,737,457	1,432,393	1,460,267	2,230,090	3,219,973	3,856,980
Growth rate%	—	-27.7	10.8	21.0	-17.6	1.9	52.7	44.4	19.8
Export value	585,345	830,198	1,291,776	1,466,618	1,650,587	1,848,835	2,322,120	3,316,562	3,944,376
Growth rate %	—	41.8	55.6	13.5	12.5	12.0	25.6	42.8	18.9

Source: Information on the PRC Macroeconomics (中國宏觀經濟資訊), April 2003

The global automobile manufacturing enterprises maintain their positive view towards the development of the automobile industry in the PRC. While the PRC automobile industry continues to develop, leading players of the global automobile market are extending their reach to the PRC. Given the increasingly intense competition in the automobile industry, manufacturers would definitely turn to countries of low cost in an attempt to reduce their cost of production. The total amount of foreign exchange gained from the export of automotive parts and components reached US\$5 billion in 2002, of which 90% were provided for overseas after-sale service and only a small portion were parts and components required for the production of automobiles. This illustrates that there is much room for the development of the automotive parts and components export industry of the PRC.

### The overall situation and policies

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.

In accordance with the "Tenth Five-Year Plan for the Automobile Industry", the "segregated parts and components assembling system" has been established as a key mission. Facilitating automotive parts and components industry development will be considered as one of the key policies and measures, which highlights that "the PRC encourages the free development and continual enhancement in competitiveness of top-notch parts and components enterprises. It encourages joint participation from various sectors of the economy in the development of automotive parts and components industry and directs local departments, foreign investors and the general public to actively invest in the automotive parts and components industry. It also directs and supports mergers, acquisitions and reorganizations of top-notch enterprises by various means in attempt to form a strong aligned force in the automotive parts and components industry. It also directs small and medium-sized automotive parts and components enterprises to become more specialized to enjoy the benefit of economies of scale."

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## INDUSTRY OVERVIEW

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The PRC Government encourages and supports the development of a strong parts and components industry. The “Tenth Five-Year Plan for the Automobile Industry” mentioned the following:

- upgrade the systematic assembly and modular supply capacity of automotive parts and component products, increase high technology, high value-added parts and components products and supply ratio for use in passenger cars and international automobile market;
- enhance the functions and quality of automobile products and key parts and components to attain or approach international standards of similar products at the end of the “Tenth Five-Year Plan for the Automobile Industry”;
- domestic market share of the first three manufacturers in key parts and components to reach 70% and export value of parts and components to account for 20% of their total sales;
- establish 6 to 8 key parts and components development centres at the state level initially to form development capability of some of the key parts and components in line with whole-set automobile assembly at the end of the “Tenth Five-Year Plan for the Automobile Industry”;
- encourage competent parts and components enterprises to actively develop new products suitable for the development requirements of main engines. To encourage whole-set automobile assembly enterprises to adopt “equivalent substitution” format to achieve parts and components assembly.

### **Analysis of the market outlook**

The production and sales volume of automotive parts and components industry of the PRC were in upward trend in 2002. Exports in the first 11 months were approximately 80% up from the same period of 2001. The automotive parts and components industry in the PRC has become an important part of the global automotive parts and components industry.

A feature of the PRC automobile industry is that the whole-set automobile industry drives the growth of the automotive parts and components industry. For years, the sustained rapid development of the PRC economy has been a great driving force for the expansion of automobile market in the PRC and provided a great backing for an unprecedented leap in the production volume of automobiles in the PRC. In 2002, the GDP of the PRC grew by 8% compared with that of 2001 and amounted to approximately RMB10,000 billion. The strong demand for automobiles rendered the PRC with the fastest growth rate of demand worldwide, with an automobile market expansion of more than 40%. With the rapid growth of the whole-set automobile industry, the automotive parts and components industry of the PRC will also maintain its continual rapid growth.

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. The PRC’s accession into 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. These factors have made the PRC automotive parts and components industry an attractive centre for investment.



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## INDUSTRY OVERVIEW

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According to the China Economy (中國經濟時報), up to July 2002, sales of automotive parts and components enterprises nationwide was approximately RMB95.7 billion, an increase of approximately 30.5% compared with that of the same period in the year 2001; sales for the year 2002 was approximately RMB130.1 billion, an increase of approximately 21.6% compared with that of the year 2001. This indicates huge potential for the PRC automotive parts and components market.

### THE UNIVERSAL JOINT INDUSTRY IN THE PRC

#### Analysis of the current situation

According to the statistics released by the Transmission Shaft Committee of CAAM, it was estimated that in 2002, there were about 15 universal joint manufacturers 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 term of sales volume among the eight manufacturers of universal joints in the PRC as per the study of the Transmission Shaft Committee of CAAM. The respective sales volume of the eight universal joint manufacturers in the PRC in 2002 are (in accordance with sales volume from the highest to the lowest) approximately 24.76, 3.37, 1.56, 0.84, 0.25, 0.10, 0.09 and 0.08 million sets. The top three manufacturers accounted for approximately 79.8%, 10.9% and 5.0% of the total market share contributed by the eight manufacturers respectively. The sales volume of the Company, being approximately 3.37 million sets, accounted for approximately 10.9% of the total market shares contributed by the above eight manufacturers.

According to China Automobile Industry Yearbook 2002, there were 15 universal joint manufacturers in the PRC in 2001. Three of the manufacturers are located in Zhejiang, another three in Jiangsu and then one in each of Yunnan, Guizhou, Sichuan, Shandong, Jiangxi, Anhui, Shanghai, Jilin and Tianjin. The three manufacturers in Zhejiang have already accounted for approximately 91.55% of the total universal joints production in the PRC in 2002. The region with the second largest production volume was Jiangsu, where there had three manufacturers with production accounted for approximately 3.95% of the total universal joint production in the PRC. The production volume of universal joints for the rest of the regions accounted for less than 5%.

*Note:* The sales volume of universal joints in the PRC as composed by the Transmission Shaft Committee of CAAM included sales volume of finished and semi-finished products, universal joints produced and used in-house by automobile repair factories and automobile manufacturers in the PRC but excluded those imported from overseas.

The following table sets out the regional production of universal joints in the PRC in 2001:

Regions	(%)
Zhejiang	91.55
Jiangsu	3.95
Shanghai	1.81
Shandong	1.28
Jilin	0.44
Sichuan	0.33
Jiangxi	0.25
Tianjin	0.22
Guizhou	0.137
Anhui	0.037
Yunnan	0.0004

*Source:* China Automobile Industry Yearbook 2002 (中國汽車工業年鑑), issued by China Automotive Technology and Research Center (中國汽車技術研究中心) and CAAM

**INTRODUCTION**

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.

The Company recorded a turnover of about RMB21.3 million, RMB42.4 million and RMB47.6 million for each of the two years ended 31st December, 2002 and the nine months ended 30th September, 2003 respectively. The principal product category of the Company, namely, cardan universal joints, accounted for approximately 96.1%, 96.9% and 96.9% of the turnover of the Company for each of the two years ended 31st December, 2002 and the nine months ended 30th September, 2003 respectively. According to the statistics released by the Transmission Shaft Committee of CAAM, it was estimated that in 2002, the Company ranked second in term of sales volume among eight manufacturers of universal joints in the PRC as per the study of the Transmission Shaft Committee of CAAM, and such eight manufacturers in aggregate accounted for approximately 98% of the total sales volume of universal joints in the PRC in 2002. The respective sales volume of the eight universal joint manufacturers in the PRC in 2002 are (in accordance with sales volume from the highest to the lowest) approximately 24.76, 3.37, 1.56, 0.84, 0.25, 0.10, 0.09 and 0.08 million sets. The top three manufacturers accounted for approximately 79.8%, 10.9% and 5.0% of the total market shares contributed by the eight manufacturers respectively. The sales volume of the Company, being approximately 3.37 million sets, accounted for approximately 10.9% of the total market share contributed by the above eight manufacturers.

The Company has built up a customer base in the PRC covering 19 provinces and autonomous regions. The Company's products are distributed through its own sales force to transmission shaft factories as well as automobile repair factories in the PRC. For each of the two years ended 31st December, 2002 and the nine months ended 30th September, 2003, sales to transmission shaft factories accounted for approximately 60.3%, 40.5% and 31.2% of the Company's total turnover respectively, and sales to automobile repair factories accounted for approximately 10.5%, 5.7% and 5.6% of the Company's total turnover respectively. In addition, the Company sells its products to import and export corporations in the PRC. As confirmed by such import and export corporations, the Company's products are then exported to countries and regions, transversing the US, Japan, Italy, Germany, the Netherlands, South Africa, Canada, Brazil, South Korea, Thailand, India, Iran, Indonesia, Malaysia, Venezuela and Panama. However, the Company has no direct contact with the ultimate overseas customers in respect of sales to such import and export corporations. For each of the two years ended 31st December, 2002 and the nine months ended 30th September, 2003, sales to import and export corporations represented approximately 18.8%, 48.7% and 48.2% of the Company's total turnover 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 nine months ended 30th September, 2003, direct sales to overseas customers represented approximately 3.8% of the Company's total turnover.

The production facilities of the Company are primarily located in Yangxunqiao Town, Shaoxing County, Zhejiang Province of the PRC with an aggregate site area of approximately 60,739 sq.m. and an aggregate gross floor area of approximately 15,626 sq.m. Fixed assets and equipment owned by the Company are primarily production equipment for forging, lathing, heat treatment and grinding of universal joints.

*Note:* The sales volume of universal joints in the PRC as composed by the Transmission Shaft Committee of CAAM included sales volume of finished and semi-finished products, universal joints produced and used in-house by automobile repair factories and automobile manufacturers in the PRC but excluded those imported from overseas.

**HISTORY AND DEVELOPMENT**

The history of the Company can be traced back to June 1995 when Shaoxing Group and Shaoxing Jiangzhong Industrial Company (紹興縣江中實業公司) founded Shaoxing Prospect to engage in the manufacture and processing of universal joints, transmission shafts, cardan shafts and axle bearings for various types of automobiles. Shaoxing Prospect was established in Shaoxing County, Zhejiang Province, the PRC, on 7th June, 1995 as a limited liability company with a registered capital of RMB2 million, of which 75% was contributed by Shaoxing Group and the remaining 25% was contributed by Shaoxing Jiangzhong Industrial Company (紹興縣江中實業公司).

Shaoxing Group was registered as a collectively owned enterprise in 1994 with a registered capital of RMB31,680,000, which was contributed by Mr. Tang Li Min, Mr. Hong Guo Ding, Mr. Tang Cheng Fang, Mr. Fei Guo Yang and Mr. Feng Yun Lin, who were five of the six Promoters, through an enterprise beneficially owned by them, namely Shaoxing Prospect Industrial Company Limited (紹興縣展望實業有限公司) (formerly known as Shaoxing Prospect Industrial Joint Stock Company Limited (紹興縣展望實業股份有限公司)). Zhanwang Village Committee held the entire registered capital of Shaoxing Group on behalf of these five Promoters before Shaoxing Group underwent a corporate reorganisation to revert its corporate form from a collectively owned enterprise to a privately owned enterprise in June 2002. As advised by the Directors and the legal advisers to the Company as to PRC law, at the time of establishment of Shaoxing Group, it was a common practice in the PRC for privately owned enterprises established as collectively owned enterprises so as to, among other things, strengthen the confidence of their business partners and customers and build up their reputation. Against this background, Shaoxing Group was established as a collectively owned enterprise. In order to delineate clearly the property rights and ownership of Shaoxing Group and pursuant to the relevant laws and regulations in the PRC, Shaoxing Group carried out a demarcation process and reverted its corporate form from a collectively owned enterprise to a privately owned enterprise in June 2002, details of which are set out in the paragraph headed “Relationship between Shaoxing Group and the Company” of this section. Upon completion of the corporate reorganization, Shaoxing Group reverted to a limited liability company beneficially owned by Mr. Tang Li Min, Mr. Hong Guo Ding, Mr. Tang Cheng Fang, Mr. Fei Guo Yang and Mr. Feng Yun Lin. According to a valuation report issued by Shaoxing Zhongxing Asset Evaluation Limited Company (紹興中興資產評估有限公司), the net asset value of Shaoxing Group as at 11th June, 2002 was approximately RMB1 million. Pursuant to a property right demarcation agreement dated 16th June, 2002 entered into between Zhanwang Village Committee, Shaoxing Group, Mr. Tang Li Min, Mr. Hong Guo Ding, Mr. Tang Cheng Fang, Mr. Fei Guo Yang and Mr. Feng Yun Lin, it was confirmed that the interest held by Mr. Tang Li Min, Mr. Hong Guo Ding, Mr. Tang Cheng Fang, Mr. Fei Guo Yang and Mr. Feng Yun Lin in Shaoxing Group were RMB704,800, RMB108,400, RMB99,700, RMB36,800 and RMB50,300 respectively. Shaoxing Jiangzhong Industrial Company (紹興縣江中實業公司) was a collectively owned enterprise held by Zhanwang Village Committee since 1998 and it was dissolved in March 2000.

Among the Directors, Mr. Tang Li Min was a director of Shaoxing Prospect since its incorporation in 1995. He was in charge of the overall management and operation of Shaoxing Prospect. Mr. Hong Guo Ding, Mr. Fei Guo Yang and Mr. Tang Cheng Fang joined Shaoxing Prospect at the time of its establishment in 1995 as supervisors. They became directors of Shaoxing Prospect in February 2000.

Shaoxing Prospect had gradually developed its own manufacturing capacity since its establishment and had carried out its business at Yangxunqiao Town, Shaoxing County, Zhejiang Province, the PRC. In March 1997, Shaoxing Prospect started the manufacture and sale of cardan universal joints under the brand name “Zhanwang”. In the first few years, the Company mainly served the eastern part of the PRC which covers Shanghai, Jiangsu and Zhejiang as well as the northern part of the PRC which covers Beijing, Tianjin, Hebei, Henan and Inner Mongolia. Subsequently, the Company had expanded to serve customers in central part of the PRC which covers Jiangxi, Hubei and Hunan and southwestern part of the PRC which

covers Chongqing, Sichuan, Yunnan, Guizhou and Tibet. At the same time, through development of new products, the Company was able to widen its product range and commenced the manufacture and sale of differential spiders. During the years, the Company's customer base was gradually expanded and ranged from after-sales market to domestic transmission shaft manufacturers.

In 1999, parallel with the development of the Company's domestic transmission shaft manufacturers networks, the Company began to explore international sales networks by establishing business relations with import and export corporations in the PRC. The Company approached import and export corporations by, among other means, attending nationwide automotive component trade fairs in the PRC, inviting staff from the import and export corporations to visit the Company and distributing product samples to the import and export corporations. Due to the increased demand for its products, the Company expanded its production facilities in 2000. By the end of 2000, its sales amounted to approximately RMB15 million. In 2002, the Company started the manufacture and sale of wing bearing universal joints. Due to continuous expansion, the current aggregate site area and gross floor area of the Company's production facilities have expanded to approximately 60,739 sq.m. and 15,626 sq.m. respectively. In January 2003, the Company began to export directly to overseas customers. Details of the sales networks of the Company are set out in the paragraph headed "Markets and customers" of this section to this prospectus.

On 28th February, 2000, Shaoxing Jiangzhong Industrial Company (紹興縣江中實業公司) and Mr. Hong Guo Lin entered into a share transfer agreement, pursuant to which Shaoxing Jiangzhong Industrial Company (紹興縣江中實業公司) transferred its entire capital contribution in Shaoxing Prospect, which amounted to RMB500,000, to Mr. Hong Guo Lin. Upon such transfer, Shaoxing Prospect was owned as to 75% by Shaoxing Group and 25% by Mr. Hong Guo Lin. The consideration paid under the said share transfer agreement was RMB500,000, which was equivalent to the amount of the capital contribution being transferred.

On 29th May, 2002, Shaoxing Group entered into a series of share transfer agreements with each of Mr. Tang Li Min, Mr. Hong Guo Ding, Mr. Tang Cheng Fang, Mr. Fei Guo Yang and Mr. Feng Yun Lin. Pursuant to the share transfer agreements, Shaoxing Group transferred its 75% interest in Shaoxing Prospect as to 60% to Mr. Tang Li Min, 6% to Mr. Hong Guo Ding, 5% to Mr. Tang Cheng Fang, 2% to Mr. Fei Guo Yang and 2% to Mr. Feng Yun Lin. The consideration paid by each of Mr. Tang Li Min, Mr. Hong Guo Ding, Mr. Tang Cheng Fang, Mr. Fei Guo Yang and Mr. Feng Yun Lin under their respective share transfer agreements was RMB3,444,000, RMB344,400, RMB287,000, RMB114,800 and RMB114,800 respectively. The considerations were calculated by taking into account the net asset value of Shaoxing Prospect as at 30th April, 2002 as determined by Zhejiang East Assets Evaluation Co. Ltd. (浙江東方資產評估有限公司), which was licensed by the Ministry of Finance of the PRC (中華人民共和國財政部) for assets valuation. Such share transfers were approved by Zhanwang Village Committee and the People's Government of Yangxunqiao Town, Shaoxing County on 29th May, 2002. On the same day, Mr. Hong Guo Lin entered into a share transfer agreement with Ms. Hong Yin Juan, the wife of Mr. Tang Li Min, pursuant to which Mr. Hong Guo Lin transferred his 25% interest in Shaoxing Prospect to Ms. Hong Yin Juan. The consideration paid by Ms. Hong Yin Juan under the share transfer agreement was RMB1,435,000. The consideration was calculated by taking into account the net asset value of Shaoxing Prospect as at 30th April, 2002 as determined by the Zhejiang East Assets Evaluation Co. Ltd. (浙江東方資產評估有限公司). The share transfer agreements provided that the rights and obligations as shareholders of Shaoxing Prospect should be transferred as of 1st May, 2002.

At the time of the transfer of interests in Shaoxing Prospect from Shaoxing Group to Mr. Tang Li Min, Mr. Hong Guo Ding, Mr. Tang Cheng Fang, Mr. Fei Guo Yang and Mr. Feng Yun Lin, the following factors had been taken into consideration to conclude that each of Mr. Tang Li Min, Mr. Hong Guo Ding, Mr. Tang Cheng Fang, Mr. Fei Guo Yang and Mr. Feng Yun Lin should pay a consideration to Shaoxing Group, even though Shaoxing Group was beneficially owned by them:

- (1) At the time of the transfer of interests in Shaoxing Prospect from Shaoxing Group to Mr. Tang Li Min, Mr. Hong Guo Ding, Mr. Tang Cheng Fang, Mr. Fei Guo Yang and Mr. Feng Yun Lin, Shaoxing Group had not yet been carried out the reorganization process to revert its corporate form from a collectively owned enterprise to a privately owned enterprise. Shaoxing Group was in name, still a collectively owned enterprise; and
- (2) although Shaoxing Group was beneficially owned by Mr. Tang Li Min, Mr. Hong Guo Ding, Mr. Tang Cheng Fang, Mr. Fei Guo Yang and Mr. Feng Yun Lin, Shaoxing Group was a separate legal entity independent from its shareholders, and their respective shareholding in Shaoxing Group was not corresponded to their respective intended share of interest in Shaoxing Prospect.

As advised by the legal advisers to the Company as to PRC law, the transfer of interests in Shaoxing Prospect from Shaoxing Group to Mr. Tang Li Min, Mr. Hong Guo Ding, Mr. Tang Cheng Fang, Mr. Fei Guo Yang and Mr. Feng Yun Lin were property transfer transactions, and the transferees should, unless in few exceptional cases such as gift and succession, pay fair price for the transactions.

The legal advisers to the Company as to PRC law have further advised that the transfer of interests in Shaoxing Prospect from Shaoxing Group to Mr. Tang Li Min, Mr. Hong Guo Ding, Mr. Tang Cheng Fang, Mr. Fei Guo Yang and Mr. Feng Yun Lin, prior to the date of confirmation of the conversion of Shaoxing Group from a collectively owned enterprise to a privately owned enterprise issued by the Office of Commission of Economic Restructuring of Shaoxing County (紹興縣經濟體制改革委員會辦公室) as detailed in the paragraph headed “Relationship between Shaoxing Group and the Company” of this section, are legally binding and valid as such transfer had been approved by the shareholders of Shaoxing Prospect in its general meeting, Zhanwang Village Committee and the People’s Government of Yangxunqiao Town, Shaoxing County.

On 5th June, 2002, it was resolved by the shareholders of Shaoxing Prospect in general meeting that the capital contributions from Mr. Tang Li Min, Ms. Hong Yin Juan, Mr. Hong Guo Ding, Mr. Tang Cheng Fang, Mr. Fei Guo Yang and Mr. Feng Yun Lin be proportionally increased by a total of RMB48.66 million. Upon approval and registration by the Administrative Bureau of Industry and Commerce of Shaoxing County (紹興縣工商行政管理局) on 10th June, 2002, the registered capital of Shaoxing Prospect was increased to RMB50.66 million and was owned as to 60% by Mr. Tang Li Min, 25% by Ms. Hong Yin Juan, 6% by Mr. Hong Guo Ding, 5% by Mr. Tang Cheng Fang, 2% by Mr. Fei Guo Yang and 2% by Mr. Feng Yun Lin.

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## BUSINESS

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In preparation for the listing of the H Shares on GEM, Shaoxing Prospect was converted into and established as a joint stock limited company on 9th August, 2002. A total of 53,600,000 Domestic Shares at par value of RMB1 each were issued to the Promoters in proportion to their respective shareholdings in Shaoxing Prospect based on its net asset value as at 30th June, 2002 which amounted to RMB53.60 million. Upon conversion into a joint stock limited company, the Company's shareholding structure was as follows:

Name of shareholders	Number of Shares	Percentage of shareholding (%)
Mr. Tang Li Min	32,160,000	60.00
Ms. Hong Yin Juan	13,400,000	25.00
Mr. Hong Guo Ding	3,216,000	6.00
Mr. Tang Cheng Fang	2,680,000	5.00
Mr. Fei Guo Yang	1,072,000	2.00
Mr. Feng Yun Lin	<u>1,072,000</u>	<u>2.00</u>
Total	<u>53,600,000</u>	<u>100.00</u>

On 27th August, 2003, Ms. Hong Yin Juan, one of the Promoters and the wife of Mr. Tang Li Min, was involved in a car accident and passed away on the same date. Ms. Hong Yin Juan was a director of Shaoxing Prospect for the period from 28th February, 2000 to 31st July, 2002. After that, she was not involved in the management of the Company and the Directors therefore believe that her death does not affect the operation of the Company. Pursuant to the Disposal Agreement, the entire equity interests in the Company held by Ms. Hong Yin Juan were transferred to the following persons in the following portions at nil consideration:

- (1) Mr. Tang Li Min, the husband of Ms. Hong Yin Juan, as to 4,466,666 Domestic Shares;
- (2) Mr. Tang Liu Jun, the son of Ms. Hong Yin Juan, as to 4,466,667 Domestic Shares; and
- (3) Ms. Tang Jing Jing, the daughter of Ms. Hong Yin Juan, as to 4,466,667 Domestic Shares.

Since Mr. Tang Liu Jun and Ms. Tang Jing Jing are minors, they do not have the requisite legal capacity to transfer or dispose of such Domestic Shares even though they are legal owners of their respective Domestic Shares. Pursuant to the Disposal Agreement, Mr. Tang Li Min, their father and legal guardian, shall be the person to exercise the rights (including but not limited to right of transfer and disposal) pertaining to such Domestic Shares transferred to them and responsible for their respective shareholder's rights and responsibilities in the Company on their behalf until they reach the age of 18. The legal advisers to the Company as to PRC law have advised that the Disposal Agreement and its arrangements are legal, valid and binding under PRC law.

On 15th September, 2003, the Leading Group of the Enterprise Listing Work of the People's Government of Zhejiang Province (浙江省人民政府企業上市工作領導小組) issued an approval for the alteration in the Company's shareholding structure, and subsequently, the Administrative Bureau of Industry and Commerce of Zhejiang Province (浙江省工商行政管理局) approved the registration of such alteration on 23rd October, 2003.





## PRODUCTS

### Product range

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.

**Cardan universal joint**



**Wing bearing universal joint**



**Differential spider**



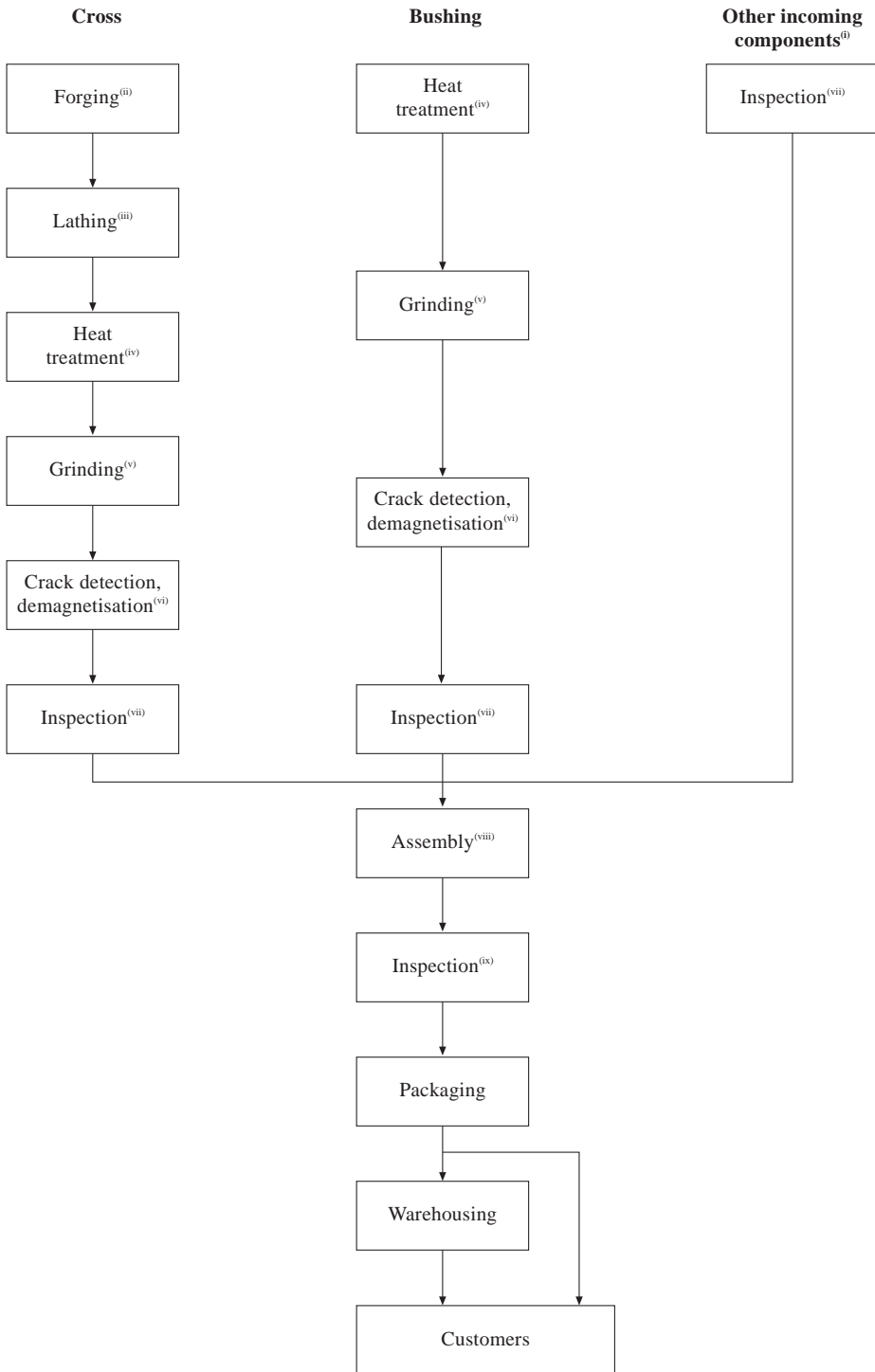


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Product categories	Product descriptions	Major applications	Total turnover		
			For the year ended		For the nine months ended
			31st December, 2001	2002	30th September, 2003
			RMB'000	RMB'000	RMB'000
Cardan universal joints	A joint-like mechanical device which transmits torque and rotational motion from one axle to another under a fixed or changing axle angle, with an intermediate transmission part where four evenly distributed radial shaft necks lie on the same plane. It is usually installed under the chassis of an automobile and is vulnerable to water and mud corrosion. It acts as a connector in the transmission system of an automobile's chassis and, together with the transmission shafts, forms a universal transmission device between the gearbox and the driving axle and transmits the dynamic force output of the gearbox to the driving axle.	It is applicable to both high-speed small-load and low-speed large-load situations and features the capability of transmitting torque and rotational motion in any arbitrary direction.	20,506	41,049	46,170
Wing bearing universal joints	A type of universal joint of wing-shaped outer rings with installation holes instead of the usual spherical outer ring bearings.	It is applicable to engineering machineries	—	538	952
Differential spiders	The gears that convey engine power to the driving axles. It is the main part of a driving axle.	It functions to enable rotations of two half shafts with differential speeds while transmitting dynamic force to them. It serves to achieve pure rotation on both the left and right wheels with differential displacement between the two sides, thereby reducing friction between tyres and the ground.  It allows two wheels to share the torque from the same engine even when the wheels are turning at different rates. This aims to stabilize the vehicle in the turning motion.	830	768	521

**PRODUCTION PROCESS**

The production flow chart of the major product category of the Company, cardan universal joints, which is principally assembled with a cross and bushing, is set out as follows:



*Notes:*

- (i) Other incoming components include semi-finished bushings, needle rollers, grease fittings, inner seals, outer seals, needle retainer rings, oil seal retainer rings and oil seals.
- (ii) Steel materials are heated in a medium-frequency furnace, hammered into the predetermined shape and forged into a cross shape through a press machine. Excessive fins on the shaped forge pieces are removed by the press machine.
- (iii) Conduct several processes on the shaped forge piece, including surface treatment (conduct lathing and drilling of central holes on both end surfaces of the cross to ensure total length and form a basis for subsequent processes), and lathing on the outer surface of the shaft necks of the cross.
- (iv) The cross and bushing undergo carburizing quenching/shine quenching to ensure surface hardness, core hardness and composition as specified in the layout specifications and to ensure resistance to abrasion and the tough texture of cross and bushing.
- (v) The cross and bushing undergo a grinding process to achieve the dimension and surface roughness required by the technical specifications.
- (vi) Crack detection is conducted on the cross and bushing to identify any surface crack. The cross and bushing are placed at a demagnetising machine to remove magnetism produced during the grinding process.
- (vii) Quality control is conducted on the cross, bushing and incoming components to check if the products are in conformity with the layout specifications.
- (viii) The cross, bushings and incoming components are assembled into a cardan universal joint.
- (ix) Final check is conducted on the final product to identify any defect.

## **Production facilities**

The production facilities of the Company are principally located in Yangxunqiao Town, Shaoxing County, Zhejiang Province of the PRC with an aggregate site area of approximately 60,739 sq. m. and an aggregate gross floor area of approximately 15,626 sq. m. Fixed assets and equipment owned by the Company are primarily production equipment for forging, lathing, heat treatment and grinding of universal joints. The Company estimated that the utilization rates of its production facilities for each of the two years ended 31st December, 2002 and the nine months ended 30th September, 2003 were approximately 86.7%, 94.3% and 99.1% respectively.

## **Planning policies in respect of production**

The Company formulates its production plans with reference to sales forecast and the market demand for its products. In general, in December each year, the Company enters into sales memoranda or product quality agreements with certain customers to determine sales intention for the following year. Before the commencement of each month, the Company will count the orders of customers and take into account key factors such as staff resources, availability of raw materials, operating cash flow and production capacity in order to formulate the production schedule and procurement plan.

**QUALITY CONTROL**

The Directors consider that product quality is a crucial factor for the success of the Company. As the Company strives to produce high quality products, it has implemented stringent quality control measures at each stage of its production process. The Company's quality management system has been accredited by International Standards Certifications Pty. Ltd. and registered as complying with the requirements of ISO9002:94/QS-9000:1998 in August 2001. The accreditation and registration cover the manufacture, sale and service of cruciform type universal joints for the automobile industry. On this foundation, the Company has formulated detailed quality targets and management measures to further solidify internal management of the quality system and strengthen procedural controls and on-site quality management in order to satisfy customer requirements.

Currently, the Company has established a stringent quality management mechanism and inspection and testing system to ensure that the quality of its products complies with the standards formulated by the relevant government authorities. The Company has implemented various management systems and standardised operating modes, which utilise various types of inspection and testing devices in monitoring different phases of the production process, and in testing and examining raw materials and semi-finished products to ensure that product quality of the Company is maintained and further enhanced. The Company will provide regular training to quality control personnel in order to enrich their professional knowledge and guarantee effective implementation of its quality inspection and testing procedures.

**RESEARCH AND DEVELOPMENT**

Through continual innovations in production technologies, product upgrades as well as research and development efforts, the Company has been able to maintain and solidify its competitiveness in both the domestic and international markets.

In general, the Company develops its products through the following processes:

1. To prepare information for the use of the CAD system, samples provided by customers are inspected and detailed drawings are then prepared by technicians of the Company to produce such relevant information as measurements and shapes of the products, as a step to analyze the specific requirements of customers. Alternatively, the specific requirements of customers may also be identified by analyzing drawings provided by customers.
2. the CAD system is used in product design to produce engineering technical specifications of products and define the GD & T and technical requirements of products; and
3. PFMEA is conducted to confirm plan for quality control and criteria of examination.

The Company also submitted some of its new products to Automobile Motor Parts and Components Quality Testing Centre of Zhejiang Province (浙江省汽車摩托車零部件質量檢測中心) to conduct quality testing to ensure that quality of new products is in compliance with industry standards. The Directors consider that such submission will assist in enhancing the operating procedures for new product development, improving the level of craftsmanship and performance, reducing development cycle and upgrading the technical quality level of products.

The Company has entered into an agreement with Jiangsu Jing Jiang Ge Er Dun Transmission Shaft Company Limited (江蘇靖江格爾頓傳動軸有限公司) dated 23rd June, 2003 for the joint development of new products for a term of 3 years from 1st June, 2003 to 1st June, 2006. Jiangsu Jing Jiang Ge Er Dun Transmission Shaft Company Limited (江蘇靖江格爾頓傳動軸有限公司) is responsible for the organisation of a research team for transmission shafts, which consisted of representatives from the Company and Jiangsu Jing Jiang Ge Er Dun Transmission Shaft Company Limited (江蘇靖江格爾頓傳動軸有限公司). The

Company is responsible for the research and development of universal joints in the research team. The research is to be carried out in the office of Jiangsu Jing Jiang Ge Er Dun Transmission Shaft Company Limited (江蘇靖江格爾頓傳動軸有限公司) located in Jiangsu, the PRC. The Company is responsible for the research work in respect of universal joint products. The Company retains all the universal joint products and the intellectual property rights in such universal joint products so developed (including the technology and design drawings), while Jiangsu Jing Jiang Ge Er Dun Transmission Shaft Company Limited (江蘇靖江格爾頓傳動軸有限公司) has the right to use such products. The Directors consider that the technical capability of the Company will be enhanced and the research and development staff of the Company can accumulate practical experience by participating in such joint development.

### **PROCUREMENT OF MATERIALS**

#### **Raw materials**

The major types of raw materials utilised by the Company include bushings, needle rollers, steel and oil seals. The Company sources the above raw materials from suppliers in the PRC. The quantity of each order is determined by the Company with reference to sales forecasts and the inventory levels to ensure a stable supply of raw materials that would meet the needs of current and future production.

During each of the two years ended 31st December, 2002 and the nine months ended 30th September, 2003, the Company's purchases from the five largest suppliers of the Company accounted for approximately 53.9%, 54.9% and 64.0% respectively of the total purchases made by the Company. During the same period, the Company's purchases from the largest supplier accounted for approximately 14.2%, 20.2% and 27.4% respectively of the total purchases made by the Company. For the year ended 31st December, 2001, the Company's purchase of bushings from its largest supplier amounted to approximately RMB1.76 million. For the year ended 31st December, 2002, the Company's purchase of needle rollers from its largest supplier amounted to approximately RMB4.09 million.

The procurement of raw materials is based on current monthly plan and delivered by suppliers in batches. Payments are usually settled by cheques or acceptance credits each month.

The Company did not enter into any long-term procurement contract with its suppliers during each of the two years ended 31st December, 2002 and the nine months ended 30th September, 2003. The Directors believe that the Company has established sound relationship with the suppliers and will be able to procure the raw materials it requires in the PRC market.

During the two years ended 31st December, 2002 and the nine months ended 30th September, 2003, none of the Directors, Supervisors, their respective associates or the Shareholders which, to the best knowledge of the Directors, own more than 5% of the issued share capital of the Company, had any interest in any of the Company's five largest suppliers.

#### **Inventories**

The internal control on the inventory system implemented by the Company is set out as follows:

- Check receipt from suppliers against purchase orders, suppliers' invoices and delivery note, and prepare stock records;
- Prohibit unauthorised access to inventory storage area;
- Provide proper storage and handling of materials;
- Determine quantity of raw materials required;

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- Maintain a list of authorized personnel for issuing or approving requisitions of inventory items;
- Check stocks issued to production against production notes with production serial number;
- Set individual stock code for each inventory item and group code for each inventory group;
- Check sales dispatches against customers' sale orders and invoices in order to ensure that those sales are authorized by appropriate person in charge; and
- Carry out both continuous and cyclical stocktaking.

### SALES AND DISTRIBUTION

#### Sales and marketing strategies

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 Company has adopted the following sales and marketing strategies:

##### *Expanding market share*

- (1) In respect of the domestic market, the Company emphasizes the consolidation of its existing domestic distribution network and expansion of the scope of its products.
- (2) In respect of the overseas market, the Company is actively exploring international markets and expanding export channels.
- (3) The Company's sales team regularly participates in exhibitions held in the PRC in order to enhance the corporate image of the Company.

##### *Strengthening sales and marketing efforts*

- (1) A regional accountability system for sales staff is being implemented in order to identify responsibility of staff and achieve sales targets.
- (2) The Company conducts training for its sales staff every year with a view to improving the quality of its sales team. The Company also adopts a sales incentive programme whereby fixed amounts of commissions are awarded to its sales team.
- (3) The sales department is responsible for the promotion of brand name and image of the Company's products. A customer visit mechanism has been established for understanding customers' and market needs, assisting customers to familiarize with the Company's products and giving guidance on their proper use.

##### *Collecting market information*

The sales team is responsible for the collection of industry-related information in a timely manner. Such information will be analysed to form the basis of management and control in the Company's technology development and production operations.

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## *Sales policy*

The Company's current sales and distribution mode is primarily order-driven. In general, in December each year, the Company enters into sales memoranda or product quality agreements with customers to determine sales intention for the following year. Orders are usually placed via fax or by phone.

## **Markets and customers**

The Directors consider that the ability to accommodate different product specifications required by customers as well as a stable sales and distribution network are crucial factors contributing to the Company's success. In general, product specifications required by customers are varied in terms of, inter alia, the technology and quality required, product structure, product life, reliability and malfunction rate. For each of the two years ended 31st December, 2002 and the nine months ended 30th September, 2003, the five largest customers of the Company accounted for approximately 29.1%, 48.5% and 49.9% of the Company's total turnover respectively. For each of the two years ended 31st December, 2002 and the nine months ended 30th September, 2003, the largest customer of the Company accounted for approximately 7.9%, 21.9% and 18.3% of the Company's total turnover respectively. The Company has maintained ongoing business relationships with most of its customers for over two years. During the two years ended 31st December, 2002 and the nine months ended 30th September, 2003, sales return had been net-off against the aggregate of the invoiced value of goods supplied to the customers.

The principal clients of the Company's products in the PRC are domestic transmission shaft factories as well as import and export corporations. **According to China Automobile Industry Yearbook 2002 issued by China Automotive Technology and Research Center and CAAM, there were approximately 31 major transmission shaft factories in the PRC in 2001.**

During the two years ended 31st December, 2002 and the nine months ended 30th September, 2003, none of the Directors, Supervisors, their respective associates or the Shareholders which, to the knowledge of the Directors, own more than 5% of the issued share capital of the Company, had any interest in any of the five largest customers of the Company.

The tables below set out the details of the Company's customers:

### **For the five largest customers**

	For the year ended 31st December, 2001			For the year ended 31st December, 2002			For the nine months ended 30th September, 2003		
	No. of Customers	Turnover RMB'000	% of total turnover	No. of Customers	Turnover RMB'000	% of total turnover	No. of Customers	Turnover RMB'000	% of total turnover
<b>Domestic customers:</b>									
Transmission shaft factories	4	4,530	21.2	1	2,405	5.7	1	2,191	4.6
Import and export corporations	1	1,680	7.9	4	18,117	42.8	3	17,703	37.2
Agents	—	—	—	—	—	—	1	3,867	8.1
<b>Total</b>	<b>5</b>	<b>6,210</b>	<b>29.1</b>	<b>5</b>	<b>20,522</b>	<b>48.5</b>	<b>5</b>	<b>23,761</b>	<b>49.9</b>

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### For other customers

	For the year ended 31st December,						For the nine months ended		
	2001			2002			30th September,		
	No. of Customers	Turnover RMB'000	% of total turnover	No. of Customers	Turnover RMB'000	% of total turnover	No. of Customers	Turnover RMB'000	% of total turnover
<b>Domestic customers:</b>									
Transmission shaft factories	25	8,336	39.1	28	14,749	34.8	30	12,674	26.6
Import and export corporations	10	2,331	10.9	12	2,510	5.9	18	5,267	11.1
Automobile repair factories	40	2,240	10.5	40	2,414	5.7	50	2,662	5.6
Agents	129	1,686	7.9	103	1,779	4.2	67	1,136	2.4
Others	1	533	2.5	1	381	0.9	1	326	0.7
<b>Overseas customers:</b>									
Overseas customers	—	—	—	—	—	—	15	1,817	3.8
Total	205	15,126	70.9	184	21,833	51.5	181	23,882	50.2

The turnover contributed by transmission shaft factories has been in an increasing trend since 2001. However, sales made to transmission shaft factories dropped from 60.3% in 2001 to 40.5% in 2002 because the turnover contributed by import and export corporations has been expanding since 2001 and the growth rate of turnover contributed by import and export corporations is greater than those by transmission shaft factories.

#### *Domestic customers other than import and export corporations*

The Company's sales department is responsible for all sales and marketing activities and providing after-sales services to domestic customers other than import and export corporations in the PRC.

For each of the two years ended 31st December, 2002 and the nine months ended 30th September, 2003, domestic sales (excluding sales to import and export corporations) accounted for approximately 81.2%, 51.3% and 48.0% of the Company's total turnover respectively. Due to the dedicated efforts of the Company's sales and marketing staff in promoting its products, the Company has built up a customer base in the PRC covering 19 provinces and autonomous regions. The following table sets out the breakdown of the Company's sales (excluding sales to import and export corporations) by six regions in the PRC:

Region	Notes	Year ended 31st December,				Nine months ended	
		2001		2002		30th September, 2003	
		RMB'000	%	RMB'000	%	RMB'000	%
Southwest China	1	1,988	11.5	4,475	20.6	4,514	19.7
East China	2	3,602	20.8	5,437	25.1	7,992	35.0
North China	3	5,211	30.0	3,551	16.3	5,222	22.8
Central China	4	—	—	3,121	14.4	1,351	5.9
Northeast China	5	4,101	23.7	2,856	13.1	1,181	5.2
South China	6	2,423	14.0	2,288	10.5	2,603	11.4
Total		17,325	100.00	21,728	100.0	22,863	100.0



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*Notes:*

1. Southwestern part of China covers Chongqing, Sichuan, Yunnan, Guizhou and Tibet.
2. Eastern part of China covers Shanghai, Jiangsu and Zhejiang.
3. Northern part of China covers Beijing, Tianjin, Hebei, Henan and Inner Mongolia.
4. Central part of China covers Jiangxi, Hubei, and Hunan.
5. Northeastern part of China covers Liaoning, Jilin and Heilongjiang.
6. Southern part of China covers Guangdong and Guangxi.

*Domestic customers — import and export corporations*

The general manager of the Company and an executive Director, Mr. Fei Guo Yang, is responsible for all sales related to import and export corporations.

The Company sells its products to import and export corporations in the PRC. As confirmed by such import and export corporations, the Company's products are then exported to countries and regions transversing the US, Japan, Italy, Germany, the Netherlands, South Africa, Canada, Brazil, South Korea, Thailand, India, Iran, Indonesia, Malaysia, Venezuela and Panama. However, the Company has no direct contact with the ultimate overseas customers in respect of sales to such import and export corporations. For each of the two years ended 31st December, 2002 and the nine months ended 30th September, 2003, sales to import and export corporations amounted to approximately RMB4.0 million, RMB20.6 million and RMB23.0 million respectively, representing approximately 18.8%, 48.7% and 48.2% of the Company's total turnover respectively.

*Overseas customers*

The general manager of the Company and an executive Director, Mr. Fei Guo Yang, is responsible for the direct supervision of the Company's overseas distribution.

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 nine months ended 30th September, 2003, direct sales to overseas customers represented approximately 3.8% of the Company's total turnover. The Company achieved approximately RMB1,817,000 through direct exports to overseas customers in the following areas:

<b>Area exported</b>	<b>For the nine months ended 30th September, 2003</b>
	<b>Sales RMB'000</b>
United Kingdom	648
Taiwan	351
South Korea	338
India	232
Iran	96
Singapore	94
Israel	58
	<hr/>
	1,817
	<hr/> <hr/>

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### CREDIT POLICY

The Company adopts a uniform pricing policy for all of its products. For the two years ended 31st December, 2002 and the nine months ended 30th September, 2003, all of the products sold by the Company were settled in either RMB or US\$ by, among others, bank cheques or direct remittances.

As the Company maintains a stringent credit control policy, it has not experienced any material bad debts during each of the two years ended 31st December, 2002 and the nine months ended 30th September, 2003. The Company's policy on the provision for bad and doubtful debts is set out in the following table:

<b>Outstanding balance</b>	<b>Provision to be made</b>
0 to 90 days	0%
91 to 180 days	10%
181 to 365 days	20%
1 to 2 years	50%
Over 2 years	100%

For each of the two years ended 31st December, 2002 and the nine months ended 30th September, 2003, the provisions for bad and doubtful debts made by the Company were approximately RMB13,000, RMB2,033,000 and RMB271,000 respectively. The significant increase for the provision for bad and doubtful debts for the year ended 31st December, 2002 was mainly due to the fact that the Company had made further provision of RMB700,000 in addition to the provision generally made for accounts receivable at the balance sheet date aged less than two years for prudent purposes. The payment terms and methods of the customers of the Company can be summarised as follows:

<b>Customers</b>	<b>Payment terms</b>	<b>Payment methods</b>	<b>Currency</b>
Domestic customers other than import and export corporations	Ranging from 45 days to 120 days after delivery	Cash deposits, cheques, bank drafts or bank transfers	RMB
Import and export corporations	Ranging from 30 days to 120 days after delivery	Cash deposits, cheques, bank drafts or bank transfers	RMB
Overseas customers	In advance	Telegraphic transfer	US\$

### INTELLECTUAL PROPERTY RIGHTS

The registered trademarks and patents of the Company are set out in the sub-section headed "Intellectual property rights" of the section headed "Further information about the Company" in Appendix VI "Statutory and General Information" to this prospectus.

### LICENCES, PERMITS AND REGISTRATIONS

The legal advisers to the Company as to PRC law have advised that the principal business of the Company is not subject to any specific laws and regulations other than those laws generally applicable to all corporations doing business in the PRC. Besides, apart from the business licence and the certificate of approval for enterprises with foreign trade rights in the PRC (中國進出口企業資格證書), which the

Company has duly obtained, the Company is not required to obtain any other specific licence, permit or registration to carry out its business. As such, the Directors confirmed that the Company has obtained all the requisite licences, permits and registrations for carrying on its current business.

### PRINCIPAL STRENGTHS

The Directors believe that the principal strengths of the Company are as follows:

— **Market leader of the industry**

According to the statistics released by the Transmission Shaft Committee of CAAM, it was estimated that in 2002, the Company ranked second in term of sales volume (including sales volume of finished and semi-finished products, universal joints produced and used in-house by automobile repair factories and automobile manufacturers in the PRC but excluding those imported from overseas) among eight manufacturers of universal joints in the PRC which the Transmission Shaft Committee of CAAM studied, and such eight manufacturers in aggregate accounted for approximately 98% of the total sales volume of universal joints (including sales volume of finished and semi-finished products, universal joints produced and used in-house by the automobile repair factories and automobile manufacturers in the PRC but excluding those imported from overseas) in the PRC in 2002.

— **Experienced management team**

The Company has an experienced management team which possesses practical experiences and technical expertise. The management team has extensive practical experiences in the industry of universal joints for automobiles. The Directors believe that the knowledge and expertise of the Company's management team will enable the Company to compete for a larger share in the PRC market for universal joints and provide it with a platform to access overseas markets.

— **Strong emphasis on quality control**

The Company's quality management system was accredited by International Standards Certifications Pty. Ltd. and registered as complying with the requirements of ISO9002:94/QS-9000:1998 in August 2001. The accreditation and registration cover the manufacture, sale and service of cruciform type universal joints for the automobile industry.

— **Extensive customer base in the PRC**

The Company has built up an extensive customer base in the PRC, covering 19 provinces and autonomous regions. The Directors believe that such customer base serves as a solid foundation for the Company to increase its market share in the PRC.

— **Enhanced brand image and market recognition**

The quality services provided by the Company encompass (1) direct delivery of products to places designated by customers; (2) timely responses to customers' enquiries and complaints; and (3) regular visits to customers to understand their demands and expectations. Such series of measures designed for customers have enhanced the market image of the Company's products under the "Zhanwang" brand name.

**CONNECTED TRANSACTIONS**

During each of the two years ended 31st December, 2002 and the nine months ended 30th September, 2003, the Company conducted certain transactions which, for the purpose for the GEM Listing Rules, shall constitute connected transactions of the Company upon its listing on GEM. Details of these transactions are set out below and in the sub-section headed “Related party transactions” in Appendix I — Accountants’ Report to this prospectus.

**Connected transactions**

As constrained by the conditions of electricity supply facilities and the cost for installing a separate and independent electricity supply facility, the electricity deployed by the Company for its production operation has been supplied indirectly by Keqiao Power Supply Division of the Shaoxing Power Supply Bureau (紹興電力局柯橋供電分局), a state-owned enterprise, through Zhejiang Prospect New Synthetic Fibre Company Limited (浙江展望新合纖有限公司). Zhejiang Prospect New Synthetic Fibre Company Limited (浙江展望新合纖有限公司) is principally engaged in the manufacture and sale of synthetic silk. As advised by the Directors, Keqiao Power Supply Division of the Shaoxing Power Supply Bureau (紹興電力局柯橋供電分局) is independent from the Directors, the Initial Management Shareholders and the Promoters or their respective associates.

Shaoxing Prospect had electricity arrangements with Shaoxing Group, Zhejiang Zhanwang Printing and Dyeing Company Limited (浙江展望印染有限公司) and Zhejiang Prospect New Synthetic Fibre Company Limited (浙江展望新合纖有限公司) respectively before 1st July, 2002. The calculation of electricity tariff was based on the meter reading of the separately installed meter of Shaoxing Prospect. Pricing of the electricity tariff was determined with reference to the uniform price payable by Shaoxing Group, Zhejiang Zhanwang Printing and Dyeing Company Limited (浙江展望印染有限公司), 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 electricity arrangements with Shaoxing Group was terminated in around May, 2001.

On 1st July, 2002, the Company and Zhejiang Zhanwang Printing and Dyeing Company Limited (浙江展望印染有限公司) entered into an electricity tariff agency agreement pursuant to which Zhejiang Zhanwang Printing and Dyeing Company Limited (浙江展望印染有限公司) agreed to provide electricity to the Company on terms similar to that of the electricity tariff agency agreement entered into between the Company and Zhejiang Prospect New Synthetic Fibre Company Limited (浙江展望新合纖有限公司) as detailed below. However, the agreement entered into between the Company and Zhejiang Zhanwang Printing and Dyeing Company Limited (浙江展望印染有限公司) was terminated pursuant to a termination agreement dated 25th May, 2003 entered into between the same parties as the Company had sufficient electricity power supply by virtue of the electricity tariff agency agreement with Zhejiang Prospect New Synthetic Fibre Company Limited (浙江展望新合纖有限公司). The expenses paid by the Company to Zhejiang Zhanwang Printing and Dyeing Company Limited (浙江展望印染有限公司) in accordance with such agreement for the period from the effective date of such agreement to 31st December, 2002 and for the period ended 25th May, 2003 were RMB570,034.28 and RMB196,334.71 respectively. Shaoxing Group holds approximately 70% of the equity interests of Zhejiang Zhanwang Printing and Dyeing Company Limited (浙江展望印染有限公司), which is principally engaged in the manufacture and sale of synthetic fibre, dyeing business and garment.

On 1st July, 2002, Zhejiang Prospect New Synthetic Fibre Company Limited (浙江展望新合纖有限公司) and the Company entered into an electricity tariff agency agreement whereby 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). 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 period from the effective date of the above agreement to 31st December, 2002 and for the nine months ended 30th September, 2003 were RMB930,699.82 and RMB1,334,926.91 respectively.

The legal advisers to the Company as to PRC law confirmed that the aforesaid electricity arrangements are legal, valid and enforceable.

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, an executive Director and an Initial Management Shareholder, holds 70.48% of the equity interests of Shaoxing Group 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). The Promoters and Initial Management Shareholders, other than Mr. Tang Li Min, also have interests in Shaoxing Group, details of which are set out in the paragraph headed "Relationship between Shaoxing Group and the Company" of this section. Mr. Tang Cheng Fang and Mr. Hong Guo Ding, two of the Directors, Promoters and Initial Management Shareholders, and Mr. Fung Yun Lin, one of the Supervisors, Promoters and Initial Management Shareholders 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. Pursuant to the agreement, the fee for the electricity tariff agency service is determined with reference to the uniform rate reached between Zhejiang Prospect New Synthetic Fibre Company Limited (浙江展望新合纖有限公司) and 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.

As the annual value of the transaction is expected to exceed HK\$1 million but less than HK\$10 million, the transaction is subject to the announcement and shareholders' approval requirements under the GEM Listing Rules. As such, the Company applied to and was granted a waiver, covering the period from the Listing Date to 30th June, 2005, from strict compliance with the GEM Listing Rules. As a condition to the waiver from strict compliance with relevant provision under the GEM Listing Rules, the aggregate value of amount payable by the Company under the agreement shall not exceed the annual limit of RMB3,600,000 for the year ending 31st December, 2004 and shall not exceed the limit of RMB2,150,000 for the six months ending 30th June, 2005. The figures are set by reference to the previous records of electricity usage of the Company and the anticipated increase in the production scale of the existing production premises. Details of the waiver are set out under the section headed "Waiver from strict compliance with the GEM Listing Rules and the Companies Ordinance" to this prospectus. Should the transaction continue after 30th June, 2005, the Company will have to re-comply strictly with the GEM Listing Rules.

Should the aggregate value to be paid by the Company exceed the relevant limit, the Company will have to comply with the provisions of Chapter 20 of the GEM Listing Rules, unless a waiver from strict compliance thereof could be obtained.

## Relationship between Shaoxing Group and the Company

Shaoxing Group was registered as a collectively owned enterprise in 1994 with a registered capital of RMB31,680,000, which was contributed by Mr. Tang Li Min, Mr. Hong Guo Ding, Mr. Tang Cheng Fang, Mr. Fei Guo Yang and Mr. Feng Yun Lin, who were five of the six Promoters, through an enterprise beneficially owned by them, namely Shaoxing Prospect Industrial Company Limited (紹興縣展望實業有限公司) (formerly known as Shaoxing Prospect Industrial Joint Stock Company Limited (紹興縣展望實業股份有限公司)). Zhanwang Village Committee held the entire registered capital of Shaoxing Group on behalf of these five Promoters before Shaoxing Group underwent a corporate reorganization to revert its corporate form from a collectively owned enterprise to a privately owned enterprise in June 2002 as detailed below. As advised by the Directors and the legal advisers to the Company as to PRC law, at the time of the establishment of Shaoxing Group, it was a common practice in the PRC for privately owned enterprises established as collectively owned enterprises so as to, among other things, strengthen the confidence of their business partners and customers and build up their reputation. Against this background, Shaoxing Group was established as a collectively owned enterprise. In order to delineate clearly the property rights and ownership of Shaoxing Group and pursuant to the relevant laws and regulations in the PRC, Shaoxing Group carried out a demarcation process and reverted its corporate form from a collectively owned enterprise to a privately owned enterprise in June 2002. The legal advisers to the Company as to PRC law confirmed that there was no law in the PRC which would restrict or prohibit the above arrangement and the arrangement was therefore legally valid under the PRC law.

Shaoxing Group underwent a corporate reorganisation to revert its corporate form from a collectively owned enterprise to a privately owned enterprise in 2002 through the following procedure:

1. On 16th June, 2002, Shaoxing Group applied to Zhanwang Village Committee to revert its corporate form from a collectively owned enterprise to a privately owned enterprise and its beneficial owners should be Mr. Tang Li Min, Mr. Hong Guo Ding, Mr. Tang Cheng Fang, Mr. Fei Guo Yang and Mr. Feng Yun Lin. According to a valuation report issued by Shaoxing Zhongxing Asset Evaluation Limited Company (紹興中興資產評估有限公司), which was licensed by the Ministry of Finance of the PRC (中華人民共和國財政部) for assets valuation, the net asset value of Shaoxing Group as at 11th June, 2002 was approximately RMB1 million. Pursuant to a property right demarcation agreement dated 16th June, 2002 entered into between Zhanwang Village Committee, Shaoxing Group, Mr. Tang Li Min, Mr. Hong Guo Ding, Mr. Tang Cheng Fang, Mr. Fei Guo Yang and Mr. Feng Yun Lin, it was confirmed that the interest held by Mr. Tang Li Min, Mr. Hong Guo Ding, Mr. Tang Cheng Fang, Mr. Fei Guo Yang and Mr. Feng Yun Lin in Shaoxing Group were RMB704,800, RMB108,400, RMB99,700, RMB36,800 and RMB50,300 respectively.
2. Upon receiving the request, Zhanwang Village Committee applied to the People's Government of Yangxunqiao Town, Shaoxing County (紹興縣楊汛橋鎮人民政府) regarding the same subject matter on 16th June, 2002.
3. Subsequently, on 16th June, 2002, a letter was issued by the People's Government of Yangxunqiao Town, Shaoxing County (紹興縣楊汛橋鎮人民政府) to the Office of Commission of Economic Restructuring of Shaoxing County (紹興縣經濟體制改革委員會辦公室) and confirmed after investigation that although Shaoxing Group had been registered as a collectively owned enterprise, its capital was contributed by Mr. Tang Li Min, Mr. Hong Guo Ding, Mr. Tang Cheng Fang, Mr. Fei Guo Yang and Mr. Feng Yun Lin and its corporate form was confirmed as a privately owned limited liability company.



- On 18th June, 2002, the Office of the Commission of Economic Restructuring of Shaoxing County (紹興縣經濟體制改革委員會辦公室) issued an approval letter to confirm that Mr. Tang Li Min, Mr. Hong Guo Ding, Mr. Tang Cheng Fang, Mr. Fei Guo Yang and Mr. Feng Yun Lin were the beneficial owners of Shaoxing Group since the date of its establishment. In addition, Shaoxing Group was approved to revert its corporate form to a privately owned enterprise from the date of its establishment.

The legal advisers to the Company as to PRC law have confirmed that the approval from the Office of the Commission of Economic Restructuring of Shaoxing County (紹興縣經濟體制改革委員會辦公室) was legal and valid under PRC law and the Office of the Commission of Economic Restructuring of Shaoxing County (紹興縣經濟體制改革委員會辦公室) is the appropriate government authority to confirm that Mr. Tang Li Min, Mr. Hong Guo Ding, Mr. Tang Cheng Fang, Mr. Fei Guo Yang and Mr. Feng Yun Lin were the beneficial owners of Shaoxing Group, and no approval from other government authority is required for the aforesaid corporate reorganization.

Upon completion of the conversion process as detailed above, Shaoxing Group reverted to a limited liability company owned by Mr. Tang Li Min, Mr. Hong Guo Ding, Mr. Tang Cheng Fang, Mr. Fei Guo Yang and Mr. Feng Yun Lin, five of the six Promoters of the Company and their beneficial interests in Shaoxing Group were 70.48%, 10.84%, 9.97%, 3.68% and 5.03% respectively. Among the Initial Management Shareholders, Directors and Supervisors, Mr. Tang Li Min is the chairman of the board of directors of Shaoxing Group, Mr. Hong Guo Ding is a director and the general manager of Shaoxing Group, Mr. Tang Cheng Fang, Mr. Fei Guo Yang, Mr. Feng Yun Lin and Mr. Li Zhang Rui are directors of Shaoxing Group and Mr. Hong Chun Qiang is a supervisor of Shaoxing Group.

### COMPETING INTERESTS

Shaoxing Group is principally engaged in the manufacture and sale of garment, textile, construction materials, agricultural machinery and dyestuff through its subsidiaries or associated companies. The Directors confirmed that Shaoxing Group and its associated companies (of which Shaoxing Group has an equity interest of 30% or above) have not been engaged in any business which is similar to the Company, and Shaoxing Group and its associated companies (of which Shaoxing Group has an equity interest of 30% or above) have undertaken not to compete with the business of the Company. The Directors consider that Shaoxing Group and its associated companies do not and will not compete with the business of the Company, and that the Directors' participation in Shaoxing Group will not pose a conflict of interest with their respective roles in the Company.

The Directors further confirm that none of the Directors and Initial Management Shareholders has any interest in any business which competes or may compete with the business of the Company.

The Initial Management Shareholders have undertaken that, upon listing of the H Shares on GEM, they will not, and will procure their respective associates not to, directly or indirectly participate in, hold any right or interest or otherwise be involved in any business which may be in competition with the business as may from time to time be carried out by the Company and its subsidiaries (as may be incorporated from time to time).

### COMPETITION

According to the statistics released by the Transmission Shaft Committee of CAAM, it was estimated that, in 2002, there were about 15 universal joint manufacturers in the PRC and the total sales volume of which amounted to approximately 31.7 million sets. In addition, sales volumes of the eight manufacturers, which are members of the Transmission Shaft Committee of CAAM, was approximately 31.04 million sets,

representing approximately 98% of the total sales volumes of universal joints in the PRC. Furthermore, the Company ranked second in term of sales volume among the above eight manufacturers of universal joints in the PRC as per the study of the Transmission Shaft Committee of CAAM. The top three manufacturers accounted for approximately 79.8%, 10.9% and 5.0% of the total market shares contributed by the eight manufacturers respectively.

The largest manufacturer of universal joints has been in the industry for more than 30 years. In term of pricing, the Directors estimated that the average unit product price of the Company and the largest manufacturer are approximately RMB12.6 and RMB20.5 respectively. The Directors consider that the price difference arises because the Company produces a larger proportion of smaller-sized universal joints than the largest manufacturer. In addition, the largest manufacturer produces a wider range of products than the Company. Despite the relatively short operation period in the industry, the Company has made great effort to advance to the second largest manufacturer in the industry. Although the gap in terms of market strengths and financial position between the largest manufacturer and the Company are quite large, the Directors consider that the Company has managed to build up an established operation and position itself as a strong competitor to the largest manufacturer.

*Note:* The sales volume of universal joints in the PRC as composed by the Transmission Shaft Committee of CAAM included sales volume of finished and semi-finished products, universal joints produced and used in-house by the automobile repair factories and automobile manufacturers in the PRC but excluded those imported from overseas.



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## STATEMENT OF ACTIVE BUSINESS PURSUIT

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The following is a statement of active business pursuit of the Company for each of the two years ended 31st December, 2002 and for the period from 1st January, 2003 to the Latest Practicable Date:

### FOR THE YEAR ENDED 31ST DECEMBER, 2001

#### New products

For the year ended 31st December, 2001, the Company completed the development of the micro series of products and punch steel bearings.

#### Research and development

The Company completed research and development, sample production, small batch production and batch deliveries of micro series of products and punch steel bearings during the year, which effectively expanded the Company's product range and provided strong support to the market expansion of the Company.

#### Production

The Company estimated that its annual production capacity and the actual production volume of universal joints for the year ended 31st December, 2001 were approximately 1.5 million sets and approximately 1.3 million sets respectively.

#### Sales and marketing

The principal clients of the Company's products in the PRC were domestic transmission shaft factories. As at 31st December, 2001, the Company had a sale force of 9 persons. The Company's products are also sold to import and export corporations in the PRC. As confirmed by such import and export corporations, the Company's products are then exported to countries and regions, transversing the US, Japan, Italy, Germany, the Netherlands, South Africa, Canada, Brazil, South Korea, Thailand, India, Indonesia, Malaysia, Venezuela and Panama. However, the Company has no direct contact with the ultimate overseas customers in respect of sales to such import and export corporations.

The sales of the two principal product categories which are finished products of the Company during this period were as follows:

<b>Product categories</b>	<b>Volume</b> <i>(units)</i>	<b>Sales</b> <i>(RMB million)</i>
Cardan universal joints	1,170,354	20.5
Differential spiders	41,291	0.8

The marketing activities of the Company during the year included the participation in the 49th and 50th Nationwide Automotive Component Trade Fair (第49屆及第50屆全國汽車配件交易會) in the PRC.

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## STATEMENT OF ACTIVE BUSINESS PURSUIT

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### Human resources

As at 31st December, 2001, the Company had a total of 268 staff, which were all located in the PRC and were engaged in the following operations of the Company:

	<b>Number of staff</b>
Production	208
Sales and marketing	9
Technology and quality control	36
Research and development	3
Finance, administration and human resources	<u>12</u>
Total	<u><u>268</u></u>

### Income and profit

During this reporting period, the Company recorded turnover and profit of approximately RMB21.34 million and RMB1.15 million respectively, details of which are set out under the section headed “Financial Information” to this prospectus.

### FOR THE YEAR ENDED 31ST DECEMBER, 2002

#### New products

For the year ended 31st December, 2002, the Company completed the development of wing bearing universal joints and conducted small batch production.

#### Research and development

- Improved capability of key production process, such as assembly, installation and testing of heat treatment furnace and 630 tons forging production lines to enhance reprocessing quality of products and expand reprocessing scope of part of the production processes. Micro, medium and heavy-duty series of universal joints with more models and specifications could be manufactured.
- Researched and developed bottleneck craftsmanship, such as renovation of lathing and grinding equipment, increased hydraulic gas driven and automatic loading and unloading devices to upgrade the automation level of equipment.

#### Production

The Company estimated that its annual production capacity and the actual production volume of universal joints for the year ended 31st December, 2002 were approximately 3.5 million sets and approximately 3.3 million sets respectively.

#### Sales and marketing

The principal clients of the Company’s products in the PRC were transmission shaft factories as well as import and export corporations.

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## STATEMENT OF ACTIVE BUSINESS PURSUIT

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The sales of the three principal product categories which are finished products of the Company during this period were as follows:

<b>Product categories</b>	<b>Volume</b> <i>(units)</i>	<b>Sales</b> <i>(RMB million)</i>
Cardan universal joints	3,018,355	41.0
Wing bearing universal joints	10,560	0.5
Differential spiders	107,569	0.8

The marketing activities of the Company during the year included the participation in the 51st and 52nd Nationwide Automotive Component Trade Fair (第51屆及第52屆全國汽車配件交易會) in the PRC.

### **Human resources**

As at 31st December, 2002, the Company had a total of 382 staff, which were all located in the PRC and were engaged in the following operations of the Company:

	<b>Number of staff</b>
Production	318
Sales and marketing	9
Technology and quality control	41
Research and development	3
Finance, administration and human resources	<u>11</u>
Total	<u><u>382</u></u>

### **Income and profit**

During this reporting period, the Company recorded turnover and profit of approximately RMB42.36 million and RMB3.14 million respectively, details of which are set out under the section headed “Financial Information” to this prospectus.

## **FOR THE PERIOD FROM 1ST JANUARY, 2003 TO THE LATEST PRACTICABLE DATE**

### **New products**

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

### **Research and development**

During this period, the Company continued to explore the possibilities of increasing grinding production lines for heavy-duty universal joints, resolving bottleneck production capacity of heavy-duty universal joints in order to expand the scope of products of the Company.

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## STATEMENT OF ACTIVE BUSINESS PURSUIT

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### Production

The Company estimated that its production capacity and the actual production volume of universal joints for the nine months ended 30th September, 2003 were approximately 4.5 million sets and approximately 3.36 million sets respectively.

### Sales and marketing

The principal clients of the Company's products in the PRC were transmission shaft factories as well as import and export corporations. In addition, 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.

The sales of the three principal product categories which are finished products of the Company during this period were as follows:

<b>Product categories</b>	<b>Volume</b> <i>(units)</i>	<b>Sales</b> <i>(RMB million)</i>
Cardan universal joints	3,414,086	46.2
Wing bearing universal joints	12,538	1.0
Differential spiders	77,549	0.5

The marketing activities of the Company during the period included the participation in the 53rd Nationwide Automotive Component Trade Fair (第53屆全國汽車配件交易會) and the 10th Shanghai International Automotive Industry Exhibition (第十屆上海國際汽車工業展覽會) in the PRC.

### Human resources

As at the Latest Practicable Date, the Company had a total of 416 staff, which are all located in the PRC and were engaged in the following operations of the Company:

	<b>Number of staff</b>
Production	347
Sales and marketing	9
Technology and quality control	41
Research and development	3
Finance, administration and human resources	<u>16</u>
Total	<u><u>416</u></u>

### Income and profit

For the nine months ended 30th September, 2003, the Company recorded turnover and profit of approximately RMB47.64 million and RMB6.85 million respectively, details of which are set out under the section headed "Financial Information" to this prospectus.

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# STATEMENT OF BUSINESS OBJECTIVES

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## **BUSINESS OBJECTIVES AND STRATEGIES**

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 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. In February 2004, the Company will start to implement a technical renovation project for the universal joint production lines, for which approximately RMB20 million (equivalent to approximately HK\$18.69 million) is expected to be required for completion. In addition, the Company intends to renovate its bottleneck craftsmanship to further expand its production capacity.

### **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. The Company intends to recruit more experienced research and development personnel and more 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 overseas. 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 expand and establish its sales networks in the central and southwestern 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 advertisement, promotional campaigns and participating in automobile exhibitions to enhance the publicity of the Company.

For the period from the Latest Practicable Date to 31st December, 2006, it is intended that approximately HK\$1 million out of the net proceeds from the Placing will be used for expanding sales and distribution networks in the PRC such as Wuhan in Hubei Province and Chengdu in Sichuan Province. It is also intended that approximately HK\$1 million out of the net proceeds from the Placing will be used in advertisement, promotional campaigns and participation in automobile exhibitions.

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## STATEMENT OF BUSINESS OBJECTIVES

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In addition, the Company will actively procure business with internationally renowned automobile manufacturers in order to become a player of the global market for the procurement of automotive parts and components and enhance the market competitiveness 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, 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 increase the market competitiveness of its products.

## **BASES AND ASSUMPTIONS**

The above business objectives and strategies of the Company are formulated on the following bases and assumptions:

- There will be no material changes in existing laws (whether in Hong Kong, the PRC or any other regions of the world), policies or businesses relating to the Company or legal treatments, or political, economic or market conditions in areas where the Company has operations;
- The risk factors as set out under the section headed "Risk Factors" to this prospectus will not materialise;
- There will be no unforeseen conditions or events during the Forward Looking Period with significant adverse effects on achieving the business objectives and strategies of the Company;
- There will be no material changes in rates of inflation and deflation, interest and currency exchanges since the Latest Practicable Date;
- There will be no material changes in the tax bases and tax rates applicable to the Company;
- There will be no changes in the funding required for the business strategies of the latest periods described herein with those presently estimated by the management of the Company;
- The Company will not encounter any significant difficulty in the research and development of any of its new products;
- The Company will be able to recruit and retain capable personnel; and
- There will be no natural, political or other disasters that will seriously disrupt the Company's businesses or operations, or result in substantial loss of, or damage or destruction to, the Company's assets or facilities.

# STATEMENT OF BUSINESS OBJECTIVES

## IMPLEMENTATION OF BUSINESS PLAN

The business plan to be implemented by the Company during the period from the Latest Practicable Date to 31st December, 2006 is set out as follows:

### Business plan for the period from the Latest Practicable Date to 30th June, 2004

Expansion of production capacity	Research and development	Expansion of the PRC and overseas markets	Human resources
<ul style="list-style-type: none"> <li>— Renovate the bottleneck craftsmanship of the Company to further expand the existing production capability (approximately HK\$0.5 million will be required which is expected to be fully funded by the internal resources of the Company)</li> <li>— Complete construction of factories (approximately HK\$3.0 million will be required which is expected to be fully funded by the listing proceeds)</li> <li>— Purchase of equipment for the technical renovation project, details of which is set out under the section headed “Reasons for the Placing and use of proceeds” to this prospectus (approximately HK\$4 million will be required which is expected to be fully funded by the listing proceeds)</li> </ul>	<ul style="list-style-type: none"> <li>— Purchase computers and product development software to diversify and refine the means of product development (approximately HK\$0.05 million will be required which is expected to be fully funded by the listing proceeds)</li> <li>— Purchase performance testing devices and trial devices in order to improve product examination standard (approximately HK\$0.60 million will be required, of which approximately HK\$0.2 million is expected to be funded by the listing proceeds and approximately HK\$0.4 million to be funded by internal resources of the Company)</li> <li>— enter into cooperative arrangement with Automobile Motor Parts and Components Quality Testing Centre of Zhejiang Province* (浙江省汽車摩托車零部件質量檢測中心) and commence construction of a testing centre (approximately HK\$0.1 million will be required which is expected to be fully funded by the listing proceeds)</li> </ul>	<ul style="list-style-type: none"> <li>— Set up sales outlets in Wuhan and Chengdu in the PRC (approximately HK\$0.2 million will be required which is expected to be fully funded by the listing proceeds)</li> <li>— Participate in exhibitions of automobiles and related parts and components (approximately HK\$0.1 million will be required which is expected to be fully funded by the listing proceeds)</li> <li>— Promote the corporate image of the Company by means of advertisement and other promotional campaigns (approximately HK\$0.1 million will be required which is expected to be fully funded by the listing proceeds)</li> </ul>	<ul style="list-style-type: none"> <li>— Recruit approximately 2 to 3 technical experts for research and development; 1 person for technology and quality control; 2 persons for sales and marketing; 15 persons for production; 6 persons for administration (approximately HK\$0.05 million will be required which is expected to be funded by the listing proceeds)</li> <li>— Provide training to staff responsible for the renovation project (approximately HK\$0.2 million will be required which is fully funded by internal resources of the Company)</li> <li>— Provide training to existing staff (approximately HK\$0.1 million will be required which is fully funded by internal resources of the Company)</li> </ul>
<p>LP: HK\$7 million IR: HK\$0.5 million</p>	<p>LP: HK\$0.35 million IR: HK\$0.4 million</p>	<p>LP: HK\$0.4 million IR: —</p>	<p>LP: HK\$0.05 million IR: HK\$0.3 million</p>

*Notes:*

LP: To be funded by listing proceeds from the Placing

IR: To be funded by internal resources of the Company

\* for identification purpose only

# STATEMENT OF BUSINESS OBJECTIVES

## Business plan for the six months ending 31st December, 2004

Expansion of production capacity	Research and development	Expansion of the PRC and overseas markets	Human resources
<ul style="list-style-type: none"> <li>— Complete construction of factories (approximately HK\$1.0 million will be required which is expected to be fully funded by the listing proceeds)</li> <li>— Procure, install and test production equipment and gradually commence trial production for the technical renovation project (approximately HK\$0.8 million will be required which 0.63 million to be funded by listing proceeds and 0.17 million to be funded by the internal resources of the Company)</li> <li>— Purchase of equipment for the technical renovation project, details of which is set out under section headed “Reasons for the Placing and use of proceeds” to this prospectus (approximately HK\$9.69 million will be required which is expected to be fully funded by the listing proceeds)</li> </ul>	<ul style="list-style-type: none"> <li>— Continue to purchase computers and product development software, and further refine the means of product development (approximately HK\$0.05 million will be required which is expected to be fully funded by the listing proceeds)</li> <li>— Purchase trial devices (approximately HK\$0.05 million will be required which is expected to be fully funded by the listing proceeds)</li> <li>— Commence construction of a testing centre (approximately HK\$0.05 million will be required which is expected to be fully funded by the listing proceeds)</li> </ul>	<ul style="list-style-type: none"> <li>— Commence feasibility studies in respect of the establishment of offices in other regions of the PRC (approximately HK\$0.2 million will be required which is expected to be fully funded by the listing proceeds)</li> <li>— Participate in exhibitions of automobiles and related parts and components (approximately HK\$0.1 million will be required which is expected to be fully funded by the listing proceeds)</li> <li>— Promote the corporate image of the Company by means of advertisement and other promotional campaigns (approximately HK\$0.1 million will be required which is expected to be fully funded by the listing proceeds)</li> </ul>	<ul style="list-style-type: none"> <li>— Recruit approximately 5 technical experts for research and development; 1 person for technology and quality control; 2 persons for sales and marketing; 15 persons for production; 6 persons for administration (approximately HK\$0.05 million will be required which is expected to be fully funded by the listing proceeds)</li> <li>— Provide training to existing staff (approximately HK\$0.05 million will be required which is expected to be fully funded by internal resources of the Company)</li> </ul>

LP: HK\$11.32 million  
IR: HK\$0.17 million

LP: HK\$0.15 million  
IR: —

LP: HK\$0.4 million  
IR: —

LP: HK\$0.05 million  
IR: HK\$0.05 million

*Note:*

LP: To be funded by listing proceeds from the Placing

IR: To be funded by internal resources of the Company



# STATEMENT OF BUSINESS OBJECTIVES

## Business plan for the six months ending 30th June, 2005

Expansion of production capacity	Research and development	Expansion of the PRC and overseas markets	Human resources
<ul style="list-style-type: none"> <li>— Formally launch the technical renovation project and gradually attain the designed production capacity</li> </ul>	<ul style="list-style-type: none"> <li>— Continue to purchase computers and product development software to diversify the means of product development (approximately HK\$0.05 million will be required which is expected to be fully funded by the listing proceeds)</li> <li>— Purchase testing devices (approximately HK\$0.05 million will be required which is expected to be fully funded by the listing proceeds)</li> <li>— Continue the construction work of the testing centre (approximately HK\$0.05 million will be required which is expected to be fully funded by the internal resources of the Company)</li> <li>— Commence the preparation of the technical research and development centre (approximately HK\$0.05 million will be required which is expected to be fully funded by the internal resources of the Company)</li> </ul>	<ul style="list-style-type: none"> <li>— Set up offices in other regions of the PRC (approximately HK\$0.2 million will be required which is expected to be fully funded by the listing proceeds)</li> <li>— Participate in exhibitions of automobiles and related parts and components (approximately HK\$0.1 million will be required which is expected to be fully funded by the listing proceeds)</li> <li>— Promote the corporate image of the Company by means of advertisement and other promotional campaigns (approximately HK\$0.1 million will be required which is expected to be fully funded by the listing proceeds)</li> </ul>	<ul style="list-style-type: none"> <li>— Recruit approximately 3–4 technical experts for research and development; 10 persons for production and 3–4 persons for administration (approximately HK\$0.05 million will be required which is expected to be fully funded by the listing proceeds)</li> <li>— Provide training to existing staff (approximately HK\$0.05 million will be required which is expected to be fully funded by internal resources of the Company)</li> </ul>

LP: —

IR: —

LP: HK\$0.1 million

IR: HK\$0.1 million

LP: HK\$0.4 million

IR: —

LP: HK\$0.05 million

IR: HK\$0.05 million

*Notes:*

LP: To be funded by listing proceeds from the Placing

IR: To be funded by internal resources of the Company

# STATEMENT OF BUSINESS OBJECTIVES

## Business plan for the six months ending 31st December, 2005

Expansion of production capacity	Research and development	Expansion of the PRC and overseas markets	Human resources
<p>— Stabilisation period for the technical renovation project</p>	<p>— Develop new specifications and types of universal joint products according to market demands (approximately HK\$0.05 million will be required which is expected to be fully funded by the internal resources of the Company)</p> <p>— Continue to purchase computers and product development software to refine the means of product development (approximately HK\$0.05 million will be required which is expected to be fully funded by the listing proceeds)</p> <p>— Purchase testing device (approximately HK\$0.05 million will be required which is expected to be fully funded by the listing proceeds)</p> <p>— Implement the plan for the technical research and development centre and commence construction of the centre (approximately HK\$0.05 million will be required which is expected to be fully funded by the internal resources of the Company)</p>	<p>— Commence feasibility studies in respect of the establishment of overseas offices (approximately HK\$0.2 million will be required which is expected to be fully funded by the listing proceeds)</p> <p>— Participate in exhibitions of automobiles and related parts and components (approximately HK\$0.1 million will be required which is expected to be fully funded by the listing proceeds)</p> <p>— Promote the corporate image of the Company by means of advertisement and other promotional campaigns (approximately HK\$0.1 million will be required which is expected to be fully funded by the listing proceeds)</p>	<p>— Recruit approximately 3 technical experts for research and development; 3 persons for sales and marketing; 1 person for technology and quality control; 10 persons for production; 2 persons for administration and provide training to staff (approximately HK\$0.05 million will be required which is expected to be fully funded by the listing proceeds)</p> <p>— Provide training to existing staff (approximately HK\$0.05 million will be required which is expected to be fully funded by internal resources of the Company)</p>

LP: —  
IR: —

LP: HK\$0.1 million  
IR: HK\$0.1 million

LP: HK\$0.4 million  
IR: —

LP: HK\$0.05 million  
IR: HK\$0.05 million

*Notes:*

LP: To be funded by listing proceeds from the Placing

IR: To be funded by internal resources of the Company

# STATEMENT OF BUSINESS OBJECTIVES

## Business plan for the six months ending 30th June, 2006

Expansion of production capacity/upgrading of its production facilities	Research and development	Expansion of the PRC and overseas markets	Human resources
<ul style="list-style-type: none"> <li>— Commence feasibility studies on the production of other parts and components (approximately HK\$0.05 million will be required which is expected to be fully funded by the internal resources of the Company)</li> </ul>	<ul style="list-style-type: none"> <li>— Develop new specifications and types of universal joint products according to the market demands (approximately HK\$0.05 million will be required which is expected to be fully funded by the internal resources of the Company)</li> <li>— Continue to purchase computers and product development software to refine the means of product development (approximately HK\$0.05 million will be required which is expected to be fully funded by the listing proceeds)</li> </ul>	<ul style="list-style-type: none"> <li>— Set up overseas offices (approximately HK\$0.1 million will be required, of which is expected to be funded by the listing proceeds)</li> <li>— Participate in exhibitions of automobiles and related parts and components (approximately HK\$0.05 million will be required which is expected to be fully funded by the listing proceeds)</li> <li>— Promote the corporate image of the Company by means of advertisement and other promotional campaigns (approximately HK\$0.05 million will be required which is expected to be fully funded by the listing proceeds)</li> </ul>	<ul style="list-style-type: none"> <li>— Recruit approximately 5 technical experts for research and development; 1 person for sales and marketing; 1 person for technology and quality control; 15 persons for production; (approximately HK\$0.05 million will be required which is expected to be fully funded by the listing proceeds)</li> <li>— Provide training to existing staff (approximately HK\$0.05 million will be required which is expected to be fully funded by internal resources of the Company)</li> </ul>
<p>LP: — IR: HK\$0.05 million</p>	<p>LP: HK\$0.05 million IR: HK\$0.05 million</p>	<p>LP: HK\$0.2 million IR: —</p>	<p>LP: HK\$0.05 million IR: HK\$0.05 million</p>

*Notes:*

LP: To be funded by listing proceeds from the Placing

IR: To be funded by internal resources of the Company

# STATEMENT OF BUSINESS OBJECTIVES

## Business plan for the six months ending 31st December, 2006

### Expansion of production capacity/upgrading of its production facilities

— Commence feasibility studies on the production of other components and parts (approximately HK\$0.05 million will be required which is expected to be fully funded by the internal resources of the Company)

LP: —  
IR: HK\$0.05 million

### Research and development

— Develop new specifications and types of universal joint products according to the market demands (approximately HK\$0.05 million will be required which is expected to be fully funded by the internal resources of the Company)

LP: —  
IR: HK\$0.05 million

### Expansion of the PRC and overseas market

— Continue to set up overseas offices (approximately HK\$0.1 million will be required, of which is expected to be funded by the listing proceeds)

— Participate in exhibitions of automobiles and related parts and components (approximately HK\$0.05 million will be required which is expected to be fully funded by the listing proceeds)

— Promote the corporate image of the Company by means of advertisement and other promotional campaigns (approximately HK\$0.05 million will be required which is expected to be fully funded by the listing proceeds)

LP: HK\$0.2 million  
IR: —

### Human resources

— Recruit approximately 5 technical experts for research and development; 1 person for sales and marketing; 1 person for technology and quality control; 15 persons for production (approximately HK\$0.05 million will be required which is expected to be fully funded by internal resources of the Company)

— Provide training to existing staff (approximately HK\$0.05 million will be required which is expected to be fully funded by internal resources of the Company)

LP: —  
IR: HK\$0.1 million

*Note:*

LP: To be funded by listing proceeds from the Placing

IR: To be funded by internal resources of the Company

## REASONS FOR THE PLACING AND USE OF PROCEEDS

### USE OF PROCEEDS

The Directors believe that listing on GEM will enhance the Company's profile and competitive advantage. In addition, the Placing will expand the Company's capital base for future growth and development. The net proceeds of the Placing, after deducting related expenses, are estimated to be approximately HK\$21.51 million based on a Placing Price of HK\$1.33 per H Share, being the lower limit of the stated price range of the Placing Price. The Directors presently intend to use such net proceeds in the following manner:

	<b>From the Latest Practicable Date to 30th June, 2004</b>	<b>Six months ending 31st December, 2004</b>	<b>Six months ending 30th June, 2005</b>	<b>Six months ending 31st December, 2005</b>	<b>Six months ending 30th June, 2006</b>	<b>Six months ending 31st December, 2006</b>	<b>Total</b>
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Technical renovation project for universal joint production lines (note 1)							
— purchase of equipment	4.00	9.69	—	—	—	—	13.69
— construction of factories	3.00	1.00	—	—	—	—	4.00
— installation and testing of equipment	—	0.63	—	—	—	—	0.63
Research and development							
— purchase of computers and product development software	0.05	0.05	0.05	0.05	0.05	—	0.25
— purchase of equipment	0.20	0.05	0.05	0.05	—	—	0.35
— construction of testing centre	0.05	0.05	—	—	—	—	0.10
— cooperative arrangements	0.05	—	—	—	—	—	0.05
Marketing and promotional activities (note 2)	0.20	0.20	0.20	0.20	0.10	0.10	1.00
Staff recruitment and training	0.05	0.05	0.05	0.05	0.05	—	0.25
Expansion of sales and distribution network (note 3)	0.20	0.20	0.20	0.20	0.10	0.10	1.00
General working capital	0.05	0.05	0.05	0.04	—	—	0.19
<b>Total</b>	<b>7.85</b>	<b>11.97</b>	<b>0.60</b>	<b>0.59</b>	<b>0.30</b>	<b>0.20</b>	<b>21.51</b>

*Notes:*

- (1) The completion of the project requires approximately RMB20 million (equivalent to approximately HK\$18.69 million), of which approximately HK\$13.69 million will be required for the purchase of equipment, approximately HK\$0.80 million will be required for the installation and testing of equipment, approximately HK\$4.00 million will be required for the construction of factories and approximately HK\$0.20 million will be used for staff training. Accordingly, approximately HK\$18.32 million from the net proceeds of the Placing will be allocated for the purchase of equipment, construction of factories and part of the installation and testing of equipment, and the shortfall of approximately HK\$0.37 million will be financed by the Company's internally generated resources.

## REASONS FOR THE PLACING AND USE OF PROCEEDS

A list of equipment to be purchased by using the net proceeds of approximately HK\$13.69 million is set out below:

Names of equipment	Amount (HK'000)
1. Clamping devices for cardan universal joints (十字節專用夾具)	850
2. Centerless grinders (無心磨床)	900
3. Cylindrical grinders (外圓磨床)	470
4. End-face grinders (端面磨床)	380
5. Automatic grinders for internal cylinder (內圓自動磨床)	450
6. Verticle axle surface grinders (立軸式平面磨床)	560
7. Automatic grinders for internal plane surfaces (內平自動磨床)	560
8. Heat treatment lines (熱處理線)	3,400
9. Milling Machines (銑床)	280
10. Mechanical tools for cross manufacturing (十字軸製造機械工具)	1,200
11. Production lines for cardan universal joints (萬向節十字軸生產線)	1,200
12. CAD and CAM systems (電腦輔助設計、電腦輔助製造系統)	470
13. Inspection facilities (檢驗設施)	470
	<u>11,190</u>
<b>Buffer</b>	<u>2,500</u>
<b>TOTAL</b>	<u><u>13,690</u></u>

(2) The marketing and promotional activities include, but are not limited to, advertisement, promotional campaigns and participation in automobile exhibitions.

(3) It includes the recruitment of staff, the purchase or lease of office equipment and tools for transportation purpose.

If the Placing Price is set at higher than HK\$1.33 per H Share, being the lower limit of the stated price range of the Placing Price, the net proceeds will be increased accordingly and the amount allocated for the respective intended uses described above will be increased proportionally. Should the Placing Price be set at the upper limit of the stated price range of HK\$1.50 per H Share, the Company will receive additional net proceeds of HK\$3.91 million, all of which will be allocated to the expansion of production capacity (as to HK\$3.36 million to the technical renovation project, HK\$0.5 million to renovate the bottleneck craftsmanship and HK\$0.05 million to commence feasibility studies on the production of other automotive parts and components).

It should be noted that the net proceeds from the Placing (based on the lower limit of the stated price range of the Placing Price of HK\$1.33) will not be sufficient to finance the implementation of the Company's business plans as described in the paragraph headed "Implementation of business plan" under the section headed "Statement of business objectives" to this prospectus. The Directors estimate that, in addition to the net proceeds from the Placing, an aggregate of approximately HK\$2.07 million will be required to finance the Company's business plans as described therein for the period from the Latest Practicable Date to 31st December, 2006. The Directors believe that the net proceeds from the Placing together with internally generated funds of the Company will be sufficient to finance all its planned and/or intended projects as described in the section headed "Statement of business objectives" to this prospectus.

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## REASONS FOR THE PLACING AND USE OF PROCEEDS

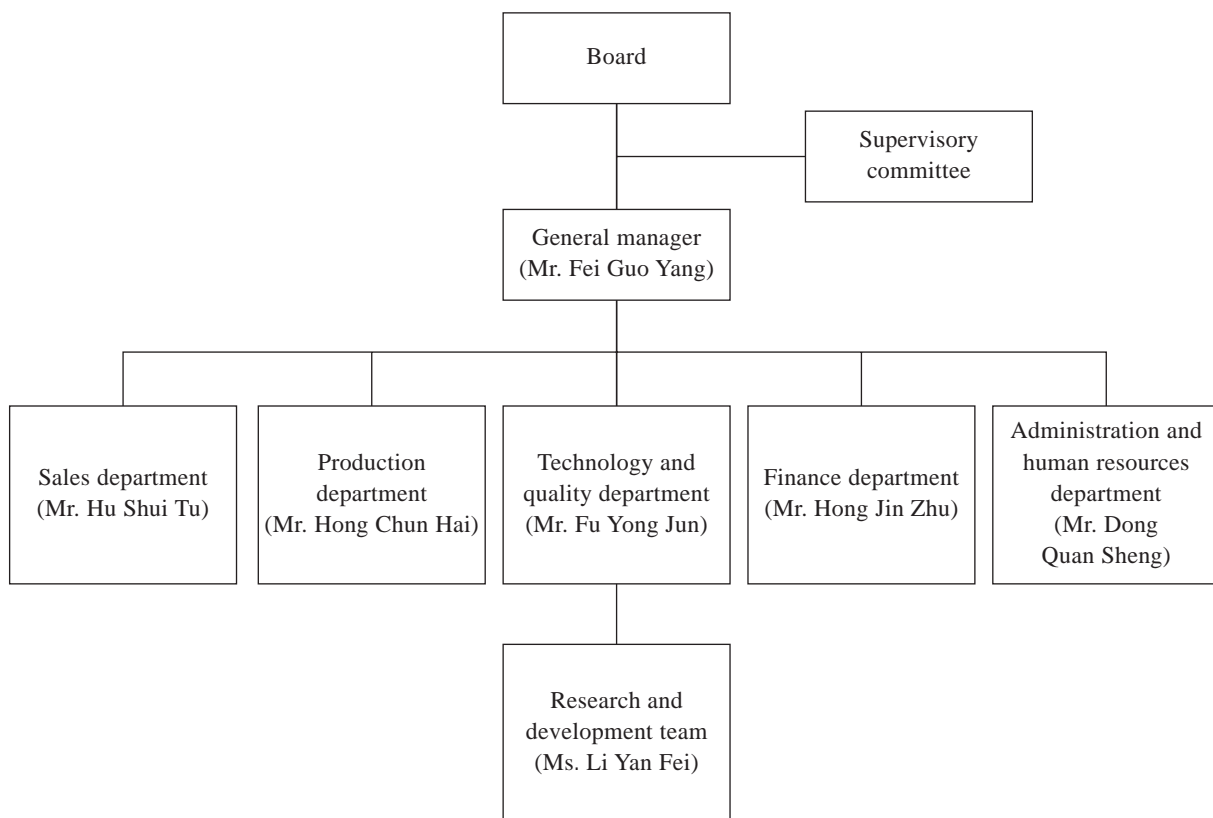
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In the event that any part of the Company's business plans do not materialise or proceed as planned or that the net proceeds from the Placing are not immediately required for the purposes as stated above, the Directors will carefully evaluate the situation and may re-allocate such unused net proceeds of the Placing to other business plans or new projects of the Company or to hold the same as short-term bank deposits so long as the Directors deem it to be in the best interests of the Company and the Shareholders taken as a whole. In the event that there is any material modification to the business plans or the use of proceeds from the Placing as stated above, the Company will issue an announcement on the GEM Website and comply with other relevant requirements of the GEM Listing Rules.

# DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

## MANAGEMENT STRUCTURE

The following chart illustrates the management structure 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) (formerly known as Shaoxing Prospect Industrial Joint Stock Company Limited (紹興縣展望實業股份有限公司)). From July 1994 onwards, he has been the chairman of Shaoxing Group. 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) (formerly known as Shaoxing Prospect Industrial Joint Stock Company Limited (紹興縣展望實業股份有限公司)) and factory head of Shaoxing Huqiao Garment Factory



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## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

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(紹興縣滬橋製衣廠); and from February 1995 to August 1999, he was the deputy general manager of Shaoxing Group. From September 2000 onwards, he has been the general manager of Shaoxing Group. 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 at the time of its establishment in 1995 as a supervisor.

*Mr. Fei Guo Yang* (費國揚先生), 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 Shaoxing Group; and from January 2000 to February 2002, he became the deputy general manager of Shaoxing Prospect. 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 at the time of its establishment in 1995 as a supervisor.

### 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) (formerly known as Shaoxing Prospect Industrial Joint Stock Company Limited (紹興縣展望實業股份有限公司)); and from August 1995 to April 2001, he served as the finance manager of Shaoxing Group. 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 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 Shaoxing Group. 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.

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## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

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*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 Shaoxing Group; from January 1999 to March 2000, he was secretary to chairman of Shaoxing Group; and from April 2000 to February 2003, he was the deputy head of the general office of Shaoxing Group. 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 Shaoxing Group. From September 2000 onwards, he has been the head of the Zhanwang Village Committee. 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 CSRC 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.

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## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

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### 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. He was admitted as a member of the Association of Chartered Certified Accountants in 1992. 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 Shaoxing Group. He joined the Company in March 2002.

*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 Shaoxing Group. 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.

### DIRECTORS' AND SUPERVISORS' REMUNERATION

The aggregate remuneration paid to the Directors and Supervisors for the year ended 31st December 2002 were approximately RMB31,086 and RMB13,825, respectively.

The aggregate remuneration paid to the Directors and Supervisors for the year ended 31st December 2003 were approximately RMB51,003 and RMB24,982, respectively.

The Company entered into a service contract with each of the Directors and Supervisors for a term commencing from 14th January, 2004 and ending on the expiry of the end of the three year period starting from their respective dates of appointment as a Director or Supervisor (as the case may be). According to

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## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

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these service contracts, the Directors and Supervisors will be entitled to receive remuneration for the year ending 31st December, 2004 which is expected to be approximately RMB160,935 and RMB141,870 respectively.

### 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.

### EMPLOYEES

As at the Latest Practicable Date, the Company had a total of 416 staff engaged in the following operations of the Company:

Production	347
Sales and marketing	9
Technology and quality control	41
Research and development	3
Finance, administration and human resources	<u>16</u>
Total	<u><u>416</u></u>

### Relationship with employees

The Directors believe that the Company maintains good working relationship with its employees and has not experienced any significant difficulties in recruiting and retaining employees and the Company's operations have not been disrupted due to labour disputes.

### Retirement benefits scheme

The Company makes contribution to a municipal government retirement scheme for its qualified employees in the PRC. The employer and its employees are each required to make contributions to the scheme at the rates specified in the rules of the scheme. The only obligation of the Company with respect to the retirement scheme is to make the required contributions under the scheme. The contribution payable to local municipal government retirement scheme had been properly accrued for at the end of each of the two years ended 31st December, 2002 and the nine months ended 30th September, 2003.

The retirement benefit scheme contributions arising from the PRC municipal government retirement scheme charged to the income statement represent contributions paid or payable by the Company at rates specified in the rules of the scheme.

The Company shall participate into an unemployment insurance scheme for its qualified employees in accordance with the Regulations on the Unemployment Insurance of Zhejiang Province (浙江省失業保險條例) that has been effective on 1st January, 2004. As such, the Company shall comply with the implementation rules of the local government for the provision of such unemployment insurance as

required under the above regulation. As per the above regulation, the Company shall be responsible to pay such unemployment insurance that is equivalent to 2% of the total annual salaries of all the employees of the Company and is estimated to be around RMB110,000 for the year of 2004.

The respective proportions of contributions to be made by the Company and the employees are confirmed and announced by the People's Government of Shaoxing County (紹興縣人民政府) annually at a fixed amount.

The aggregate contributions to the pension scheme for directors or former directors for each of the two years ended 31st December, 2002 amounted to approximately RMB1,232 and RMB1,232 respectively. The aggregate contributions to the pension scheme for the five highest paid individuals for each of the two years ended 31st December, 2002 amounted to approximately RMB6,160 and RMB3,060 respectively. For each of the two years ended 31st December, 2002, the Company made a total contributions of approximately RMB185,000 and RMB56,000 to the pension scheme respectively.

There was no medical benefit scheme or housing benefit scheme provided by the Company.

### AUDIT COMMITTEE

The Company has established an audit committee in compliance with Rules 5.23, 5.24 and 5.25 of the GEM Listing Rules. The primary duties of the audit committee are to review the annual reports and accounts, half-year reports and quarterly reports of the Company and provide recommendations and advice thereon to the Board. The audit committee is also responsible for the review and supervision of the financial reporting process and internal control system of the Company.

The audit committee comprises the two independent non-executive Directors, Mr. Wang He Rong and Mr. Lu Guo Qing, with Mr. Wang Huo Rong being appointed the chairman of the audit committee.

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## SUBSTANTIAL SHAREHOLDERS, SIGNIFICANT SHAREHOLDERS AND INITIAL MANAGEMENT SHAREHOLDERS

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### SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, the persons who are the substantial shareholders of the Company (being defined in the GEM Listing Rules as any person who is entitled to exercise, or control the exercise of, 10% or more of the voting power at general meetings of the Company) and their respective shareholding interests in the Company immediately after the completion of the Placing will be as follows:

Name	Number of Domestic Shares	Approximate percentage of shareholding after the completion of the Placing
Mr. Tang Li Min ( <i>Note</i> )	45,560,000	59.48%

*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 Domestic Shares beneficially owned by him, be deemed under the provisions of the SFO to be interested in the 8,933,334 Domestic Shares in aggregate owned by Mr. Tang Liu Jun and Ms. Tang Jing Jing.

### SIGNIFICANT SHAREHOLDERS

So far as the Directors are aware, immediately after the completion of the Placing, apart from the Substantial Shareholder referred to above and the Initial Management Shareholders referred to below, the Company does not have any significant shareholder (being defined in the GEM Listing Rules as any person other than a management shareholder who is (or a group of persons who together are) entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company).

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## SUBSTANTIAL SHAREHOLDERS, SIGNIFICANT SHAREHOLDERS AND INITIAL MANAGEMENT SHAREHOLDERS

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### INITIAL MANAGEMENT SHAREHOLDERS

The following persons will be regarded as initial management shareholders (being defined in the GEM Listing Rules as any person who is (or group of persons who together are) entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and are able to direct or influence the management) immediately prior to the Listing Date:

Name	Number of Domestic Shares	Approximate percentage of shareholding after the completion of the Placing
Mr. Tang Li Min ( <i>Note 1</i> )	45,560,000	59.48%
Mr. Tang Liu Jun ( <i>Note 2</i> )	4,466,667	5.83%
Ms. Tang Jing Jing ( <i>Note 2</i> )	4,466,667	5.83%
Mr. Hong Guo Ding	3,216,000	4.20%
Mr. Tang Cheng Fang	2,680,000	3.50%
Mr. Fei Guo Yang	1,072,000	1.40%
Mr. Feng Yun Lin	1,072,000	1.40%

*Notes:*

- (1) 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 Domestic Shares beneficially owned by him, be deemed under the provisions of the SFO to be interested in the 8,933,334 Domestic Shares in aggregate owned by Mr. Tang Liu Jun and Ms. Tang Jing Jing.
- (2) As Mr. Tang Liu Jun and Ms. Tang Jing Jing, together with their father and legal guardian Mr. Tang Li Min, are entitled to exercise, or control the exercise of 30% or more of the voting power at general meeting of the Company, Mr. Tang Liu Jun and Ms. Tang Jing Jing are controlling shareholders (as defined in the GEM Listing Rules) of the Company and each of them is an initial management shareholder.

### RESTRICTION ON DISPOSAL OF SHARES

Under Rule 13.16(1) of the GEM Listing Rules, every initial management shareholder (as defined in the GEM Listing Rules) who is a shareholder immediately prior to the Listing Date, shall place in escrow, with an escrow agent acceptable to the Stock Exchange, all Relevant Securities for a period of 12 months from the Listing Date, or where that Initial Management Shareholder's Relevant Securities represent no more than 1% of the issued share capital of the Company as at the Listing Date, 6 months from the Listing Date.

As set out in the paragraph headed "Initial Management Shareholders" above, the Domestic Shares held by Mr. Tang Li Min, Mr. Hong Guo Ding, Mr. Tang Cheng Fang, Mr. Fei Guo Yang, Mr. Feng Yun Lin, Mr. Tang Liu Jun and Ms. Tang Jing Jing, each of whom being an Initial Management Shareholder, are subject to physical escrow arrangement as required under Rule 13.16(1) of the GEM Listing Rules.



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## SUBSTANTIAL SHAREHOLDERS, SIGNIFICANT SHAREHOLDERS AND INITIAL MANAGEMENT SHAREHOLDERS

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The Directors consider that Rule 13.16(1) of the GEM Listing Rule is not applicable to the Domestic Shares held by the Initial Management Shareholders since the Domestic Shares held by them are not represented by any form of physical scrip or title documents. This means that the Initial Management Shareholders may not be able to create any pledge or charge by deposit of the title documents of their respective Domestic Shares or any part thereof. This also means that the subject matter for custody by the escrow agent under Rule 13.16(1) of the GEM Listing Rules does not physically exist in any form available for custody purposes.

Under the relevant law and regulations of the PRC, the Domestic Shares held by Mr. Tang Li Min, Mr. Fei Guo Yang, Mr. Tang Cheng Fang, Mr. Hong Guo Ding, Mr. Feng Yun Lin, Mr. Tang Liu Jun and Ms. Tang Jing Jing are subject to the following legal restrictions:

1. Article 147 of the Company Law provides that promoters' shares of a joint stock limited company established under the Company Law are not transferable within 3 years after the establishment of such company; and
2. Article 75 of the Law of Guarantee of the PRC provides that only shares which are transferable may form lawful security for the purposes of pledge or charge in the PRC.

As advised by the legal advisers to the Company as to PRC law, the Domestic Shares held by Mr. Tang Li Min, Mr. Tang Liu Jun and Ms. Tang Jing Jing as a result of the transfer of the Domestic Shares from Ms. Hong Yin Juan are deemed to be promoters' Shares as Ms. Hong Yin Juan was one of the Promoters and such transfer was caused by her death. Such Domestic Shares are subject to the same moratorium as the other Promoters.

As the Company was converted into as a joint stock limited company on 9th August, 2002 in the PRC, the Domestic Shares held by Mr. Tang Li Min, Mr. Fei Guo Yang, Mr. Tang Cheng Fang, Mr. Hong Guo Ding, Mr. Feng Yun Lin, Mr. Tang Liu Jun and Ms. Tang Jing Jing are subject to the restrictions imposed by the Company Law and are therefore not transferable for three years until 9th August, 2005.

As the Domestic Shares held by Mr. Tang Li Min, Mr. Fei Guo Yang, Mr. Tang Cheng Fang, Mr. Hong Guo Ding, Mr. Feng Yun Lin, Mr. Tang Liu Jun and Ms. Tang Jing Jing are not transferable before 9th August, 2005, they cannot constitute lawful security for pledge or charge in the PRC under Article 75 of the Law of Guarantee of the PRC. The Company has therefore applied for, and been granted by the Stock Exchange, a waiver from strict compliance with Rule 13.16(1) of the GEM Listing Rules. However, if Article 147 of the Company Law and Article 75 of the Law of Guarantee of the PRC are repealed or amended prior to 9th August, 2005 such that the escrow arrangement requirements under the GEM Listing Rules become applicable to the Domestic Shares held by the Initial Management Shareholders, they would have to respectively comply with the escrow arrangement requirements under the GEM Listing Rules.

Each of the Initial Management Shareholders has undertaken to the Stock Exchange, the Company and the Sponsor (for itself and on behalf of the Underwriters) that he/she will not dispose of (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of his/her direct or indirect interest in his/her Relevant Securities for a period of 12 months from the Listing Date ("Relevant Period") other than pursuant to Rule 13.18 of the GEM Listing Rules.



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## SUBSTANTIAL SHAREHOLDERS, SIGNIFICANT SHAREHOLDERS AND INITIAL MANAGEMENT SHAREHOLDERS

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Each of the Initial Management Shareholders has further undertaken to the Stock Exchange, the Company and the Sponsor (for itself and on behalf of the Underwriters), to:

- (a) in the event that during any time of the Relevant Period, he/she pledges or charges any of his/her direct or indirect interest in the Relevant Securities pursuant to Rule 13.18(1) of the GEM Listing Rules, or pursuant to any rights or waivers granted by the Stock Exchange under Rule 13.18(4) of the GEM Listing Rules, immediately inform the Stock Exchange, the Company, the Sponsor (for itself and on behalf of the Underwriters) and disclose the details pursuant to Rules 17.43(1) to (4) of the GEM Listing Rules; and
- (b) having pledged or charged any of his/her interest in the Relevant Securities under sub-paragraph (a) above, inform the Company immediately in the event that he/she becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of the Relevant Securities affected.

As Mr. Tang Liu Jun and Ms. Tan Jing Jing are minors, Mr. Tang Li Min, as their legal guardian, will sign the above undertakings on their behalf.

Mr. Tang Li Min, as the legal guardian to Mr. Tang Liu Jun and Ms. Tang Jing Jing, has undertaken to the Stock Exchange, the Company and the Sponsor (for itself and on behalf of the Underwriters) that he will not dispose of (nor enter into any agreement to dispose of) any of Mr. Tang Liu Jun and Ms. Tang Jing Jing's direct or indirect interest in his or her Relevant Securities for a period of 12 months from the Listing Date.

If, after the date of this prospectus, there is any subsequent change in the restrictions on the transfer of the Domestic Shares under the Company Law or the Guarantee Law of the PRC resulting in any of the Initial Management Shareholders becoming able to transfer or pledge or charge his/her Domestic Shares before the expiry of the moratorium period under the GEM Listing Rules, such Initial Management Shareholders would remain bound by his/her aforesaid non-disposal undertaking to the Stock Exchange, the Company and the Sponsor (for itself and on behalf of the Underwriters) until the expiry of the moratorium period imposed on it by the GEM Listing Rules.

Each of the Initial Management Shareholders has undertaken to the Stock Exchange, the Company and the Sponsor (for itself on behalf of the Underwriters) that if and when the Company Law and the Law of Guarantee of the PRC is amended or restated such that the escrow arrangement requirements under Rule 13.16(1) of the GEM Listing Rules become applicable to the Relevant Securities of the Company held by them, each of the Initial Management Shareholders shall respectively comply with Rule 13.16(1) of the GEM Listing Rules.

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## SHARE CAPITAL

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*The registered share capital of the Company, issued or to be issued, fully paid or credited as fully paid, immediately after the completion of the Placing will be as follows:*

<b>Registered capital</b>	<b>RMB</b>
<i>Issued:</i>	
53,600,000 Domestic Shares in issue at the date of this prospectus	53,600,000
<i>To be issued:</i>	
<u>23,000,000</u> H Shares to be issued pursuant to the Placing	<u>23,000,000</u>
<i>Total:</i>	
<u><u>76,600,000</u></u> Shares	<u><u>76,600,000</u></u>

### 1. Assumption

The above table assumes that the Placing becomes unconditional. The registered share capital of the Company immediately after the completion of the Placing would comprise 23,000,000 H Shares which would represent approximately 30.03% of the registered share capital of the Company.

### 2. Minimum Public Float

Under the GEM Listing Rules, where there are existing issued securities of a PRC issuer other than H Shares, then: (i) 100% of such H Shares must be held by the public; (ii) the percentage of H Shares in public hands shall not be less than 10% of the Company's total issued share capital; and (iii) minimum level of public float of the aggregate of the H Shares in issue and such other securities to be issued to the public shall remain at 25% of the Company's then total issued share capital. The registered share capital of the Company to be held by the public is approximately 30.03%.

### 3. Ranking

Domestic Shares and H Shares are both ordinary shares in the share capital of the Company. However, H Shares may only be subscribed for by, and traded in Hong Kong dollars between legal or natural persons of Hong Kong, Macau, Taiwan or any country other than the PRC. Domestic Shares, on the other hand, may only be subscribed for by, and traded between legal or natural persons of the PRC (other than Hong Kong, Macau and Taiwan) and must be subscribed for and traded in RMB. All dividends in respect of H Shares are to be paid by the Company in HK\$ whereas all dividends in respect of Domestic Shares are to be paid by the Company in RMB.

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## SHARE CAPITAL

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All Domestic Shares are currently held by the Initial Management Shareholders. There are 53,600,000 outstanding Domestic Shares not admitted for listing on any stock exchange and no arrangement has been made for the Domestic Shares to be traded or dealt with on any other authorised trading facility in the PRC. However, upon the expiry of the three years' period from the date of incorporate of the Company, the Domestic Shares held by the Promoters may be disposed of by agreement.

Except as described above and in relation to the despatch of notices and financial reports to shareholders, dispute resolution, registration of shares in different parts of the register of shareholders, the method of share transfer and the appointment of dividend receiving agents, which are all provided for in the Articles and summarised in Appendix V to this prospectus. The Domestic Shares and the H Shares will rank *pari passu* with each other in all respects and, in particular, will rank equally for all dividends or distributions declared, paid or made after the date of this prospectus. However, the transfer of Domestic Shares is subject to such restrictions as PRC law may impose from time to time.

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## FINANCIAL INFORMATION

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### INDEBTEDNESS

As at the close of business on 31st December, 2003, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this prospectus, the Company had the following outstanding bank loans:

Lender	Amount of loan	Period of loan	Loans secured by
Shanghai Pudong Development Bank, Shaoxing Sub-branch (上海浦東發展銀行紹興支行)	RMB5,000,000	20th October, 2003 to 19th April, 2004	The Company's land use rights and buildings
Shaoxing County Credit Union, Jiangqiao Sub-office (紹興縣農村信用合作社聯合社江橋分理處)	RMB5,000,000	20th August, 2003 to 8th January, 2004	The Company's land use rights and buildings
	RMB5,000,000	9th September, 2003 to 25th February, 2004	The Company's land use rights and buildings
China Construction Bank, Shaoxing City Branch (中國建設銀行紹興市分行)	RMB6,400,000	22nd October, 2003 to 10th October, 2004	The Company's land use rights and buildings
Industrial and Commercial Bank of China, Shaoxing County Sub-branch (中國工商銀行紹興縣支行)	RMB14,000,000	14th October, 2003 to 16th March, 2004	The Company's land use rights and buildings

The Directors advised that as at the Latest Practicable Date, no third party has given any guarantee in favour of the Company. In addition, the Company intends to repay bank loans of approximately RMB24,000,000 within three months from the Listing Date.

### CONTINGENT LIABILITIES

As at 31st December, 2003, the Company had no material contingent liabilities.

### DISCLAIMER

Save as disclosed above, the Company did not have any outstanding bank overdrafts, debt securities or other similar indebtedness, or other loan capital, mortgages, charges, debentures, finance lease, hire purchase commitments, or any guarantees or other material contingent liabilities as at 31st December, 2003.

### DISCLOSURE UNDER RULES 17.15 TO 17.21 OF THE GEM LISTING RULES

The Directors have confirmed that as at the Latest Practicable Date, they are not aware of any circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

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## FINANCIAL INFORMATION

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### LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

#### Net current assets

As at 31st December, 2003, the net current assets of the Company were approximately RMB34.14 million.

	<i>RMB('000)</i>
<b>Current Assets</b>	
Cash at banks and in hand	42,845
Trade receivables	22,347
Prepayments and other receivables	1,470
Inventories	<u>15,135</u>
Total Current Assets	<u><u>81,797</u></u>
<b>Current Liabilities</b>	
Short-term bank loans	35,400
Trade payables	5,867
Other payables	1,913
Dividend payable	37
Accruals	1,455
Income tax payable	<u>2,985</u>
Total Current Liabilities	<u><u>47,657</u></u>
Net Current Assets	<u><u>34,140</u></u>

### BORROWINGS AND BANKING FACILITIES

The Company generally relies on its internally generated capital and bank loans from principal bankers in the PRC as its working capital. As at 31st December, 2003, the Company had aggregated banking facilities of RMB35.4 million which has been fully utilised.

### DIRECTOR'S OPINIONS REGARDING NET CURRENT ASSET

Taking into account the total funds available to the Company including its internally generated capital, present available bank facilities and the estimated net proceeds from the Placing, and in the absence of unforeseen circumstances, the Directors consider that the Company has sufficient working capital to meet its current requirements.

### FOREIGN EXCHANGE

Almost all the Company's revenues are derived in RMB, except its direct overseas sales which are transacted in US\$, and its expenses are paid in RMB. The Directors do not consider that the Company is exposed to any material foreign currency exchange risk.

## FINANCIAL INFORMATION

### TRADING RECORD

The following is a summary of the audited results of the Company for each of the two years ended 31st December, 2002 and the nine months ended 30th September, 2003. The summary should be read in conjunction with the accountants' report as set out in Appendix I to this prospectus.

	<i>Note</i>	For the year ended		For the nine
		31st December,	2002	months ended
		2001	2002	30th September,
		<i>RMB'000</i>	<i>RMB'000</i>	2003
				<i>RMB'000</i>
<b>Turnover</b>	1	<b>21,336</b>	<b>42,355</b>	<b>47,643</b>
Cost of sales		<u>(15,243)</u>	<u>(29,999)</u>	<u>(32,520)</u>
<b>Gross profit</b>		<b>6,093</b>	<b>12,356</b>	<b>15,123</b>
<b>Gross profit margin (%)</b>		<b>28.6</b>	<b>29.2</b>	<b>31.7</b>
Other revenue		755	1,537	563
Distribution costs		(636)	(785)	(739)
Administrative expenses		(2,283)	(4,739)	(2,694)
Other operating expenses		<u>(268)</u>	<u>(1,028)</u>	<u>(67)</u>
<b>Profit from operations</b>		<b>3,661</b>	<b>7,341</b>	<b>12,186</b>
Finance costs		<u>(1,719)</u>	<u>(1,734)</u>	<u>(1,399)</u>
<b>Profit from ordinary activities</b>				
<b>before taxation</b>		<b>1,942</b>	<b>5,607</b>	<b>10,787</b>
Taxation		<u>(793)</u>	<u>(2,471)</u>	<u>(3,933)</u>
<b>Net profit after tax</b>		<b><u>1,149</u></b>	<b><u>3,136</u></b>	<b><u>6,854</u></b>
<b>Net profit margin (%)</b>		<b>5.4</b>	<b>7.4</b>	<b>14.4</b>
<b>Dividends</b>				
Interim dividend declared and payable				
during the year/period		—	37	—
<b>Earnings per share (RMB)</b>	2	<b>2.14 cents</b>	<b>5.85 cents</b>	<b>12.79 cents</b>

## FINANCIAL INFORMATION

Notes:

- (1) Turnover comprises:

	Year ended		Nine months
	31st December,		ended
	2001	2002	30th September,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>2003</i>
			<i>RMB'000</i>
Cardan universal joints	20,506	41,049	46,170
Wing bearing universal joints	—	538	952
Differential spiders	830	768	521
	<u>21,336</u>	<u>42,355</u>	<u>47,643</u>

- (2) The basic earnings per share for each of the two years ended 31st December, 2002 are calculated based on the profit attributable to shareholders for the relevant years and the 53,600,000 shares issued and outstanding upon the establishment of the joint stock limited company on 9th August, 2002 as if such shares had been outstanding throughout the periods presented.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Overview

During each of the two years ended 31st December, 2002 and the nine months ended 30th September, 2003, turnover of the Company was primarily derived from sales of cardan universal joints. On an overall basis, the Company's turnover increased from approximately RMB21.34 million in 2001 to approximately RMB42.36 million in 2002, representing a growth of approximately 98.50%. The Directors believe that the increase in turnover was mainly due to the expansion in production scale and the introduction of a number of new customers and development of a series of new products. The following table shows the Company's turnover by product categories:

Product categories	Year ended 31st December,		Year ended 31st December,		Nine months ended	
	2001		2002		30th September,	
	<i>Turnover</i>	%	<i>Turnover</i>	%	<i>Turnover</i>	%
	<i>(RMB'000)</i>		<i>(RMB'000)</i>			<i>(RMB'000)</i>
Cardan universal joints	20,506	96.11	41,049	96.92	46,170	96.91
Wing bearing universal joints	—	—	538	1.27	952	2.00
Differential spiders	830	3.89	768	1.81	521	1.09
	<u>21,336</u>	<u>100</u>	<u>42,355</u>	<u>100</u>	<u>47,643</u>	<u>100</u>

## FINANCIAL INFORMATION

The following table shows the Company's turnover by geographical distribution:

	Year ended 31st December,				Nine months ended	
	2001		2002		30th September,	
	<i>Turnover</i>	%	<i>Turnover</i>	%	<i>Turnover</i>	%
	<i>RMB'000</i>		<i>RMB'000</i>		<i>RMB'000</i>	
<b>Revenue from customers</b>						
— PRC						
Domestic sales	17,329	81.2	21,710	51.3	22,856	48.0
Import and export corporations	4,007	18.8	20,645	48.7	22,970	48.2
— Overseas	—	—	—	—	1,817	3.8
	<u>21,336</u>	<u>100</u>	<u>42,355</u>	<u>100</u>	<u>47,643</u>	<u>100</u>

Sales volumes of the Company's principal product categories were:

	Year ended		Nine months
	31st December,		ended 30th
	2001	2002	2003
	<i>(units)</i>	<i>(units)</i>	<i>(units)</i>
<b>Product categories</b>			
Cardan universal joints	1,170,354	3,018,355	3,414,086
Wing bearing universal joints	—	10,560	12,538
Differential spiders	41,291	107,569	77,549

For each of the two years ended 31st December, 2002 and the nine months to 30th September, 2003, the Company's debtor turnover in days, creditor turnover in days and inventory turnover in days were as follows:

	For the year ended		For the nine
	31st December,		months ended
	2001	2002	30th September,
			2003
Debtor turnover (days)	147	107	99
Creditor turnover (days)	116	73	63
Inventory turnover (days)	216	109	94

The Directors believe that the decrease in debtor turnover days was mainly due to the introduction of a tighter policy on collection of debts. During the period from 1st October, 2003 to 31st December, 2003, the Company has received approximately RMB16.0 million as subsequent settlements for the trade receivables of RMB21,364,000 as at 30th September, 2003.

The Directors believe that the decrease in creditors' turnover days was mainly due to the faster payments to creditors.



## FINANCIAL INFORMATION

The Directors believe that the inventory turnover days has improved during each of the two years ended 31st December, 2002 and the nine months ended 30th September, 2003 because during 2001, the Company normally stored stocks in the warehouse pending for purchase from customers. However, since January 2002, the Company produced goods only after sales orders had been received from customers. As such, the amount of finished goods had dropped.

### Comparison of the operating results of the Company for the year ended 31st December, 2001, the year ended 31st December, 2002 and the nine months ended 30th September, 2003

*Turnover.* In 2002, turnover of the Company was approximately RMB42.36 million, increased by approximately RMB21.02 million, or 98.50%, from approximately 21.34 million. The Directors believe that the increase in turnover was mainly due to the expansion in production scale and the introduction of a number of new customers and a development of series of new products. The largest five new customers among those new customers contributed approximately RMB16.1 million in sales, which represents approximately 76.7% increase in turnover in 2002. The sales volume of the Company's principal product categories for the relevant period are set out as below.

Product categories	For the year ended 31st December,		For the nine months ended
	2001 (units)	2002 (units)	30th September, 2003 (units)
Cardan universal joints	1,170,354	3,018,355	3,414,086
Wing bearing universal joints	—	10,560	12,538
Differential spiders	41,291	107,569	77,549

For the nine months ended 30th September, 2003, the turnover of the Company was approximately RMB47.64 million, increased by approximately RMB5.28 million over the turnover for the year ended 31st December, 2002. The Directors believe that the higher turnover for the nine months ended 30th September, 2003 was mainly due to the credit sales of approximately RMB7.4 million contributed by new customers, increase in sales of approximately 7.3 million to the largest import and export corporation, increase in sales of approximately RMB2.3 million to import and export corporations which then sold to the Brazil market, as well as the development of overseas channels.

*Gross Profit.* For each of the two years ended 31st December, 2002 and the nine months ended 30th September, 2003, the Company's cost of sales were approximately RMB15.24 million, RMB30.00 million and RMB32.52 million respectively. These translate into a gross profit margin in the relevant period of approximately 28.6%, 29.2% and 31.7% respectively. The Directors believe that the main reason for the higher gross profit margin for the nine months ended 30th September, 2003 was the addition of forging machines in November 2002. The Company was thus able to manufacture its own medium size cross instead of sourcing it from outside suppliers for further reprocessing. For the nine months ended 30th September, 2003, the cost of sales and the corresponding gross profit from such medium size cross amounted to approximately RMB3.37 million and RMB2.85 million respectively. With increased production and economy of scale, the fixed overheads per unit produced decreased.

*Other revenue.* In 2002, other revenue was approximately RMB1.54 million, or an increase of approximately 102.63% from RMB0.76 million in 2001. The increase was mainly due to increase in sales of work-in-progress and scrap materials of approximately RMB0.50 million and increase in interest income of approximately RMB0.22 million. For the nine months ended 30th September, 2003, other revenue was approximately RMB0.56 million, or a decrease of approximately 63.64% from RMB1.54 million in 2002.

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## FINANCIAL INFORMATION

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This was mainly due to decrease in sales of work-in-progress and scrap materials of approximately RMB0.48 million and decrease in interest income of approximately RMB0.37 million. In addition, other revenue also included insurance compensation for loss of fixed assets amounted to approximately RMB27,000 and RMB100,000 in 2001 and 2002 respectively.

*Distribution costs.* Distribution costs for the years ended 31st December, 2001 and 2002 accounted for approximately 3.0% and 1.9% of the Company's turnover in 2001 and 2002 respectively. The Directors considered that the decrease was mainly due to the change in the mode of transportation of goods delivered to customers. In 2002, the Company shifted its mode of transportation to freight train, which was charged at only around half of that by lorries that used in 2001.

*Administrative expenses.* In 2002, administrative expenses of the Company were approximately RMB4.74 million, or approximately 107.89% over that of approximately RMB2.28 million in 2001. This was primarily attributed to the provision for bad and doubtful debts for trade receivables and other receivables of approximately RMB2.05 million in 2002, when compared to that in 2001 of approximately RMB55,000 as well as payments of expenses in relation to the conversion of the entity into a joint stock limited company in 2002 which mainly included the audit fee of approximately RMB0.43 million paid to the PRC auditors and the professional fees of approximately RMB0.1 million paid to the PRC lawyers for their legal services. For the nine months ended 30th September, 2003, administrative expenses of the Company were approximately RMB2.69 million. Apart from the relatively high professional fees and the provision for bad and doubtful debts in 2002 as explained above, other reasons for the lower administrative expenses for the nine months ended 30th September, 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. For each of the two years ended 31st December, 2002 and the nine months ended 30th September, 2003, 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 substantial increase in the provision for bad and doubtful debts in 2002 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. There was no change in the Company's policy on provision for bad and doubtful debts.

*Other operating expenses.* In 2002, other operating expenses increased by approximately RMB0.76 million to approximately RMB1.03 million from RMB0.27 million in 2001. This was mainly due to the increase in impairment loss of property, plant and equipment of approximately RMB0.52 million, land compensation fee of approximately RMB0.14 million payable to the Bureau of Land and Resources of Shaoxing Province (紹興縣國土資源局) for resumption and property, plant and equipment written off of approximately RMB89,000. There was an impairment loss of property, plant and equipment in 2002 because the carrying amount of the fixed assets acquired by the Company from its related companies was higher than the recoverable amount derived from the revaluation of the fixed assets performed by Zhejiang East Certified Public Accountants Company Limited (浙江東方會計師事務所有限公司), thus a write-down was required. In addition, other operating expenses for the nine months ended 30th September, 2003 decreased approximately 93% to approximately RMB67,000 from approximately RMB1.03 million in 2002. This was mainly due to the decrease in impairment loss of property, plant and equipment of approximately RMB0.52 million, land compensation fee of RMB0.14 million and property, plant and equipment written off of approximately RMB89,000.

*Account receivables.* As at 31st December, 2002, account receivables before provision for bad and doubtful debts of the Company was approximately RMB18.92 million, an increase of approximately 104.10% over that of approximately RMB9.27 million as at 31st December, 2001. As at 31st December,

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## FINANCIAL INFORMATION

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2002, account receivables due from the five largest debtors were approximately RMB8.4 million, or approximately 44.40% of the account receivables before provision for bad and doubtful debts. The increase in account receivables in 2002 was due to the fact that the Company increased sales to import and export corporations. In 2002, sales to these corporations were approximately RMB20.63 million, or 48.70% of the total turnover. Four out of the top five customers of the Company were import and export corporations, which contributed approximately 43% to the total turnover of the Company.

*Income tax.* Income tax expenses were approximately RMB0.79 million, RMB2.47 million and RMB3.93 million respectively for each of the years ended 31st December, 2001, 31st December, 2002 and the nine months ended 30th September, 2003. Details of relevant information are set out in the paragraph “Taxation” below.

### TAXATION

The Company is incorporated in Shaoxing County, Zhejiang Province, the PRC and is subject to the PRC enterprise income tax rate of 33%. All the sales of the Company in the PRC is subject to VAT of 17%. This tax is payable after offsetting against the VAT paid on purchases by the Company. The Company is also subjected to pay city construction tax of 5% on the net amount of VAT paid and education supplementary tax of 0.4% on sales turnover.

### PROPERTY INTERESTS

Loong & Yeung, which is the Company’s process agent for the acceptance of service of process in Hong Kong, provides correspondence address to the Company as its principal place of business in Hong Kong.

#### **Property interests held and occupied by the Company in the PRC**

The Company owns the land use rights of a parcel of land with a site area of approximately 39,347 sq.m., on which various buildings with a total gross floor area of approximately 12,174 sq.m. and structures are erected. The property is currently occupied by the Company for production and office purposes.

The Company also owns a parcel of land with a site area of approximately 7,369 sq.m. on which various buildings with a total gross floor area of approximately 3,452 sq.m. and structures are erected. The property is currently occupied by the Company for production purposes.

#### **Property interests held by the Company in the PRC for future development**

The Company owns a roughly rectangular-shaped level vacant land with a site area of approximately 14,023 sq.m. The land is currently vacant and planned for future production use.

#### **Property valuation**

The property interests of the Company were valued by Sallmanns (Far East) Limited, an independent property valuer, as at 31st December, 2003. The text of the letter, summary of values and valuation certificates of Sallmanns (Far East) Limited are set out in Appendix III to this prospectus.

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## FINANCIAL INFORMATION

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### PROFIT ESTIMATE

Barring unforeseen circumstances, and under the assumptions set out in Appendix II to this prospectus, the Directors estimate that the profit after tax but before extraordinary items of the Company for the year ended 31st December, 2003 will not be less than RMB8.56 million (approximately HK\$8.0 million). The Directors are not aware of any extraordinary items which have arisen for the year ended 31st December, 2003. The texts of the letters prepared by Charles Chan, Ip & Fung CPA Ltd. and South China Capital for the purpose of profit estimate are set out in Appendix II to this prospectus.

On a pro forma fully diluted basis, and taking into account the 23,000,000 H Shares expected to be issued pursuant to the Placing, the estimated earnings per Share for the year ended 31st December, 2003 is approximately RMB11.2 cents.

### DIVIDEND AND WORKING CAPITAL

#### Dividends

The Directors have not declared dividends for the nine months ended 30th September, 2003.

The Company may only pay dividends after the following allocation have been made:

- outstanding losses, if any;
- statutory surplus reserve;
- statutory public welfare fund; and
- discretionary surplus reserve (subject to Shareholders' approval).

The respective allocation to statutory surplus reserve and statutory public welfare fund shall be 10% and 5% to 10% of the profit after tax of the Company determined in accordance with the PRC accounting standards. Pursuant to PRC law, the distributable reserves of the Company shall be the net profit determined in accordance with the PRC accounting standards or accounting principles generally accepted in Hong Kong (whichever is the lower) after the allocations to statutory surplus reserve, statutory public welfare fund and discretionary surplus reserve.

In addition, the declaration of dividends is subject to the discretion of the Directors, and the amounts of dividends actually declared and paid to holders of H Shares will also depend upon the following factors:

- overall operating results of the Company;
- financial results of the Company;
- capital requirements of the Company;
- interests of Shareholders;
- credit rating of the Company; and
- any other factors which the Board may deem relevant.

## FINANCIAL INFORMATION

In accordance with the Articles, the cash dividends on H Shares shall be declared in RMB but shall be paid in Hong Kong dollars. The conversion of RMB into Hong Kong dollars shall comply with the regulations of the PRC on foreign currency control. RMB shall be converted into Hong Kong dollars at the average conversion rate quoted by the PBOC during the week immediately before the date on which the payment of dividends is declared. If the Company has no sufficient foreign currency for payment of dividends in Hong Kong dollars, it will obtain the necessary Hong Kong dollars by converting RMB through authorised banks and other financial institutions.

### Working capital

Taking into account the total funds available to the Company including its internally generated capital, present available bank facilities and the estimated net proceeds from the Placing, and in the absence of unforeseen circumstances, the Directors consider that the Company has sufficient working capital to meet its current requirements.

### DISTRIBUTABLE RESERVES

As at the Latest Practicable Date, the Company has distributable reserves of approximately RMB10.2 million (HK\$9.5 million).

### ADJUSTED NET TANGIBLE ASSETS

The following statement of the Company's adjusted net tangible assets is based on the Company's net tangible assets as at 30th September, 2003 as shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus and adjusted as described below:

	<b>Based on the Placing Price of HK\$1.33</b>		<b>Based on the Placing Price of HK\$1.50</b>	
	<i>RMB'000</i>	<i>HKD'000</i>	<i>RMB'000</i>	<i>HKD'000</i>
Audited net tangible assets of the Company as at 30th September, 2003	62,369	58,289	62,369	58,289
Unaudited profit after tax but before extraordinary items for the three months ended 31st December, 2003	1,706	1,594	1,706	1,594
Surplus arising on revaluation of the leasehold properties of the Company ( <i>Note 1</i> )	3,916	3,660	3,916	3,660
Estimated net proceeds of the Placing	<u>23,016</u>	<u>21,510</u>	<u>27,199</u>	<u>25,420</u>
Adjusted net tangible asset value	<u>91,007</u>	<u>85,053</u>	<u>95,190</u>	<u>88,963</u>
	<i>RMB</i>	<i>HKD</i>	<i>RMB</i>	<i>HKD</i>
Adjusted net tangible asset value per Share	<u>1.19</u>	<u>1.11</u>	<u>1.24</u>	<u>1.16</u>

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## FINANCIAL INFORMATION

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*Note:* Pursuant to the revaluation of the Company's interest in the land use rights and buildings included in the non-current assets at 31st December, 2003 (see Appendix III to this Prospectus), revaluation surplus of approximately RMB3,916,000 arose. Such revaluation surplus will not be recorded in the Company's financial statements as (i) for the sake of prudence and (ii) the valuation was conducted on 31st December, 2003 which was after each of the two years ended 31st December, 2002 and the nine months ended 30th September, 2003.

### **NO MATERIAL ADVERSE CHANGE**

Save as disclosed herein, the Directors confirm that they are not aware of any material adverse change in the Company's financial or trading position or prospects since 30th September, 2003 (being the date to which the Company's latest financial results were prepared).

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# UNDERWRITING

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## UNDERWRITERS

Partners Capital International Limited  
South China Securities Limited  
Barits Securities (Hong Kong) Limited  
Core Pacific-Yamaichi International (H.K.) Limited  
G.K. Goh Securities (H.K.) Limited  
Gransing Securities Co., Limited  
Hantec International Finance Group Limited  
Hong Tong Hai Securities Limited  
Magnum International Securities Limited  
Worldwide Finance (Securities) Limited

## UNDERWRITING ARRANGEMENTS AND EXPENSES

### Underwriting Agreement

Pursuant to the Underwriting Agreement, the Company is offering the Placing Shares for subscription at the Placing Price upon and subject to the terms and conditions of this prospectus.

Subject to (i) the GEM Listing Committee granting listing of, and permission to deal in, the H Shares to be issued as mentioned in this prospectus; and (ii) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional which requires, amongst other things, that the Placing Price be agreed by no later than the Price Determination Date (or such later date as agreed between the Lead Managers (on behalf of the Underwriters) and the Company subject to such date being not later than 13th February, 2004) and not being terminated in accordance with the terms of the Underwriting Agreement or otherwise, in each case, on or before the dates and times specified in the Underwriting Agreement and in any event not later than the date which is 30 days after the date of this prospectus, the Underwriters have severally agreed to subscribe or procure subscribers to subscribe for the Placing Shares which have not been placed pursuant to the Placing.

### Grounds for termination

The obligations of the Underwriters to subscribe or procure subscribers for the Placing Shares are subject to termination if, among others, any of the following events occurs at any time prior to 5:00 p.m. (Hong Kong time) on the Business Day before the Listing Date:

1. if there develops, occurs, exists or comes into effect:
  - (a) any change in or any event or series of events resulting in any change in local, national or international financial, political, economic, military, industrial, fiscal, regulatory, stock market, currency or market conditions (including without limitation the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange or any stock exchange in the PRC); or
  - (b) any new laws or regulations or any changes in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong, the PRC or any other jurisdictions relevant to the Company; or

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## UNDERWRITING

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- (c) the imposition of any economic sanction or withdrawal of trade preferences in any manner whether directly or indirectly by the US or the European Union (or any of its members) on the PRC; or
- (d) a general moratorium on commercial banking activities in Hong Kong or the PRC declared by the relevant authorities; or
- (e) any change or development occurs involving a prospective change in taxation or exchange control (or the implementation of any exchange control) in Hong Kong, the PRC or any other jurisdictions; or
- (f) any event or series of events of force majeure including, without limiting the generality thereof, any act of government, act of God, act of war, riot, public disorder, civil commotion, fire, flooding, explosion, epidemic, terrorism, strike or lock-out or interruption or delay in transportation; or
- (g) any litigation or claim of material importance of any third party being threatened or instituted against the Company;

which will or may, in the sole and absolute opinion of the Lead Managers (on behalf of the Underwriters), be materially adverse to or materially affect the Company or its business or prospects and/or the Placing or the success thereof or which makes it inadvisable or inexpedient to proceed with the Placing; or

2. if there comes to the notice of the Lead Managers:

- (a) that any statement, considered by the Lead Managers (on behalf of the Underwriters) in their sole and absolute opinion to be material, contained in this prospectus was, when this prospectus was issued, or has become, untrue, incorrect or misleading in any material respect; or
- (b) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute an omission therefrom considered by the Lead Managers (on behalf of the Underwriters) in their sole and absolute opinion to be material; or
- (c) any breach of representations, warranties and undertakings given by the Company or the Initial Management Shareholders under the Underwriting Agreement considered by the Lead Managers (on behalf of the Underwriters) in their sole and absolute opinion to be material; or
- (d) any adverse change in the business or in the financial or trading position of the Company which is considered by the Lead Managers (on behalf of the Underwriters) in their sole and absolute opinion to be material in the context of the Placing; or
- (e) any event, act or omission occurs and/or is discovered which gives or is likely to give rise to any material liability of the Company, Directors and/or Initial Management Shareholders; or
- (f) any breach of any of the obligations imposed upon any party to the Underwriting Agreement (other than by any of the Underwriters or the Sponsor).



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# UNDERWRITING

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## Undertakings

The Initial Management Shareholders have given certain non-disposal undertakings, details of which are described in the section headed “Substantial Shareholders, Significant Shareholders and Initial Management Shareholders” to this prospectus.

## Commission and expenses

The Underwriters will receive an underwriting commission of 4.0% of the Placing Price of all the Placing Shares. The Sponsor will receive a fee for acting as the sponsor to the Company in respect of the Placing. Partners Capital will receive a fee for acting as the financial adviser to the Company in respect of the Placing. Guodu Securities Co., Ltd. will receive a fee for acting as the PRC financial adviser to the Company in respect of the Placing. Such fees and commission, together with the Stock Exchange listing fees, SFC transaction levy and investor compensation levy, Stock Exchange trading fee, legal and other professional fees, printing and other expenses relating to the Placing, which is estimated to be approximately HK\$9.08 million in aggregate, will be borne and payable by the Company.

## SPONSOR’S AND UNDERWRITERS’ INTERESTS

### Sponsor’s agreement

Under a sponsor’s agreement between the Sponsor and the Company, the Company appoints the Sponsor and the Sponsor agrees to act as a sponsor to the Company for the purpose of the GEM Listing Rules for a fee from the date on which the H Shares are listed on GEM to 31st December, 2004 and for the two years thereafter until 31st December, 2006 or until the sponsor’s agreement is otherwise terminated upon the terms and conditions set out therein.

### Sponsor’s and Underwriters’ interests in the Company

Save for (i) the obligations of the Sponsor and the Underwriters under the Underwriting Agreement; (ii) the fee payable to the Sponsor as the sponsor to the Company in respect of the Placing; (iii) the fee payable to Partners Capital as the financial adviser to the Company in respect of the Placing; and (iv) the Sponsor’s interest under the sponsor’s agreement between the Sponsor and the Company, none of the Sponsor and the Underwriters has any shareholding interest in the Company or has any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any shares in the Company or has any interest in the Placing.

Save as provided for under the Underwriting Agreement, none of the Sponsor, the Underwriters and any of their respective associates has or may have, as a result of the Placing, any interest in any class of securities of the Company (including options or rights to subscribe for such securities).

None of the Sponsor, the Underwriters and any of their respective associates has accrued any material benefit as a result of the successful outcome of the Placing, including by way of example, the repayment of material outstanding indebtedness or any fee payment save and except for the underwriting commission to be received by South China Securities and Partners Capital (being the Lead Managers and the Underwriters) and the other Underwriters pursuant to the Underwriting Agreement.

No directors or employees of the Sponsor who is involved in providing advice to the Company have or may have, as a result of the Placing, any interest in any class of securities of the Company (including options or rights to subscribe for such securities).

No directors or employees of the Sponsor nor any of its associates have a directorship in the Company.

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## UNDERWRITING

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### RESPECTIVE ROLES AND RESPONSIBILITIES OF THE SPONSOR, PARTNERS CAPITAL AND GUODU SECURITIES CO., LTD.

#### The Sponsor

As the sponsor to the Placing, South China Capital is primarily responsible for, amongst other things, the following:

- dealing with the Stock Exchange on all matters it raised;
- providing guidance and assistance to the Company to ensure that it complies with and discharges its responsibilities under the GEM Listing Rules;
- explaining to the Directors the nature of their responsibilities under the GEM Listing Rules;
- preparing, reviewing and commenting on prospectus and all other documents in relation to the listing;
- coordinating works of all professional parties involved in the listing exercise;
- advising on the timetable, pricing and marketing arrangement in respect of the Placing; and
- advising on the reorganisation issues and the capital structure of the Company so as to ensure that the structure of the Company after reorganization complies with the GEM Listing Rules.

South China Capital has exercised independent and professional judgment in discharging its responsibilities as the sponsor to the Placing. As such, South China Capital is not relying on the advice of Partners Capital and Guodu Securities Co., Ltd., to perform its work.

#### Partners Capital

Pursuant to an engagement agreement dated 10th October, 2002 between Partners Capital and the Company, Partners Capital was engaged as a financial adviser to the Company in connection with the listing of the H Shares on GEM. Partners Capital is licensed by the SFC to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under SFO. The roles and responsibilities of Partners Capital include, inter alia, the following:

- assisting the Company in coordinating with CSRC and other relevant PRC authorities in relation to the listing;
- assisting the Company in completing the transformation of its structure and the reorganization of its assets in accordance with relevant PRC law, CSRC guidelines and the GEM Listing Rules;
- advising the Company on its future development strategies and business plans;
- advising on various matters in relation to the listing and the operation of securities market; and
- assisting the Company in organising underwriting syndicate and introducing strategic investors.

In respect of the division of works between the Sponsor and Partners Capital, despite certain overlapping responsibilities as set out above, the Sponsor is primarily responsible for the duties of sponsor prescribed under Chapter 6 of the GEM Listing Rules, which include, inter alia, the provision of guidance and assistance to the Company to ensure that it complies with and discharges its responsibilities under the GEM Listing Rules, while the responsibilities of Partners Capital to the Company mainly include the provision of advice from the perspective of the Company and the Directors.

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## UNDERWRITING

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Save for the fee payable to Partners Capital under the engagement agreement, Partners Capital and its associates have no shareholding interests in the Company nor have any right or option to subscribe for or nominate persons to subscribe for any shares in the Company or has any interest in the Placing.

### **Guodu Securities Co., Ltd.**

The Company entered into an engagement agreement with Guodu Securities Co., Ltd. on 28th July, 2002 whereby the Company has engaged Guodu Securities Co., Ltd. to act as the PRC financial adviser to the Company in connection with the listing of the H Shares on GEM. Guodu Securities Co., Ltd. is licensed to carry on securities and foreign currencies businesses in the PRC but is not a licensed corporation under the SFO. The roles and responsibilities of Guodu Securities Co., Ltd. include, inter alia, the following:

- assisting the Company in liaising with CSRC and other relevant PRC authorities in relation to the listing of the H Shares on GEM;
- assisting the Company in selecting the professional parties to be involved in the listing of the H Shares on GEM;
- assisting the Company in preparing all the documents required by PRC authorities relating to the listing of the H Shares on GEM;
- assisting the Company in completing the transformation of its structure and the reorganization of its assets;
- providing suggestions to the Company in relation to the use of proceeds from listing;
- assisting the Company in formulating its development strategies and plans; and
- assisting the Company in introducing potential strategic investors.

In respect of the division of works between the Sponsor and Guodu Securities Co., Ltd., despite certain overlapping responsibilities as set out above, the Sponsor is primarily responsible for the duties of sponsor prescribed under Chapter 6 of the GEM Listing Rules, which include, *inter alia*, the provision of guidance and assistance to the Company to ensure that it complies with and discharges its responsibilities under the GEM Listing Rules, while the responsibilities of Guodu Securities Co., Ltd. to the Company mainly include the provision of advice on the general application and compliance of the applicable rules and regulations in the PRC.

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## STRUCTURE AND CONDITIONS OF THE PLACING

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### PLACING PRICE

The Placing Price will be fixed by agreement between the Company and the Lead Managers (on behalf of the Underwriters) on or before the Price Determination Date, which is currently scheduled on 10th February, 2004. **If the Lead Managers (on behalf of the Underwriters) and the Company are unable to reach an agreement on the Placing Price by 13th February, 2004, the Placing will not become unconditional and will lapse.**

The Placing Price will not be more than HK\$1.50 per H Share and is expected to be not less than HK\$1.33 per H Shares unless otherwise announced as further explained below. **Prospective investors should be aware that the Placing Price to be determined on or before the Price Determination Date may be, although currently not expected to be, lower than the lower limit of the indicative price range stated in this prospectus.**

The net proceeds from the Placing based on the Placing Price of HK\$1.33 and HK\$1.50 (being the minimum and maximum Placing Prices in the stated price range of the Placing Price of HK\$1.33 and HK\$1.50 respectively) and after deducting commissions and expenses are estimated to be approximately HK\$21.51 million and HK\$25.42 million.

The Placing Price is expected to be announced on the GEM website on or before 16th February, 2004. An announcement of the determination of the Placing Price will be made to the public as soon as practicable if there is any change.

### THE PRICE PAYABLE UPON SUBSCRIPTION

#### Price payable upon subscription

Investors have to pay upon application of the H Shares the Placing Price of not more than HK\$1.50 per Placing Share plus a 1% brokerage fee, a 0.005% Stock Exchange trading fee, a 0.005% SFC transaction levy and a 0.002% SFC investor compensation levy. A maximum of HK\$3,030.36 per board lot of 2,000 H Shares is payable in full on application.

### CONDITIONS OF THE PLACING

Acceptance of applications for the H Shares under the Placing are conditional upon:

1. the GEM Listing Committee granting listing of, and permission to deal in, the H Shares to be issued as mentioned in this prospectus; and
2. the obligations of the Underwriters under the Underwriting Agreement becoming unconditional which requires, amongst other things, that the Placing Price be agreed by no later than the Price Determination Date (or such later date as agreed between the Lead Managers (on behalf of the Underwriters) and the Company subject to such date being not later than 13th February, 2004) and not being terminated in accordance with the terms of the Underwriting Agreement or otherwise,

in each case, on or before the dates and times specified in the Underwriting Agreement and in any event not later than the date which is 30 days after the date of this prospectus.

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## STRUCTURE AND CONDITIONS OF THE PLACING

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If such conditions have not been fulfilled (or, where applicable, waived by the Sponsor for and on behalf of the Underwriters) on or before the day specified above, the Placing will lapse and the Stock Exchange shall be notified immediately. Notice of the lapse of the Placing will be caused to be published by the Company on the GEM Website on the next day following such lapse.

### PLACING

The Company is initially offering 23,000,000 Placing Shares for subscription by way of Placing, representing approximately 30.03% of the enlarged issued share capital of the Company immediately following completion of the Placing. The Placing is fully underwritten by the Underwriters subject to the terms and conditions of the Underwriting Agreement.

It is expected that the Underwriters or agents nominated by them will, on behalf of the Company, conditionally place the H Shares at the Placing Price with professional, institutional and/or other investors in Hong Kong anticipated to have a sizeable demand for the H Shares. The H Shares may also be placed with individual investors in Hong Kong to the extent that such Placing is in compliance with the relevant securities laws and regulations. Professional and/or institutional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and/or other securities.

### COMMENCEMENT OF DEALINGS IN THE H SHARES

Dealings in H Shares on the GEM is expected to commence on 18th February, 2004. The H Shares will be traded in board lots of 2,000 each.

### H SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the GEM Listing Committee grants the listing of, and permission to deal in, the H Shares to be issued pursuant to the Placing and the Company complies with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in H Shares on GEM or on any other date as determined by HKSCC. Investors should seek the advice of the stockbroker or other professional advisers for details of those settlement arrangements as such arrangements will affect their rights and interests.

CCASS participants should note, however, that in the event that the Placing is terminated in accordance with the paragraph headed “Conditions of the Placing” above at any time after the deposit of the allotted Placing Shares into CCASS, the H Shares will cease to be eligible securities and should be withdrawn from CCASS.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All necessary arrangements have been made for the H Shares to be admitted into CCASS.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

*The following is the text of a report, prepared for the purpose of incorporating in this prospectus, received from the auditors and reporting accountants of the Company, Charles Chan, Ip & Fung CPA Ltd., Certified Public Accountants, Hong Kong.*



**Charles Chan, Ip & Fung CPA Ltd.**  
37th Floor, Hennessy Centre  
500 Hennessy Road  
Causeway Bay, Hong Kong

9th February, 2004

The Directors  
Zhejiang Prospect Company Limited  
South China Capital Limited

Dear Sirs

We set out below our report on the financial information (“Financial Information”) relating to Zhejiang Prospect Company Limited (the “Company”) for each of the two years ended 31st December, 2001, 31st December, 2002 and the nine months ended 30th September, 2003 (the “Track Record Periods”) for inclusion in the prospectus of the Company dated 9th February, 2004 (the “Prospectus”).

The Company was transformed as a joint stock limited company in the People’s Republic of China (“PRC”) on 9th August, 2002 pursuant to the Company Law of the PRC and is engaged in the manufacturing and sale of universal joints and automotive components for automobiles including cardan universal joints, wing bearing universal joints and differential spiders (the “Business”).

Prior to the transformation of the Company, the Business now undertaken by the Company was carried out by Shaoxing Prospect Universal Joint Company Limited (“the Predecessor”) and was transformed to the Company pursuant to the Formation as described in Section A below.

The statutory financial statements of the Company for the years ended 31st December, 2001 and 2002 prepared in accordance with the relevant accounting principles and financial regulations applicable to companies established in the PRC were audited by Zhejiang East Certified Public Accountants Company Limited.

For the purpose of this report, we have undertaken an independent audit of the financial statements of the Company for the Track Record Periods prepared in accordance with generally accepted accounting principles in Hong Kong and comply with the Statements of Auditing Standards and Guideline issued by the Hong Kong Society of Accountants (“HKSA”) and carried out such additional procedures as are necessary in accordance with the Auditing Guideline “Prospectuses and the Reporting Accountant” issued by the HKSA.

We have not audited any financial statements of the Company in respect of any period subsequent to 30th September, 2003.

The Financial Information set out below has been prepared based on the audited financial statements of the Company for the Track Record Periods prepared in accordance with generally accepted accounting principles in Hong Kong and comply with the Statements of Standard Accounting Practice (“SSAP”) and interpretations issued by the HKSA.

The Financial Information set out in this report has been prepared from the audited financial statements, or where appropriate, the management accounts of the Company on the basis set out in Section A below after making such adjustments as are appropriate.

The directors of the Company are responsible for preparing financial statements and the Financial Information which give a true and fair view. In preparing financial statements and the Financial Information 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 on the Financial Information.

In our opinion, for the purpose of this report, the Financial Information gives a true and fair view of the Company’s results and cash flows for the Track Record Periods and of the Company’s state of affairs as at 31st December, 2001, 31st December, 2002 and 30th September, 2003.

**A. COMPANY FORMATION**

As described in the paragraph headed “Incorporation” under the section headed “Further information about the Company” of Appendix VI “Statutory and General Information” to this prospectus, the Company underwent a formation (the “Formation”) in preparing for an offering of the Company’s shares.

Pursuant to the Formation, a Promoters’ Agreement dated 15th July, 2002 was entered into amongst the promoters for the establishment of the Company as a joint stock limited company under the Company Law of the PRC with a registered capital of 53,600,000 shares of RMB1 each whereby the business together with the related assets and liabilities of the Predecessor were transformed to the Company at the value of RMB53.6 million. The values were based on the net assets of the Company as at 30th June, 2002 which were audited by Zhejiang East Certified Public Accountants Company Limited. On 9th August, 2002, 53,600,000 shares of RMB1 each were issued to the promoters as fully paid, which were based on the net assets of the Predecessor as at 30th June, 2002.



## B. FINANCIAL INFORMATION

## 1. Income statements

		For the year ended 31st December,		For the nine months ended
	Section C Note	2001 RMB'000	2002 RMB'000	30th September, 2003 RMB'000
Turnover	2	21,336	42,355	47,643
Cost of sales		<u>(15,243)</u>	<u>(29,999)</u>	<u>(32,520)</u>
Gross profit		6,093	12,356	15,123
Other revenue	3	755	1,537	563
Distribution costs		(636)	(785)	(739)
Administrative expenses		(2,283)	(4,739)	(2,694)
Other operating expenses		<u>(268)</u>	<u>(1,028)</u>	<u>(67)</u>
Profit from operations	4	3,661	7,341	12,186
Finance costs	5	<u>(1,719)</u>	<u>(1,734)</u>	<u>(1,399)</u>
Profit from ordinary activities before taxation		1,942	5,607	10,787
Taxation	6(a)	<u>(793)</u>	<u>(2,471)</u>	<u>(3,933)</u>
Net profit after tax		<u>1,149</u>	<u>3,136</u>	<u>6,854</u>
Dividends				
Interim dividend declared and payable during the year/ period	7	<u>—</u>	<u>37</u>	<u>—</u>
Earnings per share				
Basic (RMB cents)	8	<u>2.14</u>	<u>5.85</u>	<u>12.79</u>

## 2. Balance sheets

	<i>Section C</i>	As at		As at
	<i>Note</i>	31st December, 2001	2002	30th September, 2003
		RMB'000	RMB'000	RMB'000
<b>Non-current assets</b>				
Property, plant and equipment	13	13,833	14,535	19,720
Land use rights	14	—	—	6,892
		13,833	14,535	26,612
<b>Current assets</b>				
Inventories	15	9,010	8,860	13,484
Trade receivables	16	8,576	16,190	18,362
Prepayments, deposits and other receivables	17	240	1,626	7,875
Amount due from a director	18	—	43	—
Amounts due from related companies	19	—	2,988	—
Amount due from a holding company	20	3,891	—	—
Pledged deposit	29	1,040	—	—
Bank deposits		—	50,000	—
Cash at banks and in hand	21	2,305	621	47,295
		25,062	80,328	87,016
<b>Current liabilities</b>				
Trade and other payables	22	10,297	12,214	12,652
Amounts due to related companies	23	338	159	197
Short-term bank loans	24	23,000	23,000	37,000
Income tax payable	6(b)	1,504	3,975	1,410
		35,139	39,348	51,259
<b>Net current (liabilities)/assets</b>		(10,077)	40,980	35,757
<b>Net assets</b>		3,756	55,515	62,369
<b>Capital and reserves</b>				
Paid-in/share capital	25	2,000	53,600	53,600
Reserves	26	1,756	1,915	8,769
		3,756	55,515	62,369

## 3. Statements of changes in equity

	<b>Paid-in/ share capital</b> <i>RMB'000</i>	<b>Statutory surplus reserve</b> <i>RMB'000</i>	<b>Statutory public welfare fund</b> <i>RMB'000</i>	<b>Retained profit</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
At 1st January, 2001	2,000	60	31	516	2,607
Net profit for the year	—	—	—	1,149	1,149
Transfer	—	115	57	(172)	—
At 31st December, 2001 and 1st 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 31st December, 2002 and 1st January, 2003	53,600	195	97	1,623	55,515
Net profit for the period	—	—	—	6,854	6,854
At 30th September, 2003	<u>53,600</u>	<u>195</u>	<u>97</u>	<u>8,477</u>	<u>62,369</u>

## 4. Cash flow statements

	<b>For the year ended</b>		<b>For the nine</b>
	<b>31st December,</b>		<b>months ended</b>
	<b>2001</b>	<b>2002</b>	<b>2003</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Cash flows from operating activities</b>			
Profit from ordinary activities before taxation	1,942	5,607	10,787
Adjustments for:			
Depreciation of property, plant and equipment	856	1,054	1,052
Amortisation of land use rights	—	—	70
Interest income	(419)	(635)	(264)
Finance costs	1,719	1,734	1,399
Impairment loss on property, plant and equipment	—	517	—
Property, plant and equipment written off	—	89	—
Loss on disposal of property, plant and equipment	125	44	1
Bad debts written off	—	41	—
Provision for bad and doubtful debts	55	2,052	213
<b>Operating profit before changes in working capital</b>	4,278	10,503	13,258
(Increase)/decrease in inventories	(1,847)	150	(4,624)
Decrease/(increase) in trade and other receivables	2,698	(10,575)	(9,151)
(Decrease)/increase in trade and other payables	(5,606)	1,905	483
<b>Cash (used in)/generated from operations</b>	(477)	1,983	(34)
PRC enterprise income tax paid	(46)	—	(6,498)
<b>Net cash (outflow)/inflow from operating activities</b>	(523)	1,983	(6,532)
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	(1,617)	(3,149)	(6,527)
Acquisition of land use rights	—	—	(6,962)
Receipts from disposal of property, plant and equipment	406	744	290
Interest received	419	117	781
<b>Net cash outflow from investing activities</b>	(792)	(2,288)	(12,418)

	For the year ended		For the nine
	31st December,		months ended
	2001	2002	30th September,
	RMB'000	RMB'000	2003
			RMB'000
<b>Cash flows from financing activities</b>			
Proceeds from injection of capital	—	48,660	—
(Increase)/decrease in amount due from a director	—	(43)	43
(Increase)/decrease in amounts due from related companies	—	(2,988)	2,988
(Increase)/decrease in amount due from a holding company	(3,891)	3,891	—
(Increase)/decrease in pledged deposit	(790)	1,040	—
(Increase)/decrease in bank deposits with maturity more than 3 months	—	(50,000)	50,000
Increase/(decrease) in amounts due to related companies	338	(179)	38
Proceeds from new short-term bank loans	9,110	23,000	60,500
Repayment of short-term bank loans	—	(23,000)	(46,500)
Interest paid	(1,696)	(1,760)	(1,445)
<b>Net cash inflow/(outflow) from financing activities</b>	<u>3,071</u>	<u>(1,379)</u>	<u>65,624</u>
<b>Increase/(decrease) in cash and cash equivalents</b>	1,756	(1,684)	46,674
<b>Cash and cash equivalents at beginning of year/period</b>	<u>549</u>	<u>2,305</u>	<u>621</u>
<b>Cash and cash equivalents at end of year/period</b>	<u><u>2,305</u></u>	<u><u>621</u></u>	<u><u>47,295</u></u>
<b>Analysis of cash and cash equivalents</b>			
Cash at banks and in hand	<u><u>2,305</u></u>	<u><u>621</u></u>	<u><u>47,295</u></u>

## C. NOTES TO THE FINANCIAL INFORMATION

### 1. Significant accounting policies

#### (a) *Basis of preparation*

This Financial Information has 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. The Financial Information 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 9th August, 2002. The Financial Information as set out has been prepared on continuing basis.

#### (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. 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

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.

#### (c) *Land use rights*

Land use rights are stated at cost less accumulated amortisation and impairment losses. Cost represents consideration paid for the rights to use the land on which various warehouses, container storage areas and buildings are situated. Amortisation of land use rights is calculated on a straight-line basis over the period of the land use rights of 50 years.

#### (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.

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) *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.

(f) *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.

(g) *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.

(h) *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.

**(i) Borrowing costs**

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

**(j) 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 excludes value-added tax and is 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.

**(k) 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.

**(l) Retirement benefit costs**

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

**(m) 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.

**(n) 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.

**(o) Related parties**

For the purposes of this Financial Information, 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.



**(p) 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 deduction of all goods returns and trade discounts.

**3. Other revenue**

	For the year ended 31st December,		For the nine months ended
	2001	2002	30th September, 2003
	RMB'000	RMB'000	RMB'000
Sales of work-in-progress and scrap materials	271	773	298
Interest income from a holding company	414	85	—
Bank interest income	5	550	264
Compensation received	27	100	1
Sundry income	38	29	—
	<u>755</u>	<u>1,537</u>	<u>563</u>

**4. Profit from operations**

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

	For the year ended		For the nine
	31st December,		months ended
	2001	2002	30th September,
	RMB'000	RMB'000	2003
			RMB'000
Cost of inventories sold	15,243	29,999	32,520
Staff costs	2,875	5,056	3,828
Staff welfare costs	380	523	574
Directors' emoluments	29	31	12
Research and development	172	210	187
Depreciation of property, plant and equipment	856	1,054	1,052
Amortisation of land use rights	—	—	70
Auditors' remuneration	—	430	200
Provision/(written back) for bad and doubtful debts			
—Trade receivables	13	2,033	271
—Other receivables	42	19	(58)
Bad debts written off	—	41	—
Impairment loss on property, plant and equipment	—	517	—
Loss on disposal of property, plant and equipment	125	44	1
Property, plant and equipment written off	—	89	—

**5. Finance costs**

	For the year ended		For the nine
	31st December,		months ended
	2001	2002	30th September,
	RMB'000	RMB'000	2003
			RMB'000
Interest expense on bank loans, repayable within one year	1,719	1,734	1,399

**6. Taxation**

(a) Taxation in the income statements represents:

	For the year ended		For the nine
	31st December,		months ended
	2001	2002	30th September,
	RMB'000	RMB'000	2003
			RMB'000
Provision for PRC enterprise income tax	793	2,471	3,933

The provision for PRC enterprise income tax is calculated at a standard rate of 33% of the estimated assessable income for the Track Record Periods as determined in accordance with the relevant income tax rules and regulations of the PRC.

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

	For the year ended		For the nine
	31st December,		months ended
	2001	2002	30th September,
	RMB'000	RMB'000	2003
			RMB'000
Profit before taxation	<u>1,942</u>	<u>5,607</u>	<u>10,787</u>
Calculated at a taxation rate of 33%	641	1,850	3,560
Income not subject to taxation	(12)	(178)	—
Expenses not deductible for taxation purposes	164	1,104	373
Tax allowance given by PRC authority	<u>—</u>	<u>(305)</u>	<u>—</u>
Taxation charge	<u>793</u>	<u>2,471</u>	<u>3,933</u>

(b) Taxation in the balance sheets represents:

	As at		As at
	31st December,		30th September,
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Provision for PRC enterprise income tax	793	2,471	3,933
Balance of PRC enterprise income tax provision relating to prior years	711	1,504	3,975
Payment of PRC enterprise income tax	<u>—</u>	<u>—</u>	<u>(6,498)</u>
	<u>1,504</u>	<u>3,975</u>	<u>1,410</u>

(c) There was no material unprovided deferred taxation for the Track Record Periods.

## 7. Dividends

	For the year ended		For the nine
	31st December,		months ended
	2001	2002	30th September,
	RMB'000	RMB'000	2003
			RMB'000
Interim dividend paid	<u>—</u>	<u>37</u>	<u>—</u>

## 8. Earnings per share

The basic earnings per share for each of the two years ended 31st December, 2001, 31st December, 2002 and the nine months ended 30th September, 2003 are calculated based on the profit attributable to shareholders for the Track Record Periods and the 53,600,000 shares issued and outstanding upon the establishment of the joint stock limited company on 9th 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 during the Track Record Periods.

## 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 31st December, 2001, 31st December, 2002 and the nine months ended 30th September, 2003 were approximately RMB185,000, RMB56,000 and RMB112,000, respectively.

#### 10. Directors' emoluments

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

	For the year ended 31st December,		For the nine months ended
	2001 RMB'000	2002 RMB'000	30th September, 2003 RMB'000
Fees	—	—	—
Other emoluments	28	19	11
Bonus	—	11	—
Retirement benefits	1	1	1
	<u>29</u>	<u>31</u>	<u>12</u>

The number of directors having emoluments fell within the following bands

Nil – RMB1,000,000	<u>5</u>	<u>5</u>	<u>7</u>
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During the year ended 31st December, 2001, the three executive directors received individual emoluments of approximately RMB29,000, nil and nil respectively. During the year ended 31st December, 2002, the three executive directors received individual emoluments of approximately RMB31,000, nil and nil respectively. During the period ended 30th September, 2003, the three executive directors received individual emoluments of approximately RMB12,000, nil and nil respectively. The two non-executive directors, the two non-executive directors and the four non-executive directors received nil emolument during the year ended 31st December, 2001, the year ended 31st December, 2002 and the nine months period ended 30th September, 2003 respectively.

#### 11. Individuals with highest emoluments

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

	For the year ended 31st December,		For the nine months ended
	2001 RMB'000	2002 RMB'000	30th September, 2003 RMB'000
Salaries and other emoluments	<u>129</u>	<u>128</u>	<u>316</u>
Number of directors	1	1	—
Number of employees	<u>4</u>	<u>4</u>	<u>5</u>
	<u>5</u>	<u>5</u>	<u>5</u>

During the Track Record Periods, 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.

	<b>For the year ended</b>		<b>For the nine</b>
	<b>31st December,</b>		<b>months ended</b>
	<b>2001</b>	<b>2002</b>	<b>30th September,</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<b>2003</b>
			<i>RMB'000</i>
<b>Revenue from external customers</b>			
— PRC			
Domestic sales	17,329	21,710	22,856
Import and export corporations	4,007	20,645	22,970
— Overseas	—	—	1,817
<b>Total revenue from external customers</b>	<u>21,336</u>	<u>42,355</u>	<u>47,643</u>

At 31st December, 2001, 31st December, 2002 and 30th September, 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>
<b>Cost or valuation</b>					
At 1st January, 2001	8,554	6,240	111	400	15,305
Additions	240	273	75	1,029	1,617
Disposals	—	(27)	—	(520)	(547)
At 31st December, 2001 and 1st January, 2002	8,794	6,486	186	909	16,375
Additions	77	2,586	216	271	3,150
Disposals	—	—	—	(831)	(831)
Written off	(46)	(138)	—	—	(184)
At 31st December, 2002 and 1st January, 2003	8,825	8,934	402	349	18,510
Additions	5,018	926	146	437	6,527
Disposals	—	—	—	(300)	(300)
At 30th September, 2003	13,843	9,860	548	486	24,737
<b>Representing</b>					
Cost	8,825	—	—	349	9,174
Valuation — 2002	—	8,934	402	—	9,336
	8,825	8,934	402	349	18,510
<b>Accumulated depreciation and impairment losses</b>					
At 1st January, 2001	341	1,317	8	36	1,702
Charge for the year	280	501	30	45	856
Written back on disposals	—	(1)	—	(15)	(16)
At 31st December, 2001 and 1st January, 2002	621	1,817	38	66	2,542
Charge for the year	282	648	46	78	1,054
Impairment loss	—	498	19	—	517
Written back on disposals	—	—	—	(43)	(43)
Written off	(29)	(66)	—	—	(95)
At 31st December, 2002 and 1st January, 2003	874	2,897	103	101	3,975
Charge for the period	317	604	69	62	1,052
Written back on disposals	—	—	—	(10)	(10)
At 30th September, 2003	1,191	3,501	172	153	5,017
<b>Net book value</b>					
At 31st December, 2001	8,173	4,669	148	843	13,833
At 31st December, 2002	7,951	6,037	299	248	14,535
At 30th September, 2003	12,652	6,359	376	333	19,720

**14. Land use rights**

	As at 31st December,		As at 30th September,
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Cost	—	—	6,962
Less: Accumulated amortisation	—	—	(70)
Net book value	—	—	6,892

**15. Inventories**

	As at 31st December,		As at 30th September,
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Raw materials	1,469	1,983	3,578
Work-in-progress	3,049	3,927	5,705
Finished goods	4,492	2,950	4,201
	9,010	8,860	13,484

At 31st December, 2001, 31st December, 2002 and 30th September, 2003, no inventories were carried at net realisable value.

**16. Trade receivables**

The aging analysis of trade receivables is as follows:

	As at 31st December,		As at 30th September,
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
1–30 days	2,401	3,280	5,225
31–60 days	2,246	3,207	2,788
61–90 days	1,680	3,726	2,610
91–180 days	1,060	4,369	4,706
More than 180 days	1,887	4,339	6,035
	9,274	18,921	21,364
Less: Provision for bad and doubtful debts	(698)	(2,731)	(3,002)
	8,576	16,190	18,362

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.

## 17. Prepayments, deposits and other receivables

	As at		As at
	31st December,		30th September,
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Bill receivables	—	150	367
Prepayments and other receivables	195	1,009	6,375
Trade deposits paid to suppliers	45	467	1,133
	<u>240</u>	<u>1,626</u>	<u>7,875</u>

## 18. Amount due from a director

Name of director	As at 31st December,		As at 30th	Maximum outstanding balances		
	2001		September,	during the year/period		
	2001	2002	2003	2001	2002	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Fei Guo Yang	—	43	—	—	43	76

The amount is unsecured, interest free and has no fixed term of repayment. At 31st December, 2001, 31st December, 2002 and 30th September, 2003, there were no outstanding overdue interests and no provision has been made for the amount due.

## 19. Amounts due from related companies

Name	Connected parties	As at 31st December,		As at 30th	Maximum outstanding balances		
		2001		September,	during the year/period		
		2001	2002	2003	2001	2002	2003
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Zhejiang Jiali Protein Fibre Company Limited	Tang Li Min	—	42	—	—	42	42
Zhejiang Prospect Green Fibre Company Limited	Hong Guo Ding	—	84	—	—	89	83
Zhejiang Prospect Industrial Group Limited	Tang Li Min	—	2,862	—	—	13,791	11,105
	Hong Guo Ding						
	Tang Chang Fang						
	Fei Guo Yang						
	Li Zhang Rui						
		<u>—</u>	<u>2,988</u>	<u>—</u>			

The amounts are unsecured, interest free and have no fixed term of repayment. At 31st December, 2001, 31st December, 2002 and 30th September, 2003, there were no outstanding overdue interests and no provision has been made for the amount due.

## 20. Amount due from a holding company

The amount was unsecured, interest bearing at 7.8% per annum and had no fixed term of repayment. In May 2002, the holding company had become a related company of the Company due to change in equity interest.



**21. Cash at banks and in hand**

	As at 31st December,		As at
	2001	2002	30th September,
	RMB'000	RMB'000	2003
			RMB'000
Cash at banks	2,236	260	46,437
Cash in hand	69	361	858
	<u>2,305</u>	<u>621</u>	<u>47,295</u>

**22. Trade and other payables**

	As at		As at
	31st December,	2002	30th September,
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Trade payables	4,865	7,199	7,761
Bills payable, secured	1,040	—	—
Other payables	3,398	3,797	3,334
Value added tax, business tax and other taxes payable	268	216	165
Dividend payable	—	37	37
Accruals	726	960	1,105
Trade deposits received from customers	—	5	250
	<u>10,297</u>	<u>12,214</u>	<u>12,652</u>

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:

	As at		As at
	31st December,	2002	30th September,
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Due within 3 months	3,522	6,249	4,822
Due after 3 months but within 6 months	1,056	818	801
Due after 6 months but within 12 months	143	97	2,033
Due after 12 months	144	35	105
	<u>4,865</u>	<u>7,199</u>	<u>7,761</u>

**23. Amounts due to related companies**

The amounts are unsecured, interest free, repayable on demand and have been fully settled on 29th October, 2003.

**24. Short-term bank loans**

The short-term bank loans are secured by the corporate guarantees provided by independent third parties, interest bearing at a range of 5% per annum to 7.1% per annum and repayable within one year. All short-term bank loans as at 30th September, 2003 have been repaid during October to November 2003 and all the corresponding corporate guarantees provided by the independent third parties have been released during the same period.

## 25. Paid-in/share capital

	Number of shares	Paid-in capital RMB'000	Share capital RMB'000
At 1st January, 2001 and 31st December, 2001	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	<u>53,600,000</u>	<u>(53,600)</u>	<u>53,600</u>
At 31st December, 2002 and 30th September, 2003	<u>53,600,000</u>	<u>—</u>	<u>53,600</u>

\* 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 7th June, 1995.

On 9th 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 30th 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 RMB'000	Statutory public welfare fund RMB'000	Retained profit RMB'000	Total RMB'000
At 1st January, 2001	60	31	516	607
Net profit for the year	—	—	1,149	1,149
Transfer	<u>115</u>	<u>57</u>	<u>(172)</u>	<u>—</u>
At 31st December, 2001 and 1st 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	<u>—</u>	<u>—</u>	<u>(37)</u>	<u>(37)</u>
At 31st December, 2002 and 1st January, 2003	195	97	1,623	1,915
Net profit for the period	<u>—</u>	<u>—</u>	<u>6,854</u>	<u>6,854</u>
At 30th September, 2003	<u>195</u>	<u>97</u>	<u>8,477</u>	<u>8,769</u>

## (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.

**(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 31st December, 2001, 31st December, 2002 and 30th September, 2003 approximately amounted to RMB1,493,000, RMB1,623,000 and RMB8,477,000 respectively.

- (d) Upon the transformation of the Company into a joint stock limited company on 9th August, 2002, the Company transferred all the retaining profit, statutory surplus reserve and statutory public welfare fund as at 30th 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 31st December, 2001, 31st December, 2002 and 30th September, 2003 and not provided for in the financial statements are as follows:

	As at		As at
	31st December,	2002	30th September,
	2001	2002	2003
	RMB'000	RMB'000	RMB'000
Contracted but not provided for	—	—	704

**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:

	For the year ended		For the nine
	31st December,		months ended
	2001	2002	30th
	RMB'000	RMB'000	September,
			2003
			RMB'000
<b>Continuing Activity</b>			
Electricity fee paid to related companies ( <i>note a</i> )	952	1,501	1,532
<b>Discontinuing Activities</b>			
Acquisition of leasehold building ( <i>note b</i> )	—	—	5,001
Interest income received from a holding company ( <i>note c</i> )	414	85	—
Sales of fixed assets to a related company ( <i>note d</i> )	—	519	—

- (a) During the Track Record Periods, 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 end of the Track Record Periods were all settled in the succeeding month. During the period ended 30th September, 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 nine months ended 30th September, 2003.
- (c) During the two years ended 31st 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 31st December, 2002.

**29. Pledged deposit**

At 31st December, 2001, a RMB1,040,000 bank deposit of the Company had been pledged to a bank to secure the bills payable of the same amount of the Company. Such charge had been released on 18th May, 2002.

**30. 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.

**D. SUBSEQUENT EVENTS**

The following significant events took place subsequent to 30th September, 2003:

- (a) On 14th October, 2003, 20th October, 2003 and 22nd October, 2003, the Company entered into agreements with Industrial and Commercial Bank of China, Shaoxing County Sub-branch, Shanghai Pudong Development Bank, Shaoxing Sub-branch and China Construction Bank, Shaoxing City Branch for short term loans amounted to RMB14,000,000, RMB5,000,000 and RMB6,400,000 respectively. Such loans were secured by the Company's land use rights and buildings, interest bearing at 5.04%, 5.04% and 6.372% respectively per annum and repayable within one year.
- (b) On 5th November, 2003, Zhejiang Rongsheng Textile Company Limited released the guarantee given to the Company for the short term loan amounted to RMB10,000,000 with Shaoxing County Credit Union, Jiangqiao Sub-office. At the same date, such loan was in term secured by the Company's land use rights and buildings, interest bearing at 7.056% per annum and repayable within one year.

**E. SUBSEQUENT ACCOUNTS**

No audited financial statements have been prepared by the Company in respect of any period subsequent to 30th September, 2003.

Yours faithfully  
**CHARLES CHAN, IP & FUNG CPA LTD.**  
*Certified Public Accountants*  
Hong Kong  
**Chan Wai Dune, Charles**  
Practising Certificate Number P00712

*The estimated profit after tax but before extraordinary items of the Company for the year ended 31st December, 2003 is set out in the paragraph headed “Profit estimate” of the section headed “Financial information” to this prospectus.*

## **1. BASES AND ASSUMPTIONS**

The Directors have prepared the estimate of the profit after tax but before extraordinary items of the Company for the year ended 31st December, 2003 on the basis of the audited financial statements of the Company for the nine months ended 30th September, 2003, the unaudited management accounts of the Company for the one month ended 31st October, 2003 and an estimate of the results of the Company for the remaining two months ended 31st December, 2003. The Directors are not aware of any extraordinary terms which have arisen or are likely to arise during the year ended 31st December, 2003. The estimate has been prepared on the basis of the accounting policies consistent in all material respects with those currently adopted by the Company as summarised in Appendix I to this prospectus and is based on the following principal assumptions:

1. There will be no material changes in existing political, legal (including changes in legislation or regulations or rules), fiscal, market or economic conditions in the People’s Republic of China (the “PRC”), Hong Kong, or any other countries where the Company operates or from which the Company imports and sources supplies;
2. There will be no material changes in the bases or rates of taxation or duties applicable to the Company in the jurisdiction in the PRC, Hong Kong, or any other countries in which the Company operates;
3. There will be no material changes in inflation and deflation, foreign currency exchange rates, interest rates, tariffs and duties from those currently prevailing; and
4. There will be no interruption of the operations that will adversely affect the Company as a result of a shortage in supply of raw materials or any other circumstances such as natural disasters which are beyond management control.

**2. LETTERS**

*Set out below are texts of letters received by the Directors from Charles Chan, Ip & Fung CPA Ltd. and South China Capital Limited in connection with the estimate of the profit after tax but before extraordinary items of the Company for the year ended 31st December, 2003 and prepared for the purpose of inclusion in this prospectus.*

The Directors  
Zhejiang Prospect Company Limited  
South China Capital Limited

9th February, 2004

Dear Sirs

We have reviewed the accounting policies and calculations adopted in arriving at the estimate of the profit after tax but before extraordinary items of Zhejiang Prospect Company Limited (the “Company”) for the year ended 31st December, 2003 (the “Estimate”) as set out in the subsection headed “Profit estimate” in the section headed “Financial information” in the prospectus of the Company dated 9th February, 2004 (the “Prospectus”). Management is responsible for the Estimate including the assumptions set out on page 144 on which it is based.

The Estimate, for which the Directors of the Company (the “Directors”) are solely responsible, has been prepared by the Directors based on the audited results and the statement of adjustments of the Company for the nine months ended 30th September, 2003 and a estimate of the results of the Company for the remaining three months ended 31st December, 2003.

In our opinion, the Estimate including the statement of adjustments, so far as the accounting policies and calculations are concerned, has been properly complied in accordance with the bases and assumptions made by the Directors as set out in page 144 of the Prospectus, and is presented on a basis consistent in all material respects with the accounting policies presently adopted by the Company as set out in our accountants’ report dated 9th February, 2004, the text of which is set out in Appendix I of the Prospectus.

Yours faithfully  
For and on behalf of  
**Charles Chan, Ip & Fung CPA Ltd.**  
**Chan Wai Dune, Charles**  
*Managing Director*

## Letter from the Sponsor

**South China Capital Limited****南華融資有限公司**28/F., Bank of China Tower, No. 1 Garden Road, Central, Hong Kong.  
Tel: 2820 6333 Telex: 69208 SCSL Fax: 2523 9621

9th February, 2004

The Directors  
Zhejiang Prospect Company Limited  
Zhanwang Village  
Yangxunqiao Town  
Shaoxing County  
Zhejiang Province  
The PRC

Dear Sirs,

We refer to the estimated profit after tax but before extraordinary items of Zhejiang Prospect Company Limited (the “Company”) for the year ended 31st December, 2003 (the “Estimate”) as set out in the prospectus of the Company dated 9th February, 2004.

We have discussed with you the bases and assumptions upon which the Estimate has been made. We have also considered the letter dated 9th February, 2004 addressed to yourselves and ourselves from Charles Chan, Ip & Fung CPA Limited regarding the accounting policies and calculations upon which the Estimate has been made.

On the basis of the foregoing and on the bases and assumptions made by you and the accounting policies and calculations reviewed by Charles Chan, Ip & Fung CPA Limited, we have formed the opinion that the Estimate, for which you as directors are solely responsible, has been made after due and careful enquiry.

Yours faithfully,  
For and on behalf of  
**South China Capital Limited**  
**Christina Cheung**  
*Director*



*The following is the text of a letter, summary of values and valuation certificate, prepared for the purpose of incorporation in this prospectus received from Sallmanns (Far East) Limited, an independent valuer, in connection with their valuations as at 31st December, 2003 of the property interests of the Company.*



# Sallmanns

Corporate valuation and consultancy

[www.sallmanns.com](http://www.sallmanns.com)



15/F Lucky Centre  
165-171 Wanchai Road  
Hong Kong  
Tel: (852) 2169 6000  
Fax: (852) 2528 5079

9th February, 2004

The Directors  
Zhejiang Prospect Company Limited  
Yangxunqiao Town  
Shaoxing County  
Zhejiang Province  
The PRC

Dear Sirs,

In accordance with your instructions to value the property interests of Zhejiang Prospect Company Limited (hereinafter referred to as the “Company”) in the People’s Republic of China (the “PRC”), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the value of such property interests at 31st December, 2003.

Due to a lack of evidence of comparable transactions, our valuation is our opinion of the fair market value. Fair market value is defined as the estimated amount at which the subject asset in its continued use might be expected to be purchased and sold between a willing buyer and a willing seller, neither being under compulsion, each having a reasonable knowledge of all relevant facts, with equity to both, for continuation of the current operation of the relevant property as part of an on-going business.

Due to the nature of the buildings and structures, there are no market sales comparables. Therefore, the property interests have been valued on the basis of their depreciated replacement cost. Depreciated replacement cost is defined as “the aggregate amount of the value of the land for the existing use or a notional replacement site in the same locality, and the gross replacement cost of the buildings and other site works, from which appropriate deductions may then be made to allow for the age, condition, economic or functional obsolescence and environmental factors etc; all of these might result in the existing property being worth less to the undertaking in occupation than would a new replacement.” This opinion of value does not necessarily represent the amount that might be realized from the disposal of the subject assets in the open market, and this basis has been used due to the lack of an established market upon which to base comparable transactions. However, this approach generally furnishes the most reliable indication of value for assets without a known used market.

In valuing the property interests in the PRC, we have complied with all the requirements contained in Chapter 8 of the Rules Governing the Listing of Securities on the Growth Enterprise Market issued by The Stock Exchange of Hong Kong Limited and all the requirements contained in the Hong Kong Guidance Notes on the Valuation of Property Assets (2nd Edition) published by the Hong Kong Institute of Surveyors in March 2000.

We have been shown copies of various title documents and official site plans relating to the property interests of the Company in the PRC. In the course of our valuation, we have relied to a considerable extent on the advice given by the Company and its PRC legal advisers, GF Law Firm Shanghai, in the legal opinion regarding the title of the PRC property interests.

We have inspected the exterior and, where possible, the interior of the property interests included in the attached valuation certificates, in respect of which we have been provided with such information, as we have required for the purpose of our valuation. However, no structural survey has been made, but in the course of our inspection we did not note any serious defects. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. No tests were carried out to any of the services.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the relevant property interests but have assumed that the site areas shown on the documents and official site plans handed to us are correct. Based on our experience of valuation of similar properties in the PRC, we consider the assumptions so made to be reasonable. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurements have been taken.

We have relied to a considerable extent on the information provided by the Company and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, occupation, lettings, rentals, site and floor areas, identification of the property interests and all other relevant matters.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We have also sought from the Company that no material facts have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and have no reason to suspect that any material information has been withheld.

Our valuations have been made on the assumption that the property interests can be sold in the open market without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any other similar arrangement which could serve to affect the values of the property interests. In addition, no account has been taken of any option or right of pre-emption concerning or effecting the sale of the properties interests and no forced sale situation in any manner is assumed in our valuations.

No allowance has been made in our report for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation, which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

Our valuations are summarized below and the valuation certificates are attached.

Yours faithfully,  
for and on behalf of  
**SALLMANN (FAR EAST) LIMITED**  
**Paul L. Brown**  
*B.Sc. FRICS FHKIS*  
*Director*

*Note:* Paul L. Brown is a Chartered Surveyor who has 21 years' experience in the valuation of properties in the PRC and 24 years' property valuation experience in Hong Kong, the United Kingdom and the Asia-Pacific region.

## SUMMARY OF VALUES

## Group I — Property interests held and occupied by the Company in the PRC

No.	Property	Fair Market Value in existing state as at 31st December, 2003 <i>RMB</i>
1.	A parcel of land, various buildings and structures located at Zhanwang Village Yangxunqiao Town Shaoxing County Zhejiang Province The PRC	17,750,000
2.	A parcel of land, various buildings and structures located at Zhanwang Village Yangxunqiao Town Shaoxing County Zhejiang Province The PRC	3,875,000

## Group II — Property interest held by the Company in the PRC for future development

3.	A parcel of land located at Zhanwang Village Yangxunqiao Town Shaoxing County Zhejiang Province The PRC	1,627,000
Total:		<u>23,252,000</u>

## VALUATION CERTIFICATE

## Group I — Property interests held and occupied by the Company in the PRC

No.	Property	Description and tenure	Particulars of Occupancy	Fair Market Value in existing state as at 31st December, 2003 RMB
1.	A parcel of land, various buildings and structures located at Zhanwang Village Yangxunqiao Town Shaoxing County Zhejiang Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 39,347.00 sq.m.</p> <p>3 buildings and 6 structures erected on land were completed in various stages between 1997 and 2001.</p> <p>The total gross floor area of the buildings is approximately 12,173.85 sq.m.</p> <p>The buildings include an office building, a factory building and a transformer room.</p> <p>The structures include walls, roads, bicycle shed and a garage.</p> <p>The land use rights of the land were granted for a term of 50 years expiring on 19th March, 2053 for industrial use.</p>	The property is currently occupied by the Company for production and office purposes.	17,750,000

*Notes:*

1. According to a State-owned Land Rights Certificate — Shao Xing Xian Guo Yong (2003) Zi No. 7–15 issued by the Land Administration Bureau of Shaoxing County, the land use rights of the property have been granted to the Company for a term of 50 years expiring on 19th March, 2053 for industrial uses.
2. According to a Building Ownership Certificate — Shao Fang Quan Zheng Yang Xun Qiao Zi No. 00159, 3 buildings of the property with a total gross floor area of 12,173.85 sq.m. are held by the Company.
3. According to a Property Transfer Agreement dated 22nd April, 2003 made between the Company and Zhejiang Prospect Industrial Group Limited, the Company agreed to purchase the office building with a gross floor area of 3,864 sq.m. at a consideration of RMB8,504,702.

According to a Building Ownership Certificate — Shao Fang Zheng Yang Xun Qiao Zi No. 00159, the gross floor area of the transferred office building is 3,087.16 sq.m.

According to a Supplement Transfer Agreement dated 3rd August, 2003 made between the Company and Zhejiang Prospect Industrial Group Limited, Zhejiang Prospect Industrial Group Limited agreed to return RMB3,503,502.80 to the Company.

Thus, the final transfer consideration of the office building is RMB5,001,199.20.

4. According to an opinion given by the PRC legal advisers to the Company:
  - a. The Company has duly obtained the land use rights and the building ownership rights of the property.
  - b. The property is subject to a mortgage agreement dated 26th September, 2003 in favour of Industrial and Commercial Bank of China, Shaoxing Sub-branch (“ICBC”) (中國工商銀行紹興縣支行) for a period commencing from 26th September, 2003 and expiring on 28th September, 2006.
  - c. The property is subject to a mortgage agreement dated 26th September, 2003 in favour of Shanghai Pudong Development Bank, Shaoxing Sub-branch (“SPDB”) (上海浦東發展銀行紹興支行) for a period commencing from 26th September, 2003 and expiring on 26th September, 2005.
  - d. The property is subject to a mortgage agreement dated 5th November, 2003 in favour of Shaoxing County Credit Union, Jiangqiao Sub-office (“SCCU”) (紹興縣農村信用合作社聯合社江橋分理處) for a period commencing from 5th November, 2003 and expiring on 4th November, 2005.
  - e. During the mortgage term, the rights for Zhejiang Prospect Company Limited to lease, mortgage, transfer and handle the property is subject to the approval from ICBC, SPDB and SCCU.

## VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of Occupancy	Fair Market Value in existing state as at 31st December, 2003 RMB
2.	A parcel of land, various buildings and structures located at Zhanwang Village Yangxunqiao Town Shaoxing County Zhejiang Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 7,369.00 sq.m.</p> <p>5 buildings and structures erected on land were completed in various stages between 1997 and 2003.</p> <p>The total gross floor area of the buildings is approximately 3,451.7 sq.m., which include 3 factory buildings, a transformer room and a toilet.</p> <p>The structures are mainly walls, pools and a simple shed.</p> <p>The land use rights of the land were granted for a term of 50 years expiring on 19th March, 2053 for industrial use.</p>	The property is currently occupied by the Company for production purposes.	3,875,000

*Notes:*

1. According to a State-owned Land Rights Certificate — Shao Xing Xian Guo Yong (2003) Zi No. 7-16 issued by the Land Administration Bureau of Shaoxing County, the land use rights of the property have been granted to the Company for a term of 50 years expiring on 19th March, 2053 for industrial uses.
2. According to a Building Ownership Certificate — Shao Fang Quan Zheng Yang Xun Qiao Zi No. 00158, 5 buildings of the property with a total gross floor area of 3,451.7 sq.m. are held by the Company.
3. According to an opinion given by the PRC legal advisers to the Company:
  - a. The Company has duly obtained the land use rights and the building ownership rights of the property.
  - b. The property is subject to a mortgage agreement dated 22nd October, 2003 in favour of China Construction Bank, Shaoxing City Branch (“CCB”) (中國建設銀行紹興市分行).
  - c. The property is subject to a mortgage agreement dated 5th November, 2003 in favour of Shaoxing County Credit Union, Jiangqiao Sub-office (“SCCU”) (紹興縣農村信用合作社聯合社江橋分理處) for a period commencing from 5th November, 2003 and expiring on 4th November, 2005.
  - d. During the mortgage term, the rights for Zhejiang Prospect Company Limited to lease, mortgage, transfer and handle the property is subject to the approval from CCB and SCCU.

## VALUATION CERTIFICATE

## Group II — Property interest held by the Company in the PRC for future development

No.	Property	Description and tenure	Particulars of Occupancy	Fair Market Value in existing state as at 31st December, 2003 RMB
3.	A parcel of land located at Zhanwang Village Yangxunqiao Town Shaoxing County Zhejiang Province The PRC	The property comprises a roughly rectangular-shaped level land with a site area of approximately 14,023.00 sq.m.  The land use rights of the land were granted for a term of 50 years expiring on 12th March, 2053 for industrial use.	The property is currently vacant.	1,627,000

*Notes:*

1. According to a State-owned Land Rights Certificate — Shao Xing Xian Guo Yong (2003) Zi No. 7–17 issued by the Land Administration Bureau of Shaoxing County, the land use rights of the property have been granted to the Company for a term of 50 years expiring on 12th March, 2053 for industry uses.
2. As confirmed by the Company, the vacant land will be developed for future production purposes.
3. According to an opinion given by the PRC legal advisers to the Company:
  - a. The Company has duly obtained the land use rights of the property.
  - b. The property is subject to a mortgage agreement dated 22nd October, 2003 in favour of China Construction Bank, Shaoxing City Branch (“CCB”) (中國建設銀行紹興市分行).
  - c. During the mortgage term, the rights for Zhejiang Prospect Company Limited to lease, mortgage, transfer and handle the property is subject to the approval from CCB.

This appendix sets out summaries of certain aspects of the PRC legal and judicial system, its arbitration system and its company and securities law and regulations. It also contains a summary of certain Hong Kong law and regulations, including summaries of certain material differences between the PRC and Hong Kong company law, certain requirements of the GEM Listing Rules and the additional provisions required by the Stock Exchange for inclusion in the Articles of Association of the PRC issuers (as defined in the GEM Listing Rules).

## **THE PRC LAWS AND REGULATIONS**

### **(1) The PRC legal system**

The PRC legal system is based on the PRC Constitution and is made up of written laws, regulations and directives, local regulations and directives, and international treaties entered into by China. Decided court cases do not constitute binding precedents, although they are used for the purposes of judicial reference and guidance.

The National People's Congress of the PRC (the "NPC") and the Standing Committee of the NPC are empowered by the PRC Constitution to exercise the legislative power of the State. The NPC has the power to amend the PRC Constitution and enact and amend basic laws governing the State organs, civil and criminal matters. The Standing Committee of the NPC is empowered to interpret, enact and amend laws other than those required to be enacted by the NPC.

The State Council is the highest organ of state administration and has the power to enact administrative rules and regulations. The ministries and commissions under the State Council are also vested with the power to issue orders, directives and regulations within the jurisdiction of their respective departments. All administrative rules, regulations, directives and orders promulgated by the State Council and its ministries and commissions must not conflict with the PRC Constitution and the national laws enacted by the NPC and the Standing Committee of the NPC. In the event that any such conflict arises, the Standing Committee of the NPC has the power to annul such administrative rules, regulations, directives and orders.

Rules, regulations or directives may be enacted or issued at the provincial or municipal people's congresses and the standing committees of the provincial or municipal people's congresses. The local governments may promulgate rules and directives applicable to their own administrative region. These local regulations and directives must not conflict with the PRC Constitution, the national laws, or the administrative rules and regulations promulgated by the State Council.

The power to interpret laws is vested by the PRC Constitution in the Standing Committee of the NPC. According to the Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws (全國人民代表大會常務委員會關於加強法律解釋工作的決議) passed on 10th June, 1981, the Supreme People's Court has the power to give general interpretation on the application of laws in judicial proceedings in addition to its power to issue specific interpretation for specific cases. The State Council and its ministries and commissions are also vested with the power to give interpretation of the rules and regulations which they have promulgated.

At the regional level, the power to give interpretations of the regional laws is vested in the regional legislative and administration organs which promulgate such laws.

### **(2) Judicial system**

The people's courts are the judicial organs of the PRC. Under the PRC Constitution and the Law of Organisation of the People's Courts of the PRC (中華人民共和國人民法院組織法), promulgated on 1st July, 1979, the people's courts are made up of the Supreme People's Court, the local people's courts, military courts and other special people's courts. The local people's courts are divided into three levels, namely, the basic people's courts, the intermediate people's courts and the highest people's courts. The basic people's courts are divided into civil, criminal, economic and administrative divisions. The intermediate people's courts have divisions similar to those of the basic people's courts and other special divisions (such as the intellectual property division), in accordance with needs. The judicial work of people's courts at lower levels is subject to the supervision of people's courts at higher levels. The people's procuratorates also have the right to exercise legal supervision over the proceedings of people's courts of the same level and the lower level. The Supreme People's Court is the highest judicial organ of the PRC. It supervises the administration of justice by the people's courts at all levels.



The people's courts adopt a two-tier final appeal system. If a party is not satisfied with a judgement or order of the first instance of a local people's court, it may appeal against such judgement or order to the people's court at the next higher level, and the judgements or orders of the second instance of the Supreme People's Court are final and binding. If, however, the Supreme People's Court or a people's court at a higher level finds an error in a final and binding judgement which has taken effect in any people's court at a lower level, or the presiding judge of a people's court finds an error in a final and binding judgement which has taken effect in the court over which he presides, a retrial of the case may be conducted according to the judicial supervision procedures.

The PRC civil procedures are governed by the Civil Procedure Law of the PRC (中華人民共和國民事訴訟法) (the "Civil Procedure Law") adopted on 9th April, 1991, which prescribes the criteria for instituting a civil action, the jurisdiction of the people's courts, the procedures to be followed for conducting a civil action, the court procedures, and the procedures for enforcement of a civil judgement or order. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law. A civil case is generally heard by a people's court located in the defendant's place of domicile. The jurisdiction may also be selected by express agreement by the parties to a contract provided that the people's court having the jurisdiction is located at the plaintiff's or the defendant's place of domicile, the place of execution or implementation of the contract or the object of the action but it must not violate the regulations in respect of hierarchy and jurisdiction of the courts as stated in the Civil Procedure Law. A foreign national or foreign enterprise is given the same litigation rights and obligations as a citizen or legal person of the PRC. If a foreign country's judicial system limited the litigation rights of PRC citizens and enterprises, the PRC courts may apply the same limitations to the citizens and enterprises of that foreign country. If any party to a civil action refuses to comply with a judgement or order made by a people's court or an award made by an arbitration organ in the PRC, the aggrieved party may apply to the people's court to enforce the judgement, order or award. There are time limits imposed on the right to apply for such enforcement. If at least one of the parties to the dispute is an individual, the time limit is one year. If both parties to the dispute are legal persons or other institutions, the time limit is six months.

A party seeking to enforce a judgement or order of a people's court against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of such judgement or order. A foreign judgement or ruling may also be recognised and enforced according to the PRC enforcement procedures by the people's court in accordance with the principle of reciprocity or the international treaty with the relevant foreign country entered into or acceded to by the PRC which provides for such recognition and enforcement unless the people's court considers that the recognition or enforcement of such a judgement or ruling will violate the basic legal principles of the PRC or its sovereignty or security, or for reasons of social and public interest.

### (3) Arbitration and enforcement of arbitral awards

The Arbitration Law of the People's Republic of China (中華人民共和國仲裁法) (the "**Arbitration Law**") was passed by the Standing Committee of the NPC on 31st August, 1994 and came into effect on 1st September, 1995. It is applicable to, among other matters, trade disputes involving foreign parties where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure Law. Where the parties have by agreement provided arbitration as the method for dispute resolution, the people's court will refuse to handle the case if one party institutes legal proceedings in a people's court.

The GEM Listing Rules and the Mandatory Provisions require an arbitration clause to be included in the articles of association of a company listed in Hong Kong and, in the case of the GEM Listing Rules, also in a contract between the company and each director and supervisor, to the effect that whenever any dispute or claim arises from the articles of association, or from any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of a company, including, but without limitation, between (i) a holder of overseas listed foreign shares and the company; (ii) a holder of overseas listed foreign shares and the directors, supervisors, manager or other officers of the company; (iii) a holder of overseas listed foreign shares and a holder of domestic shares, such parties shall submit that dispute or claim for arbitration before either the China International Economic and Trade Arbitration Commission ("**CIETAC**") or the Hong Kong International Arbitration Centre ("**HKIAC**"). If the party seeking arbitration elects to arbitrate the dispute or claim at the HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the securities arbitration rules of the HKIAC. CIETAC is a foreign affairs arbitration organ in the PRC. CIETAC is located in Beijing with branch offices in Shenzhen and Shanghai.

Under the Arbitration Law and the PRC Civil Procedure Law, an arbitral award is final and binding on the parties. If a party fails to comply with an award, the other party to the award may apply to the people's court for enforcement. A people's court may refuse to enforce an arbitral award made by an arbitration commission if there is any procedural or membership irregularity specified by law or the award exceeds the scope of the arbitration agreement or is outside the jurisdiction of the arbitration commission.

A party seeking to enforce an arbitral award of a foreign affairs arbitration organ of the PRC against a party who or whose property is not within the PRC, may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognised and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded by the PRC.

The PRC acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the “**New York Convention**”) adopted on 10th June, 1958 pursuant to a resolution of the Standing Committee of the NPC passed on 2nd December, 1986. The New York Convention provides that all arbitral awards made in a state which is a party to the New York Convention shall be recognised and enforced by other parties to the New York Convention, subject to their right to refuse enforcement under certain circumstances, including where the enforcement of the arbitral award is against the public policy of the State to which the application for enforcement is made. It was declared by the Standing Committee of the NPC simultaneously with the accession of the PRC that (i) the PRC will only recognise and enforce foreign arbitral awards made within the territory of another party to the Convention on the principle of reciprocity; and (ii) the PRC will only apply the New York Convention in disputes considered under the PRC laws to arise from contractual and non-contractual mercantile legal relations.

Following the resumption of sovereignty over Hong Kong by the PRC on 1st July, 1997, the New York Convention no longer applies to the enforcement of Hong Kong arbitration awards in other parts of the PRC. A Memorandum of Understanding on the arrangement for reciprocal enforcement of arbitral awards between Hong Kong and China has been signed on 21st June, 1999. The new arrangement is made in accordance with the spirit of the New York Convention. To meet present day’s need’s, it will allow awards made by the arbitral authorities accepted by the PRC according to the Arbitration Law to be enforced in Hong Kong. Under the agreed arrangement, Hong Kong arbitration awards will also be enforceable in China.

#### (4) Taxation

##### (a) *Taxes applicable to joint stock limited companies*

###### (i) *Income Tax*

According to the Provisional Regulations of Income Tax for Domestic Companies (中華人民共和國企業所得稅暫行條例) effective from January 1994 and stipulated by the State Council, all PRC companies, including State-owned companies, collective-owned enterprises, private enterprises, joint stock companies and other companies (excluding joint ventures and foreign companies) are required to pay income tax at a rate of 33 per cent. on taxable income derived from their production of goods and business activities. However, income taxes could be reduced pursuant to any of new regulations promulgated by the State Council.

###### (ii) *Value Added Tax (“VAT”)*

Both the Provisional Rules of the People’s Republic of China on VAT (中華人民共和國增值稅暫行條例) effective from 1st January, 1994 and the Detailed Rules for the Implementation of the Provisional Rules of the People’s Republic of China on VAT (中華人民共和國增值稅暫行條例實施細則) effective from 25th December, 1993, stipulate that all units or individuals who are engaged in the sale of goods, the provision of processing, repair and replacement services, and the importation of goods within the territory of the PRC are required to pay VAT.

The tax payers who are engaged in the sale of goods are required to pay VAT at the rate of 13% or 17%. The tax payers who are providing processing, repair and replacement services are required to pay 17% VAT. The tax payers who are exporting goods are required to pay 0% VAT, except as otherwise stipulated by the State Council.

###### (iii) *Business tax*

Both the Provisional Rules of the People’s Republic of China on Business Tax (中華人民共和國營業稅暫行條例) issued on 13th December, 1993 and the Detailed Rules for the Implementation of the Provisional Rules of the People’s Republic of China on Business Tax (中華人民共和國營業稅暫行條例實施細則) issued on 25th December, 1993, stipulate that, all units and individuals except entertainment business engaged in the provision of taxable labour services, the assignment of intangible assets or sale of immovable properties, within the territory of the PRC, are required to pay 3% or 5% business tax on their gross business turnover. The business tax with regard to the entertainment business is at the rate of 5% to 20%.

(b) *Taxation of shareholders*(i) *Tax on dividends*

On 21st July, 1993, the State Tax Bureau, by the “Notice Relating to Taxes Applicable to Enterprises with Foreign Investments, Foreign Enterprises and Foreign Nationals in Relation to Dividends and Gains obtained from the Holding and Transferring of Shares” (國家稅務總局關於外商投資企業、外國企業和外籍個人取得股票(股權)轉讓收益和股息所得稅收問題的通知) (the “Tax Notice of 1993”) confirmed that dividends and other profit received by foreign investors (both foreign enterprises and individuals) from the PRC listed domestic shares, and overseas listed shares such as H shares, were exempted from withholding taxes.

On 13th May, 1994, the PRC Ministry of Finance and the State Tax Bureau issued the “Notice Relating to the Individual Income Tax” (關於個人所得稅若干政策問題的通知). According to such Notice, the dividends received by foreign individuals from foreign investment enterprises were temporarily exempted from withholding taxes.

On 26th July, 1994 the State Tax Bureau issued the Notice Relating to Taxes of Dividends Applicable to Foreign Individuals Who Hold Domestic And/Or Overseas Shares (關於外籍個人持有中國境內外上市公司股東所取得的股息有關稅收問題的通知) (the “Tax Notice of 1994”). The Tax Notice of 1994 stipulated that, dividends or other distributions received by foreign individuals who hold overseas shares and/or domestic listed foreign shares from a PRC listed company are, for the time being, exempted from individual income tax.

On 30th August, 1999, the Amendments to the Individual Income Tax Law of the PRC (關於修改《中華人民共和國個人所得稅法》的決定) were promulgated by the Standing Committee of NPC. Under the Amendment, any foreign national who is not a resident of the PRC will be subject to a withholding tax on dividends received from the shares of the PRC domestic enterprises. However, the exemption enjoyed by a foreign enterprise under the notices said above is not affected by the Amendment and continues to apply.

Accordingly, under current PRC laws and regulations, no withholding tax is payable in respect of dividends or other distributions on overseas shares held by any foreign enterprise or foreign national. If, however, the Tax Notice of 1993 and/or the Notice Relating to the Individual Income Tax and/or the Tax Notice of 1994 are withdrawn, a 20% withholding tax may be applied on such dividends or distributions, subject to any tax reductions pursuant to an applicable double taxation avoidance treaty.

(ii) *Tax on the transfer of shares*

Under the Tax Notice of 1993, foreign enterprises or foreign individuals are required to pay withholding taxes or individual income taxes at the rate of 20% on gains exceeding the amount of their contributions from the transfer of the shares held by them in the foreign investment enterprises.

The Implementing Rules of Individual Income Tax Law of the PRC (中華人民共和國個人所得稅法實施條例) (the “Implementing Rules”), issued on 28th January, 1994, stipulate that gains realised on the sale of equity securities by an individual are subject to income tax and empower the Ministry of Finance to draft detailed rules on the mechanisms of collecting such tax, which will be taken effective after approved by the State Council. As of the day, there are still no detail rules issued.

On 20th June, 1994, the Ministry of Finance and the State Tax Bureau jointly issued the Notice on the Temporary Non-Levy of Individual Income Tax on Gains from Share Transfers (關於股票轉讓所得暫不徵收個人所得稅的通知), exempting individuals from the payment of income tax on gains from the transfer of shares for the years 1994 and 1995. On 9th February, 1996, the Ministry of Finance and the State Tax Bureau jointly issued the Notice on the Temporary Non-Levy of Individual Income Tax on Gains from Share Transfers for 1996 (關於股票轉讓所得一九九六年暫不徵收個人所得稅的通知), exempting individuals from the payment of income tax on gains from the transfer of shares for the years 1996. On 30th March, 1998, the Ministry of Finance and the State Tax Bureau jointly issued the Notice on the Non-Levy of Individual Income Tax on Gains from Share Transfers (關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知), exempting individuals from the payment of income tax on gains from the transfer of shares since 1997.

(iii) *Tax treaties*

In the event that withholding tax is payable as referred to in (i) or (ii) above, foreign enterprises without an establishment or office in the PRC and non-PRC individual investors residing in countries which have entered into the avoidance of double-taxation treaties with the PRC may be entitled to a reduction of withholding tax imposed on the payment of dividends to such investors. The PRC is currently a party to the avoidance of double taxation treaties with a number of countries, including Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the US.

(iv) *Stamp duty*

By virtue of the Interim Regulations Concerning Taxation Issues for Joint Stock Trial Enterprises (股份制試點企業有關稅收問題的暫行規定) issued on 12th June, 1992 and the Interim Regulations of the PRC Concerning Stamp Duty (中華人民共和國印花稅暫行條例) issued on 6th August, 1988 and taking effect on 1st October, 1988, PRC stamp duty is imposed on the transfer of the PRC listed domestic shares. However, H shares which are transferred outside the PRC are exempted from the payment of the PRC stamp duty.

(v) *Inheritance tax*

According to the applicable PRC laws, there is no inheritance tax.

**(5) Foreign exchange control**

Major reforms have been introduced to the foreign exchange control system of the PRC since 1993.

On 28th December, 1993, the People's Bank of China ("PBOC"), with the authorisation of the State Council, issued the Notice on Further Reform of the Foreign Exchange Control System (中國人民銀行關於進一步改革外匯管理體制的公告). Other main regulations and implementation measures include the PRC Foreign Exchange Control regulations (中華人民共和國外匯管理條例) effective on 1st April, 1996 and promulgated by the State Council on 29th January, 1996 and the Regulations on the Foreign Exchange Settlement, Sale and Payments (結匯、售匯及付匯管理規定) which were promulgated by PBOC on 20th June, 1996 and took effect on 1st July, 1996 and which contain detailed provisions regulating the settlement, sale and payment of foreign exchange by domestic enterprises, individuals, economic organisations and social organisations in the PRC.

Under such new regulations, the previous dual exchange rate system for Renminbi was abolished and a unified floating exchange rate system, based largely on supply and demand, was introduced. The PBOC publishes, on each business day, the Renminbi exchange rate against other major foreign currencies. Such rate is to be set by reference to the Renminbi/major foreign currencies trading price on the previous day on the inter-bank foreign exchange market.

In general, all organisations and individuals within the PRC, including foreign invested enterprises, are required to remit their foreign exchange earnings to the PRC. In relation to the PRC enterprises, their recurrent foreign exchange are generally required to be sold to designated banks unless specifically approved otherwise. Foreign-invested enterprises, on the other hand, are permitted to retain certain percentage of their recurrent foreign exchange earnings and the sums retained may be deposited into foreign exchange bank accounts maintained with designated banks. Capital foreign exchange must be deposited into foreign exchange bank accounts maintained with designated banks and can generally be retained in such accounts.

At present, control on the purchase of foreign exchange is being relaxed. Enterprises which require foreign exchange for their recurrent activities such as trading activities and payment of staff remuneration may purchase foreign exchange from designated banks, subject to the production of relevant supporting documents.

In addition, where an enterprise requires any foreign exchange for the payment of dividends that are payable in foreign currencies under applicable regulations, such as dividends of H shares and distribution of profits by a foreign invested enterprise to its foreign investment party, then, subject to the due payment of tax on such dividends, the amount required may be withdrawn from funds in foreign exchange accounts maintained with designated banks, and where the amount of the funds in foreign exchange is insufficient, the enterprise may purchase additional foreign exchange from designated banks upon the presentation of the resolutions of the directors on the profit distribution plan of that enterprise.

Despite the relaxation of foreign exchange control over current account transactions, the approval of the SAFE is still required before an enterprise may borrow a loan in foreign currency or provide any foreign exchange guarantee or to make any investment outside of the PRC or to enter into any other capital account transaction which involves the purchase of foreign exchange.

When conducting actual foreign exchange transactions, the designated banks may, based on the exchange rate published by the PBOC and subject to certain limits, freely determine the applicable exchange rate. The China Foreign Exchange Trading System (“CFETS”) was formally established and came into operations on 1st January, 1994, CFETS has set up a computerised network with sub-centres in several major cities, thereby forming an interbank market in which designated PRC banks can trade and settle their foreign currencies. On 25th October, 1998, the PBOC and the State Administration of Foreign Exchange (“SAFE”) jointly issued a notice, which stipulate that all the swap centres were closed from 1st December, 1998.

On 5th August, 2002, the SAFE and the China Securities Regulatory Commission (“CSRC”) jointly issued the Notice Concerning Some Issues Relating to Strengthening the Foreign Exchange Control of Overseas Listing (關於進一步完善境外上市外匯管理有關問題的通知) effective on 1st September, 2002. The Notice provided that:

- (a) within 30 days after obtaining the approval of the CSRC upon the overseas share offer, a domestic shareholder of the overseas listed enterprise should register for the foreign exchange concerning the shares. The documents provided for such registration should include the plan stipulated in the following clause (b) and (c) relating to transfer of the foreign currency.
- (b) the overseas listed enterprise should transfer the foreign currency proceeds deducted relevant fees into the PRC within 30 days after receiving such proceeds. Without the approval of the SAFE, the proceeds should not be deposited overseas. After transferred, the proceeds would be controlled as if invested directly by the foreign investors. Upon the approval of SAFE, a special foreign exchange account may be open to deposit and settle such proceeds.
- (c) a domestic shareholder of the overseas listed enterprise may obtain foreign exchange by selling the shares of overseas listed enterprise or by selling the assets or equity through overseas listed enterprise. Such foreign exchange deducted relevant fees should be transferred into the PRC within 30 days after received. Without the approval of the SAFE, the foreign exchange should not be deposited overseas. After transferred, the foreign exchange should be settled upon the approval of the SAFE.
- (d) before the foreign proceeds set forth in clause (b) and (c) to be transferred into the PRC, if necessary, a special foreign exchange account overseas may be applied to the SAFE to deposit the proceeds temporarily. The term of the account, however, is only three months as of the day the account open.
- (e) if a overseas listed enterprise need to purchase its own overseas shares, it should, upon the approval of the CSRC, modify its foreign exchange registration relating to the overseas shares and get the approval relating to remit abroad the foreign exchange.

#### (6) Company law

On 29th December, 1993, the Standing Committee of the PRC promulgated the Company Law (中華人民共和國公司法) which came into effect on 1st July, 1994. Before implementation of the Company Law, the formation and regulation of joint stock limited companies were governed by the Standard Opinion for Joint Stock Companies (關於股份有限公司的規範意見) (the “**Standard Opinion**”) promulgated by the State Restructuring Commission on 15th May, 1992. The Standard Opinion was superseded by the Company Law. The legal status of joint stock limited companies established pursuant to the Standard Opinion is preserved and these companies are required to conform to the provisions of the Company Law and apply for re-registration within a certain period.

The Overseas Listing Special Regulations (境外上市的特別規定) were passed by the State Council on 4th August, 1994 pursuant to Article 85 and 155 of the Company Law. On 27th August, 1994, the Mandatory Provisions, which must be incorporated in the articles of association of all the PRC joint stock limited companies to be listed overseas, were jointly promulgated by the Securities Committee and the State Restructuring Commission.

On 3rd April, 1995, The China Securities Regulatory Commission and the State Restructuring Commission jointly issued the Letter of the Opinion Concerning the addendum to the Articles of Associations of the Companies to be Listed in Hong Kong (the Addendum Letter) in which made additional provisions concerning the Articles of Associations of the companies to be listed in Hong Kong.

Set out below is a summary of the provisions of the Company Law, the Overseas Listing Special Regulations, the Mandatory Provisions, and the Addendum Letter.

**(a) General**

The Company Law governs two types of companies, namely companies incorporated in the PRC with limited liability and companies incorporated in the PRC as joint stock limited companies. Both types of companies have the status of an enterprise legal person.

The liability of shareholders of a limited liability company is limited to the extent of the amount of capital contributed by them and the company is liable to its creditors to the full amount of the assets owned by it. A joint stock limited company having a registered share capital divided into shares of equal par value. The liability of its shareholders is limited to the extent of the amount of shares subscribed by them and the company is liable to its creditors to the full amount of all the assets owned by it.

A company may invest in other limited liability companies and joint stock limited companies. Apart from investment companies and holding companies authorised by the State Council, the amount of a company's aggregate investment in other joint stock limited companies and limited liability companies may not exceed 50% of its net assets and after the investment, accept the capital increased from the profit of the invested enterprises, not including the increment. The Mandatory Provisions provide that a company may, subject to the approval of the company's supervisory department authorised by the State Council, operate as a holding company.

**(b) Incorporation**

Under the Company Law, a joint stock limited company may be incorporated by either the promotion method or public issue.

The method of promotion means that for the purpose of establishing a joint stock limited company, all the shares to be issued by the company shall be subscribed by the promoters. Where a company is established by means of public issue, not less than 35% of the share to be issued by the company shall be subscribed by its promoters and the remaining shares to be issued shall be offered to the public for subscription.

Under the Company Law of PRC the establishment of a joint stock limited company requires a minimum of five promoters with at least half of the promoters having a residence within the PRC. A State-owned enterprise which is to be restructured into a joint stock limited company may have less than five promoters, but should be established by the public issue method.

Under the Overseas Listing Special Regulations, a State-owned enterprise with the majority of its assets owned by the State can be restructured in accordance with the relevant regulations to become a joint stock limited company and may offer shares for subscription to overseas investors. If such a company is to be established by the promotion method, it may have less than five promoters and the company may issue new shares once incorporated.

**(c) Procedures for establishment of companies**

The establishment of a joint stock limited company must be approved by the relevant governmental departments authorised by the State Council or by the relevant provincial people's government. The establishment of a foreign investment joint stock limited company must obtain the approval of the PRC Ministry of Foreign Trade and Economic Cooperation.

Where a company is established by the promotion method, the promoters shall pay for their shares in full immediately after they have completed their written subscriptions for the shares to be issued in accordance with the articles of association of the company. When all subscription payments by the promoters have been made, the promoters shall elect the board of directors and the members of the supervisory committee. The board of directors of the company shall submit the supporting documents, such as the approval documents for the establishment of the company, its articles of association and the capital verification certificate, to the Administration of Industry and Commerce Bureau for registration of the company.



The promoters must submit to the relevant securities administration authority of the State Council an application for public issue together with other supporting documents including, among others, (i) the draft articles of association; (ii) the prospectus; (iii) the particulars of receiving banker; (iv) the name of underwriters and the underwriting and placing agreement; (v) the approval document for the establishment of the company; (vi) the capital verification certificate; and (vii) a business forecast report.

The promoters of the company may subscribe the shares by contributing money or material objects, industry property rights, non-patented technologies and the land use rights. The value of shares to be issued through contribution of industry property rights and non-patented technologies shall not exceed 20% of the registered capital of the company. The promoters may proceed with the public offering of shares only after the approval of the relevant securities administration authority has been obtained. An inaugural meeting of the company shall be convened by the promoters within 30 days after the shares have been paid up in full. Matters required to be transacted at the inaugural meeting include, among others, the adoption of the company's article of association, the election of the members of the board of directors, the election of members of the supervisory committee and the review of the value attributed to the assets injected by the promoters into the company in return for its shares. The board of directors of the company is required to submit the requisite documents of the company to the Administration of Industry and Commerce Bureau for registration within 30 days after the inaugural meeting.

The date of establishment of a company is the day when its business licence is issued by the Administration of Industry and Commerce Bureau.

**(d) Responsibilities of promoters**

Under the Company Law, the promoters of a company are liable for:

- (i) joint liabilities for payment of expenses and liabilities incurred in connection with the establishment of the company in the event of the company not being established;
- (ii) joint liabilities for repayment of the subscription monies to the subscribers together with interest at bank rate for savings deposit for the same period of time, in the event of the company not being established; and
- (iii) damages to the company for losses suffered by the company as a result of the default of the promoters in the course of the establishment of the company.

According to the Provisional Regulations Concerning the Issue and Trading of Shares (股票發行與交易管理暫行條例) (the "Provisional Regulations") promulgated by the State Council on 22nd April, 1993, the promoters of a company are required to assume joint and several responsibility for the accuracy of the contents of the prospectus and to ensure that the prospectus does not contain any misleading statement or omit any material information.

**(e) Shares**

*(i) Registered capital*

The registered capital of a joint stock limited company is the total amount of paid-up capital of the company registered with the Administration of Industry and Commerce Bureau. The minimum amount of registered capital of a joint stock limited company is RMB10,000,000. A company, the shares of which are authorized by the relevant securities administration authority to list on a stock exchange, must have a registered capital of not less than RMB50,000,000.

*(ii) Allotment and issue of shares*

The issue of share must be based on the principles of transparency, equality and fairness. The same class of shares must carry equal rights. Where shares are issued at the same time, the terms (including the subscription price) of allotment of each share must be identical to the others of the same class. Any entity or individual subscribing for shares in a joint stock limited company shall pay the same price for each share.

(iii) *Registered or bearer shares*

Shares may be issued in registered form or bearer form. Shares issued by the company to promoters, State-designated investment institutions or legal persons shall be in registered form and shall state the name of the promoter, State-authorized investment institution or legal persons. Such shares may not be registered under any other name, or under the name of a nominee. Shares issued to the public may be either registered or bearer shares. The Overseas Listing Special Regulations and the Mandatory Provisions provide that shares issued to foreign investors and listed overseas shall be issued in registered form, denominated in Renminbi and subscribed for in foreign currency.

Under the Overseas Listing Special Regulations and the Mandatory Provisions, shares issued to foreign investors, including investors from the territories of Hong Kong, Macau and Taiwan and listed overseas are known as “overseas listed foreign shares”, and those shares issued to investors within the PRC other than the territories specified above are known as “domestic shares”.

The State Council is empowered to prescribe detailed measures in connection with any offer of shares. A joint stock limited company may offer its shares to the overseas public with the approval of the securities administration department of the State Council. In addition to providing for the number of shares to be underwritten, an underwriting and placing agreement may, subject to the prior approval of the Securities Committee, make provisions to set aside up to 15% of the overseas listed foreign shares in the underwriting and placing agreement as part of the total number of shares to be offered under the Overseas Listing Special Regulations.

A register of shareholders shall be maintained by the company in respect of shares issued in registered form. Information such as the names and addresses of shareholders, number of shares held by each shareholder and the dates on which the shareholders became holders of the relevant shares is required to be entered into the register.

(f) *Increase of share capital*

Under the Company Law, a joint stock limited company may increase its share capital by means of an issue of new shares subject to the following:

- (i) share subscription for the previous issue must have been paid in full and at least one year has elapsed since the date of the immediately preceding share issue. However, under the Overseas Listing Special Regulations, if the company increases its capital by way of an issue of overseas listed foreign shares, the time period elapsed since the last share issue may be less than 12 months;
- (ii) the company must have made profits for the immediately three preceding years and its distributable profits must have been sufficient to pay dividends;
- (iii) the financial and accounting statements of the company in the immediately three preceding years must not have contained any false information; and
- (iv) the forecast profit rate of the company shall be no less than (or reach) the interest rate of bank for savings deposit for the same period.

An issue of shares shall be approved by shareholders in general meeting. After the shareholders’ approval has been obtained, the board of directors of the company shall also obtain the approval of the departments authorised by the State Council or that of the provincial people’s government. If a company issues shares by way of an offer to the public, the approval of the relevant securities administration authority of the State Council will also have to be obtained. Upon completion of the subscription of H shares, the company must register the increase in its registered capital with the Administration of Industry and Commerce Bureau jointly with other relevant necessary procedures.

(g) *Reduction of share capital*

Subject to the minimum registered capital requirements, a joint stock limited company may reduce its registered capital in accordance with the following procedures prescribed:

- (i) the company shall prepare a balance sheet and a detailed inventory of its assets;



- (ii) the reduction of registered capital must be approved by shareholders in general meeting;
- (iii) the company shall inform its creditors of the intended reduction in capital within 10 days and publish a public announcement of the intended reduction in a newspaper at least three times within 30 days after the resolution approving the reduction has been passed;
- (iv) the creditors of the company are entitled within the statutorily prescribed time limit to require the company to pay its debts or provide guarantees covering the debts; and
- (v) the company must apply to the Administration of Industry and Commerce Bureau for registration of the registered capital.

**(h) *Repurchase of shares***

A company may not purchase its own shares except in cases where a company effects a cancellation of shares due to a reduction in registered share capital or a merger with another company which holds shares in the company or such other purpose permitted by law and administrative regulations. The Mandatory Provisions provide that, upon obtaining the necessary approvals in accordance with the articles of association of a company and that of the relevant supervisory authorities, the company may repurchase its issued shares for the foregoing purposes by way of a general offer to the shareholders of the company under the same proportion or purchase on a stock exchange or by way of an off market contract.

Under the Company Law, within 10 days following a repurchase of a company's own shares, a company must, in accordance with the applicable law and administrative regulations, cancel the portion of the shares repurchased, register the change of its capital and issue a public announcement thereafter.

**(i) *Transfer of shares***

Shares may be transferred in accordance with the relevant law and regulations.

A shareholder may only effect a transfer of its shares on a stock exchange established in accordance with law. Registered shares may be transferred either by endorsement by the shareholders or by such other method specified by the applicable law and administrative regulations.

The company shall maintain the name or nomenclature and addresses of the transferee in the register of shareholders. Promoters shall not transfer their shares in a company within three years after the establishment of the company. Directors supervisors and the manager of a company shall not transfer their shares in the company during their term of office with the company.

**(j) *Shareholders***

Under the Company Law and the Mandatory Provisions, the rights of a shareholder include the rights to:

- (i) attend and vote in person or to appoint a proxy to attend and vote on his behalf at general meetings of the company;
- (ii) inspect the article of association of the company, the minutes of shareholders' meetings and the financial report of the company and to put forward propositions and enquiries relating to the operation of the company;
- (iii) transfer the shares held by it in accordance with law on a stock exchange established in accordance with the relevant laws;
- (iv) receive the surplus assets of the company in its winding up in proportion to its shareholding; and
- (v) may initiate legal proceedings in the people's court if a resolution passed at a shareholders' meeting or directors' meeting has infringed the law or administrative regulations or the legitimate interests of the shareholders.

A shareholder is liable to the company to the extent of the amount of shares he subscribed for.

A shareholder may enjoy such other rights and is required to assume such other obligations as specified in the company's articles of association.

(k) *Shareholders' general meetings*

(i) *Power of shareholders in general meeting*

The shareholders' general meeting is the organ of authority of the company and may exercise the following powers:

- (1) to determine the company's business policies and investment plans;
- (2) to elect or remove directors and supervisors who are the representatives of shareholders and to fix the remuneration and to decide upon such related matters relating to directors and supervisors;
- (3) to consider and approve the reports of board of directors and the supervisory committee;
- (4) to consider and approve the company's annual financial budget and accounting plans;
- (5) to consider and approve the profit distribution plan and plans for recovery of losses;
- (6) to approve the increase or reduction in the registered share capital of the company;
- (7) to approve the issue of debentures by the company;
- (8) to approve the merger, demerger, dissolution and liquidation of the company; and
- (9) to approve amendments to the company's articles of association.

(ii) *Annual general meetings and extraordinary shareholders' general meetings*

Shareholders' general meetings are divided into annual general meetings and extraordinary shareholders' general meetings. Annual general meetings must be held once every year. Extraordinary shareholders' general meetings are general meetings other than annual general meetings and shall be convened within two months after the occurrence of any of the following circumstances:

- (1) the number of directors is less than two thirds of the number required under the Company Law or the company's articles of association;
- (2) the company's accumulated losses amount to one-third of its total paid up capital;
- (3) upon requisition in the written form by holders of not less than 10% of the voting rights or more of the company; or
- (4) the board of directors or the supervisory committee considers such a meeting necessary.

(iii) *Proceedings of shareholders' general meetings*

A shareholders' general meeting shall be convened by the board of directors in accordance with the Company Law and presided over by the chairman of the board of directors. Notice of shareholders' meeting shall be given not less than 30 days before the date of such meeting under the Company Law. A company which has bearer shares in issue shall make a public announcement of the shareholders' general meeting at least 45 days prior to the meeting being held. Under the Overseas Listing Special Regulations and the Mandatory Provisions, 45 days' notice of a shareholders' general meeting is required to be given to shareholders specifying the matters to be considered at and the date and place of the meeting.

Under the Overseas Listing Special Regulations and the Mandatory Provisions, shareholders who intend to attend a shareholders' general meeting are required to provide the company with a written confirmation of their attendance 20 days prior to the meeting. Shareholders holding 5% or more of the voting rights of a company are entitled, under the Overseas Listing Special Regulations, to propose to the company, in writing, new resolutions to be considered at an annual general meeting and the company shall include any proposed resolutions which are within the powers of a shareholders' general meeting in the agenda of that meeting.

The Company Law does not specify any quorum requirement for a general meeting. The Overseas Listing Special Regulations and the Mandatory Provisions provide that a shareholders' general meeting may be held if shareholders holding 50% or more of the voting rights of a company have replied in writing 20 days prior to the proposed date of the meeting that they intend to attend the meeting. In the event that the 50% level is not attained, a shareholders' general meeting may be held if the company shall within 5 days after the last day for receipt of the replies notify shareholders by public announcement of the matters to be considered at and the place and date of the meeting.

Each shareholder present at a shareholders' general meeting is entitled to one vote for every share held. A shareholder may appoint a proxy to attend and vote on his behalf at a shareholders' general meeting. Ordinary resolutions proposed at a shareholders' general meeting must be passed by more than half of the votes cast by shareholders present in person or by proxy at the meeting. Resolutions on: (i) amendments to the company's articles of association; (ii) the merger, division or dissolution of the company; (iii) the increase and reduction of capital of and the issue of any class of shares, bonds and securities by the company; and (iv) other matters which the shareholders' general meeting has resolved by way of ordinary resolution as having a potentially material effect on the company and should be approved by special resolution of more than two-thirds of the votes so cast.

The Mandatory Provisions require class meetings to be held in the event of a variation or abrogation of the class rights of a class of shareholders. Holders of domestic shares and holders of overseas listed foreign shares are deemed to be different classes of shareholders.

(I) *Directors*

(i) *Board of directors*

The board of directors of a joint stock limited company shall comprise between 5 and 19 directors. The term of office of a director shall be prescribed by the company's articles of association but shall not exceed three years. A director may serve consecutive terms if re-elected. The board of directors of a company may exercise the following powers:

- (1) to convene shareholders' meetings and to report on its work to the shareholders;
- (2) to implement resolutions passed by shareholders in general meetings;
- (3) to formulate on the company's business plans and investment plans;
- (4) to formulate the company's annual budgets and accounts;
- (5) to formulate profit distribution plans and plans for recovery of losses;
- (6) to formulate plans for the increase or decrease in registered capital and plans for issue of debentures;
- (7) to formulate plans for the merger, division or dissolution of the company;
- (8) to decide on the internal management structure of the company;
- (9) to appoint or dismiss the manager, and at the recommendation of the manager, employ or dismiss deputy managers and financial controllers and to fix their remuneration; and
- (10) to formulate the management control system of the company.

In addition, the Mandatory Provisions provide that the board of directors is also responsible for formulating proposals for amending the articles of association of the company.

(ii) *Board meetings*

Regular meetings of the board of directors of a company shall be held at least twice every year. Notice of regular board meetings shall be given at least 10 days before the date of the meetings. Notices of any other extraordinary board meetings shall be given in such manner and for such notice period as may be determined by the board of directors.

A quorum for meetings shall be constituted by more than half of the directors. A director may attend a board meeting personally or may authorise in writing another director as his representative to attend on his behalf. The power of attorney shall define the scope of the representative's authority. All resolutions passed at a board meeting shall be recorded in the minutes of the relevant meeting and the minutes shall be signed by the directors who attended the meeting and the person who recorded the minutes.

If any board resolution contravenes any applicable laws and regulations or the company's articles of association and results in substantial damages to the company, any director who participated in passing the resolution (except those who against the resolution and whose dissenting vote is recorded in the relevant minutes) shall be personally liable to the company.

(iii) *Chairman of the board of directors*

The Board of directors shall appoint a chairman. The appointment of the chairman shall be approved by more than half of the directors. The chairman is the legal representative of the company and may exercise the following powers:

- (1) to preside over shareholders' meetings and convene and preside over meetings of the board of directors;
- (2) to examine the implementation of resolutions of the board of directors; and
- (3) to sign the share certificates and debentures issued by the company.

(iv) *Qualification of directors*

The Company Law provides that the following persons are not eligible to act as directors:

- (1) a person who has no civil capacity or has a restricted civil capacity;
- (2) a person who has been convicted of offences relating to bribery, corruption, misappropriation of property, or the sabotage of social economic order, where less than five years have elapsed since the date of completion of the sentence; or a person who has been deprived of his political rights where less than five years have elapsed since completion of such deprivation;
- (3) a person who is a former director, factory manager or manager of a company or enterprise which has become bankrupt or has been liquidated due to mismanagement and who is personally liable for the bankruptcy or liquidation of such company or enterprise, where less than three years have elapsed since the date of the completion of the liquidation of the company or enterprise;
- (4) a person who has been a legal representative of a company or enterprise the business licence of which has been revoked due to unlawful operation by the company or enterprise and the person is personally responsible for such revocation, where less than three years has elapsed since the date of such revocation;
- (5) a person who is liable for a relatively large amount of debt which has not been repaid when due; or
- (6) a person who is a State civil servant.

Other circumstances under which a person is disqualified from acting as a director of a company are set out in the articles of association and the Mandatory Provisions.

**(m) Supervisory committee**

A company is required to establish a supervisory committee comprising not less than three members. The supervisory committee is responsible for:

- (i) examining the financial matters of the company;
- (ii) supervising the directors and manager of the company to ensure that they carry out their duties in compliance with the relevant laws and regulations and the company's articles of association;
- (iii) requiring the directors and manager to rectify any action which adversely affects the interests of the company;
- (iv) proposing the convening of extraordinary shareholders' general meetings; and
- (v) carrying out other duties specified in the company's articles of association.

A supervisor is also required to attend board meetings.

Under the Supplemental Amendments resolutions of a supervisory committee are required to be passed by the affirmative votes of two thirds or more of the supervisors.

Members of the supervisory committee shall comprise representatives elected by the workers of the company and representatives elected by shareholders in general meeting in an appropriate proportion specified in the company's articles of association. A director, manager or financial controller of the company cannot become a supervisor. The term of office of a supervisor is three years and a supervisor may serve consecutive terms if re-elected. The circumstances under which a person is disqualified from acting as a director of a company under the company Law and the Mandatory Provisions apply equally to a supervisor of the company.

**(n) Manager and officers**

The company shall have a manager who shall be appointed or removed by the board of directors. The manager is accountable to the board of directors and may exercise the following powers:

- (i) to supervise the production, business and administration of the company and to organise the implementation of resolutions of the board of directors;
- (ii) to organise the implementation of the company's business and investment plans;
- (iii) to formulate plans for the establishment of the company's internal management structure;
- (iv) to formulate the basic administration system of the company;
- (v) to formulate the company's internal rules;
- (vi) to recommend the appointment and dismissal of deputy managers and the financial controller and appoint or dismiss other administration officers (other than those required to be appointed or dismissed by the board of directors);
- (vii) to attend board meetings; and
- (viii) other powers conferred by the board of directors or the company's articles of association.

The Overseas Listing Special Regulations provide that the officers of a company shall include its financial controller, company secretary and other executives specified in the company's articles of association.

The circumstances under which a person is disqualified from acting as a director of a company under the Company Law and the Mandatory Provisions apply equally to managers and officers of the company.

**(o) Duties of directors, supervisors, managers and officers**

A director, supervisor, manager and an officer of a company are required under the Company Law to comply with the relevant laws, regulations and the company's articles of association, carry out their duties honestly, and protect the interests of the company. The Overseas Listing Special Regulations and the Mandatory Provisions provide that a director, a supervisor, a manager or an officer of a company owes fiduciary duties to the company and is required to perform its duties faithfully, protect the interests of the company and not to make use of its positions in the company for its own benefit. A director, supervisor, manager and an officer of a company is also under a duty of confidentiality to the company and is prohibited from divulging the secret information of the company save as permitted by the relevant law and regulations or by the shareholders.

A director, supervisor, manager or an officer who contravenes any law, regulation or the company's articles of association in the performance of his duties which resulted in any loss to the company shall be personally liable to the company.

**(p) Finance and accounting**

A company is required to establish a financial and accounting system in accordance with the relevant laws and regulations as well as rules stipulated by the Ministry of Finance and the State Council.

A company is required to prepare its financial statements at the end of each financial year, comprising its balance sheet, profit and loss account, a statement on financial status and changes of financial status and a profit distribution statement. The financial statements shall be made available for inspection by the shareholders of the joint stock limited company at least 20 days prior to the annual general meeting of the company. A joint stock limited company established by the public subscription method must publish its financial statements by way of public announcement.

A company is required to make the following transfers from its after tax profit before distributing its profits to the shareholders of the company:

- (i) 10% of its after tax profit to the statutory surplus reserve of the company provided that no further transfer is required to be made if the accumulated statutory common reserve exceeds/reaches 50% of the registered capital of the company;
- (ii) between 5% and 10% of its after tax profit to the statutory public welfare fund;
- (iii) subject to the shareholders' approval in shareholders' general meeting and after transfer of the requisite amount to the statutory surplus reserve, the amount from the after tax profit of the company to the discretionary common reserve; and
- (iv) any balance of the after tax profit after making up losses and transfers to the statutory surplus reserve and statutory public welfare fund shall be distributed to the shareholders in proportion to their respective shareholdings in the company.

When a company's statutory surplus reserve is insufficient to make up for the company's losses for the previous year, the profits of the company for the current year shall be applied to make up such losses before making allocations in accordance with the foregoing requirements to the statutory surplus reserve and the statutory public welfare fund.

The common reserve of a joint stock limited company comprises the statutory surplus reserve, discretionary common reserve and the capital common reserve.

The capital common reserve of a company is made up of the premium over the nominal value of the shares of the company and other amounts required by the relevant governmental financial authority are to be treated as the capital common reserve.

The surplus reserve of a company shall be applied for the following purposes:

- (i) to make up the company's losses;
- (ii) to expand the business operations of the company; and
- (iii) to pay up the registered share capital of the company by the issue of H shares to shareholders in proportion to their existing shareholdings in the company or by increasing the par value of the shares currently held by the shareholders, provided that if the statutory common reserve is converted into registered capital, the balance of the statutory surplus reserve after such conversion shall not be less than 25% of the registered capital of the company.

The statutory public welfare fund shall be applied for the collective welfare of the company's employees.

**(q) *Appointment and retirement of auditors***

The Overseas Listing Special Regulations require a company to employ an independent PRC qualified firm of accountants to audit the company's annual financial statements and review other financial reports.

The auditors are to be appointed for a term commencing from their appointment at an annual general meeting to the close of the next annual general meeting.

If a company removes or ceases to continue to appoint its existing auditors, it is required by the Overseas Listing Special Regulations to give prior notice to the auditors and the auditors are entitled to make representations before the shareholders in general meeting. The auditors who resigned from their office should make a statement to the shareholders stating whether or not the company has undertaken any inappropriate transactions. The appointment, removal or non-renewal of appointment of auditors shall be decided by the shareholders and shall be registered with the CSRC.

**(r) *Distribution of profits***

Overseas Listing Special Regulations provide that the dividends and other distributions payable to holders of overseas listed foreign shares shall be declared and calculated in Renminbi and paid in foreign currency. Under the Mandatory Provisions, the payment of foreign currency to shareholders shall be made through a receiving agent.

**(s) *Amendments to articles of association***

Amendments to a company's articles of association must be approved by more than two thirds of the votes cast by shareholders present at the shareholders' general meeting. Any amendment to the provisions in a company's articles of association in accordance with the Mandatory Provisions will only be effective after the approval of the relevant department authorised by the State Council and the Securities Committee are obtained. A company must change its registration particulars in accordance with the applicable law if any amendments to its articles of association involving registration matters are adopted.

**(t) *Merger and demerger***

The merger or demerger of a company shall be approved by the shareholders in general meeting and the relevant governmental authority. The merger of a company may be effected either by way of absorption followed by the dissolution of the company being absorbed or by the establishment of a new entity followed by the dissolution of the original entities.

All parties to a merger are required to sign a merger agreement and to prepare their respective balance sheets and inventory of assets. Each relevant party to a merger shall notify the creditors of the merger within 10 days and publicly announce the merger in the newspapers at least three times within 30 days after the resolution approving the merger has been passed. The creditors are required within the statutory prescribed time limit to request the company to repay any outstanding indebtedness or provide guarantees covering such indebtedness. Any company which is unable to repay its debts or provide such guarantees is prohibited from proceeding with the merger.

A company is required to prepare its balance sheet and inventory of assets prior to its demerger. Similar requirements on notification of the demerger to creditors, publication of notice of the demerger and repayment of or provision of guarantees to creditors are applicable in the case of the demerger.

Any changes in the registrar's particulars of the companies resulting from merger or demerger should be re-registered with the company registration authority in accordance with the law.

**(u) Dissolution and liquidation**

Under the Company Law, a company shall be dissolved and liquidated if any of the following events shall occur:

- (i) the term of its operations stipulated in the company's articles of association has expired or on the occurrence of an event provided in the company's articles of association which triggers the dissolution of the company;
- (ii) the shareholders in general meeting have resolved to dissolve the company by special resolution;
- (iii) a merger or demerger of the company which requires the company to be dissolved;
- (iv) the declaration of the insolvency of the company according to law by reason of its not being able to pay its debts when become due and payable; or
- (v) the company has been ordered to close down as a result of violation of the law or administrative regulations.

Where a company is dissolved in the circumstances referred to in (i) or (ii) above, the shareholders in general meeting shall, within 15 days of the occurrence of the event, appoint the members of the liquidation committee. If the liquidation committee is not established within the specified time, the creditors of the company may apply to the people's court to appoint the members of the liquidation committee. The people's court or the relevant supervising department shall organise a liquidation committee to conduct the liquidation. A liquidation committee shall comprise shareholders, the relevant department and the relevant professional personnel if the company is dissolved in the circumstances described in (iv) or (v) above. A liquidation committee shall be responsible for dealing with the assets of the company, preparing a balance sheet and an inventory of the company's assets, notifying the creditors of the company's dissolution, handling the outstanding business of the company, discharging the outstanding indebtedness (including unpaid taxes) of the company, distributing the company's surplus assets after repayment of all its indebtedness and representing the company in all civil litigation.

A liquidation committee is required to notify the creditors of the dissolution of the company within 10 days after its establishment and issue a public announcement of the dissolution of the company at least three times within 60 days after its establishment. A creditor is required to lodge its claim with the liquidation committee within the statutory prescribed time limit.

The company's assets shall be applied to pay all expenses incurred in connection with the liquidation, the employees' wages, employees' insurance, tax and the indebtedness of the company. Any surplus assets after discharge of the company's liabilities shall be distributed to the shareholders in proportion to their respective shareholdings in the company. If the assets of the company are insufficient to repay/discharge its indebtedness, the liquidation committee shall apply to the people's court for a declaration of insolvency and shall transfer the liquidation proceedings to the people's court.

A company cannot engage in any new business operations during its liquidation.

On completion of the liquidation process, the liquidation committee is required to submit a liquidation report to the shareholders in general meeting and the relevant administrative department for confirmation. The liquidation committee is also required to apply to the Administration of Industry and Commerce Bureau for the cancellation of the company's registration and to make a public announcement of the company's dissolution following such cancellation.

Members of the liquidation committee are required to discharge their duties honestly and in compliance with laws. A member of the liquidation committee is liable to indemnify the company and its creditors in respect of any loss arising from his wilful or material default.

**(v) Overseas listing**

The shares of a company shall only be listed overseas after obtaining approval from the CSRC and the listing must be arranged in accordance with procedures specified by the Overseas Listing Special Regulations.



According to the Overseas Listing Special Regulations and the Mandatory Provisions, a company's plan to issue overseas listed foreign shares and domestic shares, which has been approved by the Securities Committee, may be implemented by its board of directors separately within 15 months after approval is obtained from the CSRC.

(w) *Loss of shares certificates*

In the event that share certificates in registered form are either stolen or lost, a shareholder may apply, in accordance with the relevant provisions set out in the PRC Civil Procedure Law, to a people's court for a declaration that such certificates will no longer be valid. After such a declaration has been made by the people's court, the shareholder may apply to the company for the issue of replacement certificates.

A separate procedure regarding the loss of H share certificates is provided in the Mandatory Provisions, which has been incorporated into the Company's Articles of Association, a summary of which is set out in Appendix V to this prospectus.

(x) *Suspension and termination of listing*

A company which is listed on a stock exchange may have its listing suspended by the securities administration department of the State Council if any of the following events occurs:

- (i) the registered capital of the company or the distribution of the company's shares no longer complies with the relevant listing requirements;
- (ii) the company has failed to disclose its financial position in accordance with the relevant law and regulations or the financial report of the company contains false information;
- (iii) the company has committed a material breach of the law; or
- (iv) the company has incurred losses for each of the immediately preceding three years.

If the circumstances referred to in (ii) or (iii) above have occurred and investigation has established that the consequences are serious, or if the circumstances referred to in (i) or (iv) above have occurred and the situation has not been rectified within the time stipulated and not fulfilling the listing requirements, the securities administration department of the State Council may decide to terminate the listing of a company's shares.

The securities administration department of the State council may also terminate the listing of a company's share in the event that the company has resolved to be wound up or is ordered by the relevant governmental authority to be dissolved, or the company is declared insolvent.

(7) **Securities law and regulations**

At present, the PRC has promulgated a number of regulations in relation to the issue and trading of shares and disclosure of information.

In early 1993, the State Council established the Securities Committee and the CSRC. The Securities Committee is responsible for co-ordinating the drafting of securities regulations, formulating securities related policies, planning the development of securities markets, directing, coordinating and supervising all securities related institutions in the PRC and administering the CSRC. The CSRC is the regulatory arm of the Securities Committee and is responsible for the drafting of regulatory provisions of securities markets, supervising securities companies, regulating public offers of securities by the PRC companies in the PRC or overseas, regulating the trading of securities, compiling securities related statistics and undertaking research and analysis. In 1998, the Securities Committee was canceled and its main functions were merged into the CSRC due to the restructuring reforms of the State Council.

On 22nd April, 1993, the State Council promulgated the Provisional Regulations Governing the Issue and Trading of Shares (股票發行與交易管理暫行條例) (the "**Securities Provisional Regulations**"). These regulations deal with the application and approval procedures for public offerings of equity securities, trading in equity securities, the acquisition of listed companies, deposit, settlement, clearing and transfer of listed equity securities, the disclosure of information with respect to a listed company, investigation and penalties and dispute settlement. These regulations specifically provide that the offer of shares by a PRC company directly and indirectly outside the PRC requires the approval of the Securities Committee and also provide that separate measures will be

promulgated in relation to the issue of and trading in special Renminbi-denominated shares. However, (i) if a PRC joint stock limited company proposes to issue Renminbi denominated ordinary shares as well as special Renminbi-denominated shares, it has to comply with the Securities Provisional Regulations; and (ii) provisions of the Securities Provisional Regulations in relation to acquisitions of listed companies and disclosure of information are expressed to apply to companies listed on a stock exchange in general without being restricted to companies listed on any particular stock exchange. Such provisions may, therefore, be applicable to joint stock limited companies with shares listed on a stock exchange outside the PRC including, for instance, joint stock limited companies with shares listed on the Stock Exchange.

On 12th June, 1993, the CSRC promulgated the Implementation Measures (Provisional) on Disclosure of Information of the Public Issuing Share's Company (公開發行股票公司信息披露實施細則(暫行)) pursuant to the Securities Provisional Regulations. Under these measures, the CSRC is responsible for supervising the disclosure of information by companies which have offered shares to the public in the PRC. These measures contain provisions regarding prospectuses and listing reports to be issued in connection with a public offering of shares in the PRC, publication of interim and final reports and announcement of material transactions or matters by companies which have offered shares to the public. Material transactions or matters are those the occurrence of which may have a material effect on the share price of a company. They include changes to a company's articles of association or registered capital, removal of auditors, mortgage or disposal of major operating assets or writing down the value of such assets where the amount being written down exceeds 30% of the total value of such assets, revocation by a court of any resolution passed by the shareholders or the supervisors of a company and the merger or demerger of a company. These measures also contain disclosure provisions in relation to acquisition of listed companies which supplement the requirements contained in the Securities Provisional Regulations.

On 2nd September, 1993, the Securities Committee promulgated the Provisional Measures Prohibiting Fraudulent Conduct Relating to Securities (禁止證券欺詐行為暫行辦法). The prohibitions imposed by these measures include the use of insider information in connection with the issue of or trading in securities (insider information being defined to include undisclosed material information known to any insider, which may affect the market price of securities); the use of funds or information or through an abuse of power in creating a false or disorderly market or influencing the market price of securities or inducing investors to make investment decisions without knowledge of actual circumstances; and the making of any statement in connection with the issue of and trading in securities which is false or materially misleading or in respect of which there is any material omission. Penalties imposed for contravening any of the provisions of the measures include fines, confiscation of profits and suspension of trading. In serious cases, criminal liability may be imposed.

On 4th July, 1994, the State Council promulgated the Special Regulations. These provisions deal mainly with the issue, subscription, trading and declaration of dividends and other distributions of foreign capital stock listed abroad and disclosure of information, articles of association of joint stock limited companies having foreign capital stock listed abroad.

On 25th December, 1995, the State Council promulgated the Regulations of the State Council Concerning Domestic Listed Foreign Shares of Joint Stock Limited Companies (國務院關於股份有限公司境內上市外資股的規定). These regulations deal mainly with the issue, subscription, trading and declaration of dividends and other distributions of domestic listed foreign shares and disclosure of information of joint stock limited companies having domestic listed foreign shares.

On 29th December, 1998, the Securities Law of the PRC (中華人民共和國證券法) (the “**Securities Law**”) was passed by the Standing Committee of the NPC (全國人民代表大會常務委員會). The Securities Law took effect on 1st July, 1999. This is the first national securities law in the PRC, and it is divided into 12 chapters and 214 articles regulating, among other things, the issue and trading of securities, takeovers by listed companies, securities exchanges, securities companies and the duties and responsibilities of the State Council's securities regulatory authorities. The Securities Law is the fundamental law which comprehensively regulates activities in the PRC securities market. Article 29 of the Securities Law provides that enterprises in the PRC which intend to directly or indirectly issue securities outside the PRC or to list their securities outside the PRC must obtain prior approval from the State Council's regulatory authorities. Article 213 of the Securities Law provides that specific measures in respect of shares of companies in the PRC which are to be subscribed and traded in foreign currencies by person and organisation outside the PRC shall be separately formulated by the State Council. Currently, the issue and trading of foreign issued shares (including H shares and B shares) are still mainly governed by the rules and regulations promulgated by the State Council and the CSRC.

In order to further promote strict compliance of “companies listed outside China” (“**Listed Company**”) with the relevant domestic and foreign laws and regulations, their conscientious performance of their continuing obligations toward investors and their establishment of a good corporate image on domestic and foreign capital markets, the State Economic and Trade Commission and the CSRC jointly issued the Opinion on Further Standardizing Operations and Reform of Companies Listed Outside China (關於進一步促進境外上市公司規範運作和深化改革的意見) (“**Standardizing Opinion**”) on 29th March, 1999. The Standardizing Opinion sets out regulations governing the relationship between the Companies and their controlling entities (hereafter “**controlling entities**” refers to companies or enterprises with legal person status that have a controlling interest in a listed company) and the

operations of the administrative organisations of the Listed Companies. The board of directors, management, the financial and marketing organisations of a listed company must be independent from those of the controlling entity. No more than two senior management personnel from the controlling entity (i.e., the chairman of the board, vice-chairman of the board and executive directors) may concurrently hold the position of senior management personnel in the company. The Standardizing Opinion also requires a company to specify its decision-making process, strengthen director responsibility, establish a sound external director and independent director system, strengthen the functions of its supervisory board and secretary of the board of directors, explore methods to motivate its senior management personnel and to intensify its internal reform. On 21st September, 1999, CSRC promulgated the Examination, Approval and Supervision of Enterprises in China Applying to List on the Hong Kong Growth Enterprise Market Guidelines (境內企業申請到香港創業板上市審批與監管指引) (the “Guidelines”) which set out the approval procedures with respect to the listing of PRC enterprises on the GEM. Under the Guidelines, any State-owned or private enterprise may, through its sponsor acting on its behalf, apply to CSRC for approval to list on the GEM, such application to be accompanied by documents set out in the Guidelines. One precondition for such application being that the applicant must be a company limited by shares and approved by a provincial level people’s government or the former State Economic and Trade Commission (國家經濟貿易委員會). CSRC will determine whether to grant the approval within 10 days of receipt of the specified documents unless objections are received by any one of the Ministry of Foreign Trade and Economic Cooperation (對外貿易經濟合作部), the SAFE, and, if State-owned shares are involved, the Ministry of Finance (國家財政部).

#### (8) Legal opinion

GF Law Firm Shanghai, the Company’s legal advisers as to PRC law, have sent to the Company a letter dated 9th February, 2004 confirming that they have reviewed the summary of relevant PRC law and regulations contained in this appendix and that, in their opinion, such summary is a correct summary of the relevant PRC law and regulations. A copy of such legal opinion is available for inspection as referred to under the paragraph headed “Documents available for inspection” in Appendix VII to this prospectus. Any person who wishes to obtain detailed information about the PRC law and regulations is recommended to seek independent legal advice.

### HONG KONG LAWS AND REGULATIONS

#### (A) Company Law

The Hong Kong law applicable to a company having a share capital incorporated in Hong Kong is based on the Companies Ordinance and supplemented by the common law.

The Company, which is a joint stock limited company established in the PRC seeking a listing of its H Shares on GEM is governed by the PRC Company Law which came into effect on 1st July, 1994 and all other rules and regulations promulgated pursuant to the PRC Company Law applicable to a joint stock limited company established in the PRC issuing overseas listed foreign shares to be listed on the Stock Exchange.

Set out below is a summary of the material differences between the Hong Kong company law applicable to a company incorporated in Hong Kong and the PRC Company Law applicable to a joint stock limited company incorporated and existing under the PRC Company Law. This summary is not intended to be an exhaustive comparison:

##### (i) Corporate existence

Under Hong Kong company law, a company having a share capital is incorporated by the Registrar of Companies in Hong Kong issuing a certificate of incorporation and upon its incorporation, a company will acquire an independent corporate existence. A company may be incorporated as a public company or a private company. The articles of association of a private company incorporated in Hong Kong is required by the Hong Kong Companies Ordinance to contain certain provisions restricting the right of transfer of its shares. Any company which does not contain such provisions in its articles of association is a public company.

Under the PRC Company Law, a company may be incorporated by either the promotion method or the public subscription method. A company established by the public subscription method will only acquire its corporate existence after it has completed its initial share offering to the public and a company may only issue further shares after a year has elapsed since its last share issue. The PRC Company Law requires a State-owned enterprise to be converted into a joint stock limited company by the public subscription method. The Special Regulations, however, permit a State-owned enterprise to be converted into a joint stock limited company by the promotion method and to offer new shares to the public on its establishment.

Under the PRC Company Law, a company which is authorised by the relevant securities administration authority to list its shares on a stock exchange must have registered a capital of not less than RMB50,000,000. Hong Kong law does not prescribe any minimum capital requirements for a Hong Kong company.

Under the PRC Company Law, the shares allotted by a joint stock limited company in return for injection of industrial property rights and non-patented technology shall not, as a general principle, exceed 20% of the registered capital of a company. However, if the company categorised as high and new technology enterprise, the percentage of its registered capital attributable to the injection of industrial property rights and non-patented technology may be subject to such other proportion as shall be prescribed by other rules and regulations enacted by the State Council. There is no such restriction on a Hong Kong company under Hong Kong law.

(ii) *Share capital*

Under Hong Kong law, the authorised share capital of a Hong Kong company is the amount of share capital which the company is authorised to issue and a company is not bound to issue the entire amount of its authorised share capital. The PRC Company Law does not have the concept of authorised share capital. The registered capital of a joint stock limited company is the amount of the issued share capital. Any increase or reduction in registered capital must be approved by the shareholders in general meeting and the relevant PRC governmental and regulatory authorities.

(iii) *Restrictions on shareholding and transfer of shares*

Under the PRC law, the domestic shares (“**domestic shares**”) in the share capital of a joint stock limited company which are denominated and subscribed for in Renminbi may only be subscribed or traded by the State, PRC legal and natural persons. The overseas listed foreign shares (“**foreign shares**”) issued by a joint stock limited company which are denominated in Renminbi and subscribed for in a currency other than Renminbi may only be subscribed and traded by investors from Hong Kong, Macau and Taiwan or any country or territory outside the PRC.

Under the PRC Company Law, shares in a joint stock limited company held by its promoters may not be transferred within three years after the date of establishment of the company. Shares in a joint stock limited company held by its directors, supervisors and manager may not be transferred during their term of office.

There are no such restrictions on shareholdings and transfer of shares under Hong Kong law.

(iv) *Financial assistance for acquisition of shares*

The PRC Company Law does not contain any provision prohibiting or restricting a joint stock limited company or its subsidiaries from providing financial assistance for the purposes of an acquisition of its own or its holding company’s shares. The Mandatory Provisions contain certain restrictions on a company and its subsidiaries providing such financial assistance similar to those under Hong Kong company law.

(v) *Variation of class rights*

Under Hong Kong company law, if the share capital of a company is divided into different classes of shares, special rights attaching to any class of shares may only be varied if approved by a specified proportion of the holders of the relevant class.

The PRC Company Law does not contain any specific provision relating to variation of class rights. Under the Mandatory Provisions, class rights may not be varied or abrogated unless approved by a special resolution of shareholders in general meeting and by two thirds of the votes cast by shareholders of the affected class present in person or by proxy at a separate class meeting. For the purposes of a variation of class right, domestic shares and foreign shares are treated as separate classes of share except in the case of (i) an issue of shares by the joint stock limited company in any 12 month period either separately or concurrently following the approval by a special resolution of shareholders in general meeting not exceeding 20% of each of the issued domestic shares and foreign shares existing as at the date of such special resolution; and (ii) an issue of domestic shares and foreign shares in accordance with the plan of the company approved by the Securities Commission of the State Council and which are completed within 15 months following the establishment of the company. The Mandatory Provisions contain detailed provisions relating to circumstances which are deemed to constitute a variation of class rights.

(vi) *Directors*

The PRC Company Law, unlike Hong Kong company law, does not contain any requirements relating to the declaration of interests in material contracts, restrictions on interested directors being counted towards the quorum of and voting at a meeting of the board of directors at which a transaction in which a director is interested is being considered, restrictions on directors' authority in making major dispositions, restrictions on companies providing certain benefits such as loans to directors and guarantees in respect of directors' liability and prohibition against compensation for loss of office without shareholders' approval. The Mandatory Provisions contain requirements and restrictions in relation to the foregoing matters similar to those applicable under Hong Kong law to Hong Kong incorporated companies.

(vii) *Supervisory committee*

Under the PRC Company Law, the board of directors of a joint stock limited company is subject to the supervision of a supervisory committee but there is no mandatory requirement for the establishment of a supervisory committee for a company incorporated in Hong Kong.

The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he considers to be in the best interests of the company and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(viii) *Derivative action by minority shareholders*

Hong Kong law permits minority shareholders to commence a derivative action on behalf of all shareholders against directors who have been guilty of a breach of their fiduciary duties to the company, if they control a majority of votes at a general meeting thereby effectively preventing a company from suing the directors in breach of their duties in its own name. Although the PRC Company Law gives a shareholder of a joint stock limited company the right to initiate proceedings in the people's court to restrain the implementation of any resolution passed by shareholders in general meeting or by the board of directors which violates any law or infringes the lawful rights and interests of shareholders, the PRC law does not have a form of proceedings which is the same as a derivative action. The Mandatory Provisions, however, provide for remedies of the company against directors, supervisors and officers in breach of their duties to the company. In addition, every director and supervisor of a joint stock limited company applying for a listing of its foreign shares on GEM is required to give an undertaking in favour of the company to comply with the company's articles of association. This allows minority shareholders to bring action against directors and supervisors in default.

(ix) *Protection of minorities*

Under Hong Kong law, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his interests may petition to court either to wind up the company or to make an appropriate order regulating the affairs of the company. In addition, the Financial Secretary of the Hong Kong Government may on the application of a specified number of members, and the Securities and Futures Commission may in prescribed circumstances, appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong. PRC law does not contain similar safeguards. The Mandatory Provisions, however, contain provisions to the effect that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of the shareholders generally or of some part of the shareholders of a company to relieve a director or supervisor of his duty to act honestly in the best interests of the company or to approve the expropriation by a director or supervisor of the company's assets or the individual rights of other shareholders.

(x) *Notice of shareholders' meetings*

Under the PRC Company Law, notice of a general meeting must be given not less than 30 days before the meeting or, in the case of a company having bearer shares, public announcement of a general meeting must be made at least 45 days prior to it being held. Under the Special Regulations and the Mandatory Provisions, 45 days' written notice must be given to all shareholders and shareholders who wish to attend the meeting must reply in writing 20 days before the date of the meeting. For a company incorporated in Hong Kong, the minimum notice period of a general meeting convened for passing an ordinary resolution and a special resolution is 14 days and 21 days respectively; and the notice period for an annual general meeting is 21 days.

(xi) *Quorum for general meetings*

Under Hong Kong law, the quorum for general meeting is provided by the articles of association of the company which may not in any event be fewer than two members. The PRC Company Law does not specify any quorum requirement for general meeting but the Special Regulations and the Mandatory Provisions provide that a company's general meeting may be held when replies to the notice of that meeting have been received from shareholders whose shares represent 50% of the voting rights in the company at least 20 days before the proposed date of the meeting, or if that 50% level is not achieved, the company shall within five days notify shareholders by public announcement and the general meeting may be held thereafter.

(xii) *Voting*

Under Hong Kong law, an ordinary resolution is passed by a simple majority of votes cast by members present in person or by proxy at a general meeting and a special resolution is passed by a majority of not less than three fourths of votes cast by members present in person or by proxy at a general meeting.

Under the PRC Company Law, the passing of any resolution requires more than half of votes cast by shareholders present in person or by proxy at a general meeting except in cases of proposed amendment to the articles of association, merger, demerger or dissolution of a joint stock limited company which require two thirds of votes cast by shareholders present in person or by proxy at a general meeting.

(xiii) *Financial disclosure*

A joint stock limited company is required under the PRC Company Law to make available at its office for inspection by shareholders its annual balance sheet, profit and loss account, changes in financial position and other relevant annexures 20 days before the annual general meeting of shareholders. In addition, a company established by the public subscription method under the PRC Company Law must publish its financial statements. The annual balance sheet of a PRC joint stock limited company is required to be verified by registered accountants. The Companies Ordinance requires a company to send to every shareholder a copy of its balance sheet, auditors' report and directors' report which are to be laid before the company in its annual general meeting not less than 21 days before such meeting.

A joint stock limited company is required under the PRC law to prepare its financial statements in accordance with the PRC accounting standards. The Mandatory Provisions require that the company must, in addition to preparing accounts according to the PRC standards, have its accounts prepared and audited in accordance with International Accounting Standards or Hong Kong accounting standards and its financial statements must also contain a statement of the financial effect of the material differences (if any) from the financial statement prepared in accordance with the PRC accounting standards.

(xiv) *Information on directors and shareholders*

Under the PRC Company Law, neither the public nor the shareholders of a joint stock limited company have access to information on its directors and shareholders. Under the Mandatory Provisions, shareholders have the right to inspect and copy (at reasonable charges) certain information about the shareholders and directors of a PRC joint stock limited company similar to that available under Hong Kong law to shareholders of a company incorporated in Hong Kong.

(xv) *Receiving agent*

Under both the PRC and Hong Kong law, dividends once declared become debts payable to shareholders (except in relation to interim dividends of Hong Kong companies, which do not constitute debts until the time they are paid generally). The limitation period for debt recovery action under Hong Kong law is six years while that under the PRC law is two years. The Mandatory Provisions require the appointment of a trust company registered under the Hong Kong Trustee Ordinance as receiving agent to receive on behalf of holders of foreign shares dividends declared and all other monies owing by a joint stock limited company in respect of such foreign shares.

(xvi) *Merger and demerger*

A merger or demerger involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company in the course of being wound up voluntarily to another company pursuant to section 237 of the Companies Ordinance or a compromise or arrangement between the company and its



creditors or between the company and its members pursuant to section 166 of the Companies Ordinance which requires the sanction of the court. Under the PRC law, the merger or demerger of a joint stock limited company has to be approved by shareholders in general meeting and the relevant governmental authorities.

(xvii) *Arbitration of disputes*

In Hong Kong, disputes between shareholders and a company incorporated in Hong Kong or its directors may be resolved through the courts. The Mandatory Provisions provide that such disputes be referred to arbitration at the claimant's election at either the Hong Kong International Arbitration Centre or CIETAC.

(xviii) *Mandatory transfers*

Under the PRC Company Law, a joint stock limited company is required to make transfers equivalent to certain prescribed percentages of its after tax profit to the statutory common reserve and statutory public welfare fund. There are no such requirements under Hong Kong law.

**(B) GEM Listing Rules**

The GEM Listing Rules provide additional requirements which apply to an issuer which is incorporated in the PRC as a joint stock limited company and seeking a primary listing or whose primary listing is on GEM. Set out below is a summary of such principal additional requirements which apply to the Company:

**(i) Sponsors**

The Company is required to retain following its listing for at least the remainder of the financial year during which the listing occurs and two financing years thereafter the services of the sponsors for it listing, or other financial advisers or professional firm which is acceptable to the Stock Exchange, to provide the Company with professional advice on continuous compliance with the GEM Listing Rules, and to act as the Company's principal channel of communication with the Stock Exchange on behalf of the Company. The appointment of the sponsors may not be terminated unless in exceptional circumstances, where the sponsors is no longer able satisfactorily to perform the role, and only after first notifying the Stock Exchange of the intended termination and the reasons therefor.

**(ii) Accountants' report**

An accountants' report for a PRC issuer will not normally be regarded as acceptable unless the relevant accounts have been audited to a standard comparable to that required in Hong Kong. Such report will normally be required to confirm to either Hong Kong accounting standards or the International Accounting Standards.

**(iii) Process agent**

The Company is required to appoint and maintain a person authorised to accept service of process and notices on its behalf in Hong Kong throughout the period during which its securities are listed on GEM and must notify the Stock Exchange of his appointment, the termination of his appointment and his contact particulars.

**(iv) Public shareholdings**

If at any time there are existing issued securities of a PRC issuer other than foreign shares (“H shares”) which are listed on GEM, the GEM Listing Rules require that all H shares must be held by the public, the H shares must normally represent not less than 10% of the PRC issuer's issued share capital and the aggregate amount of H shares and other securities held by the public must constitute not less than 25% of the PRC issuer's issued share capital unless the expected market capitalisation of the total existing issued share capital at the time of the listing of the H shares is over HK\$4,000 million in which case, the prescribed minimum public shareholdings percentage is between 20 and 25%.

If the PRC issuer does not have existing issued securities other than H shares, the H shares must constitute not less than 25% of the issuer's issued share capital unless the expected market capitalisation of the total existing issued share capital at the time of the listing of the H shares is over HK\$4,000 million in which case, the prescribed minimum public shareholdings percentage is between 20 and 25%.

(v) *Independent non-executive directors and supervisors*

The independent non-executive Directors are required to demonstrate an acceptable standard of competence and adequate commercial or professional expertise to ensure that the interests of the general body of shareholders will be adequately represented. The Supervisors must have the character, expertise and integrity and be able to demonstrate a standard of competence commensurate with their position as supervisors.

(vi) *Restrictions on purchase and subscription of its own securities*

Subject to governmental approvals and the provisions of the Articles of Association, the company may repurchase its own H shares on GEM in accordance with the provisions of the GEM Listing Rules. Approval by way of special resolution of the holders of domestic shares and the holders of H shares at separate class meetings conducted in accordance with the Articles of Association is required for share repurchases. In seeking approvals, the Company is required to provide information on any proposed or actual purchases of all or any of its equity securities, whether or not listed or traded on GEM. The Directors must also state the consequences which the Directors are aware, if any, of any purchases which will arise under either or both of the Hong Kong Code on Takeovers and Mergers and any PRC law of a similar nature. A general mandate given to the Directors to repurchase H shares may not relate to more than 10% of the total amount of existing issued H shares of the Company.

(vii) *Continuing obligations and financial information*

Pursuant to its application for listing on GEM, the Company has undertaken to comply, upon any of its securities being admitted to listing on GEM, with all of the requirements of the GEM Listing Rules from time to time in force. The GEM Listing Rules contain certain provisions regarding general continuing obligations, the more important of which are summarised as follows:

(aa) *Redeemable shares*

The Company must not issue any redeemable shares unless the Stock Exchange is satisfied that the relative rights of the holders of the H shares are adequately protected.

(bb) *Pre-emptive rights*

Except in the circumstances mentioned below, the Directors are required to obtain the approval by a special resolution of shareholders in general meeting, and the approvals by special resolutions of the holders of domestic shares and H shares (each being otherwise entitled to vote at general meetings) at separate class meetings conducted in accordance with the Articles of Association, prior to (1) authorising, allotting, issuing or granting shares or securities convertible into shares, or options, warrants or similar rights to subscribe for any shares or such convertible securities; or (2) any major subsidiary of the Company making any such authorisation, allotment, issue or grant which will materially dilute the percentage equity interest of the Company and its shareholders in such subsidiary.

No such approval will be required, but only to the extent that the existing shareholders of the Company have by special resolution in general meeting given a mandate to the Directors, either unconditionally or subject to such terms and conditions as may be specified in the resolution, to authorise, allot or issue, either separately or concurrently, domestic shares and H shares subject to a restriction that in any 12 month period (commencing on the date on which shareholders pass such special resolution) the aggregate number of domestic shares allotted or agreed to be allotted must not exceed the aggregate of 20% of the issued domestic share capital of the Company and the aggregate number of H shares allotted or agreed to be allotted must not exceed the aggregate of 20% of the issued H share capital of the Company, in each case as at the date of the passing of the relevant special resolution.

(cc) *Amendment to Articles of Association*

The Company is required not to permit or cause any amendment to be made to its Articles of Association which would cause the same to cease to comply with the mandatory provisions of the GEM Listing Rules relating to such Articles of Association.



(dd) *Documents for inspection*

The Company is required to make available at a place in Hong Kong for inspection by the public and shareholders free of charge, and for copying by shareholders at reasonable charges the following:

- a complete duplicate register of shareholders;
- a report showing the state of the issued share capital of the Company;
- the Company's latest audited financial statements and the reports (if any) of the Directors, auditors and Supervisors thereon;
- special resolutions of the Company;
- reports showing the number and nominal value of securities repurchased by the Company since the end of the last financial year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased (with a breakdown between domestic Shares and foreign Shares);
- a copy of the latest annual return filed with the SAIC or other relevant PRC authority; and
- for shareholders only, copies of minutes of meetings of shareholders.

(ee) *Receiving agents*

The Company is required to appoint one or more receiving agents in Hong Kong and pay to such agents dividends declared and other monies owing in respect of the H shares to be held, pending payment, in trust for the holders of such H shares.

(ff) *Statements in share certificates*

The Company is required to ensure that all its listing documents and share certificates include the statements stipulated below and to instruct and cause each of its share registrars not to register the subscription, purchase or transfer of any of its shares in the name of any particular holder unless and until such holder delivers to such share registrar a signed form in respect of such shares bearing statements to the effect that the acquirer of shares:

- agrees with the Company and each shareholder of the Company, and the Company agrees with each shareholder, to observe and comply with the PRC Company Law, the Special Regulations and the Articles of Association;
- agrees with the Company, each shareholder, Director, Supervisor, manager and other officer of the Company and the Company acting for itself and for each Director, Supervisor, manager and other officer agrees with each shareholder to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association. Any reference to arbitration will be deemed to authorise the arbitration tribunal to conduct its hearing in open session and to publish its award. Such arbitration will be final and conclusive;
- agrees with the Company and each shareholder of the Company that shares in the Company are freely transferable by the holder thereof; and
- authorises the Company to enter into a contract on his behalf with each Director and officer whereby such Directors and officers undertake to observe and comply with their obligations to shareholders stipulated in the Articles of Association.

(gg) *Compliance with the PRC Company Law, the Special Regulations and the Articles of Association*

The Company is required to observe and comply with the PRC Company Law, the Special Regulations and the Articles of Associations.

(hh) *Contract between the Company and its Directors, officers and Supervisors*

The Company is required to enter into a contract in writing with every Director and officer containing at least the following provisions:

- an undertaking by the Director or officer to the Company to observe and comply with the PRC Company Law, the Special Regulations, the Articles of Association, the Hong Kong Code on Takeovers and Mergers and Share Repurchases and an agreement that the Company shall have the remedies provided in the Articles of Association and that neither the contract nor his office is capable of assignment;
- an undertaking by the Director or officer to the Company acting as agent for each shareholder to observe and comply with his obligations to shareholders stipulated in the Articles of Association; and
- an arbitration clause which provides that whenever any differences or claims arise from that contract, the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant law and administrative regulations concerning the affairs of the Company between the Company and its Directors or officers and between a holder of H Shares and a Director or officer of the Company, such differences or claims will be referred to arbitration at either CIETAC in accordance with its rules or HKIAC in accordance with its securities arbitration rules, at the election of the claimant and that once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. Such arbitration will be final and conclusive.

The Company is also required to enter into a contract in writing with every Supervisor containing statements in substantially the same terms.

(ii) *Subsequent listing*

The Company must not apply for the listing of any of its foreign shares on a PRC stock exchange unless the Stock Exchange is satisfied that the relative rights of the holders of overseas listed foreign shares are adequately protected.

(jj) *English translation*

All notices or other documents required under Chapter 17 of the GEM Listing Rules to be sent by the Company to the Stock Exchange or to holders of H Shares are required to be in the English language, or accompanied by a certified English translation.

(viii) **General**

If changes in the PRC law or market practices materially alter the validity or accuracy of any of the basis upon which the additional requirements have been prepared, then the Stock Exchange may impose additional requirements or make listing of the equity securities of a PRC issuer, including the Company, subject to such special conditions as the Stock Exchange considers appropriate. Whether or not any such changes in the PRC law or market practices occur, the Stock Exchange retains its general power under the GEM Listing Rules to impose additional requirements and make special conditions in respect of the listing of the Company.

(C) **Other Legal and Regulatory Provision**

Upon the listing of the Company on GEM, the provisions of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), the Hong Kong Codes on Takeovers and Mergers and Share Repurchases and such other relevant ordinances and regulations as may be applicable to companies listed on the Stock Exchange will apply to the Company.

**(D) Securities Arbitration Rules**

The Articles of Association provide that certain claims arising from the Articles of Association or the PRC Company Law shall be arbitrated at either CIETAC or HKIAC in accordance with their respective rules.

The Securities Arbitration Rules of Hong Kong International Arbitration Centre contain provisions allowing an arbitral tribunal to conduct a hearing in Shenzhen for cases involving the affairs of companies incorporated in the PRC and listed on GEM so that PRC parties and witnesses may attend. Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditional upon all parties including witnesses and the arbitrators being permitted to enter Shenzhen for the purposes of the hearing. Where a party (other than a PRC party) or any of its witnesses or any arbitrator is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic media. For the purpose of the Securities Arbitration Rules, a PRC party means a party domiciled in the PRC other than the territories of Hong Kong, Macau and Taiwan.

**(E) Taxation****(i) Dividends**

Where a company is not chargeable to Hong Kong profits tax, any dividends paid by it to persons who carry on a business in Hong Kong are liable to profits tax, to the extent that such dividends form part of the profits of such persons arising from their Hong Kong business.

**(ii) Profits tax**

No tax is imposed in Hong Kong in respect of capital gains from the sale of property (such as the H Shares). Persons who carry on a trade, profession or business in Hong Kong and derive income in Hong Kong from such trade, profession or business are liable to profits tax. Securities dealers carrying on a business in Hong Kong and who make trading gains from the sale and purchase of shares will be subject to profits tax. Currently, profits tax for corporations is payable at the rate of 16% of their assessable profits. Profits tax for individuals is levied on a progressive scale and the maximum rate is 15%.

**(iii) Stamp duty**

The sale and purchase of shares are subject to stamp duty payable by both the seller and the buyer. Duty is payable with reference to the amount of the consideration or, if higher, the fair value of the shares being sold. The current rate of stamp duty is 0.1% of the amount of the consideration or, if higher, the fair value of the shares on every sold note and every bought note. Stamp duty is usually shared between the buyer and the seller equally in respect of transactions on the Stock Exchange. A fixed rate of duty of HK\$5 is also payable in respect of every instrument of transfer which is required to be registered on a register or branch register maintained in Hong Kong.

**(iv) Estate duty**

Properties situated in Hong Kong which pass or are deemed to pass upon the death of a person, wherever domiciled or resident, are liable to estate duty based on the value of the property in question. H Shares will constitute property situated in Hong Kong for estate duty purposes by virtue of them being on the Hong Kong branch register of the Company. Hong Kong estate duty is imposed on a progressive scale from 5% to 15%. The rate of and the threshold for estate duty have, in the past, been adjusted on a fairly regular basis. No estate duty is payable where the aggregate value of the dutiable estate does not exceed HK\$7.5 million, and the maximum rate of duty of 15% applies where the aggregate value of the dutiable estate exceeds HK\$10.5 million.

*Set out below is a summary of the principal provisions of the Articles adopted at the extraordinary general meeting of the Company held on 3rd February 2004. Copies of the full Chinese and uncertified English texts of the Articles are available for inspection as mentioned in the paragraph headed “Documents available for inspection” in Appendix VII.*

**(A) Directors and senior management**

(i) *Power to allot and issue shares*

There are no provisions in the Articles empowering the Directors to allot and issue shares.

Any increase in the share capital of the Company shall obtain approval by a two-third majority of the board of directors (the “Board”) to such effect for approval by shareholders in general meeting by way of a special resolution and shall comply with the relevant procedures.

(ii) *Power to dispose of the assets of the Company or any subsidiary*

The Board shall be responsible to the shareholders in general meeting.

The Board shall not, without prior approval of shareholders in general meeting, dispose or agree to dispose of any fixed assets of the Company where the aggregate of the expected value of the fixed assets to be disposed of and the consideration of any fixed assets of the Company have been disposed of in the four months immediately preceding the proposed disposition exceeds 33 per cent. of the value of the Company’s total fixed assets as shown in the latest balance sheet placed before the shareholders in general meeting. The validity of a disposition by the Company shall not be affected by the breach of the relevant Articles. For the purpose of Articles, disposition includes an act involving transfer of interests in property other than by way of security.

(iii) *Remuneration and payments for loss of office*

The Company shall, with prior approval of shareholders in general meeting, enter into a contract in writing with a Director or a Supervisor wherein his emoluments are stipulated, including:

- (a) emoluments as a Director, Supervisor or senior management of the Company;
- (b) emoluments as a Director, Supervisor or senior management of any subsidiary of the Company;
- (c) emoluments in respect of the provision of other services in connection with the management of the affairs of the Company and any of its subsidiaries; and
- (d) payment by way of compensation for loss of office, or as consideration for or in connection with his retirement from office.

Except under a contract entered into in accordance with the foregoing, no proceedings may be brought by a Director or Supervisor against the Company for anything due to him in respect of the above matters.

The contract concerning the emoluments between the Company and its Directors or Supervisors shall provide that in the event of a takeover of the Company, the Company's Directors and Supervisors shall, subject to prior approval of the shareholders in general meeting, have the right to receive compensation or other payment in respect of their loss of office or retirement. A "takeover of the Company" referred to above means any of the followings:

- (a) an general acquisition offer made by any person to the shareholders; or
- (b) an general acquisition offer made by any person with a view to the offeror becoming a "controlling shareholder" within the meaning sets out in the Articles (see paragraph R below).

If any of the relevant Director or Supervisor does not comply with the above, any sum so received by him shall belong to those persons who have sold their Shares as a result of such offer. The expenses incurred in distributing that sum pro rata amongst those persons shall be borne by the relevant Director or Supervisor and not paid out of the sum distributed.

(iv) *Loans to Directors, Supervisors and other senior management*

The Company shall not directly or indirectly make a loan to or provide any guarantee in connection with the making of a loan to a Director, Supervisor, manager, or other senior management of the Company or of the Company's holding company or a person connected with any of them. However, the following transactions are not subject to such prohibition:

- (a) the provision by the Company of a loan or a guarantee in connection with the making of a loan to a company which is a subsidiary of the Company;
- (b) the provision by the Company of a loan or a guarantee in connection with the making of a loan or any other funds to any of its Directors, Supervisors, managers, and other senior management to meet expenditure incurred by him for the purposes of the Company or for the purpose of enabling him to perform his duties properly, in accordance with the terms of a service contract approved by the shareholders in general meeting; or
- (c) the Company may make a loan to or provide a guarantee in connection with making a loan by another person to any of its Directors, Supervisors, managers and other senior management or persons connected with them in the ordinary course of its business on normal commercial terms, where the ordinary course of business of the Company includes the lending of money or the giving of guarantees.

A loan made by the Company in breach of the prohibition described above shall be repayable forthwith by the recipient of the loan regardless of the terms of the loan.

A guarantee provided by the Company in breach of the prohibition described above shall be unenforceable against the Company, unless:

- (a) the guarantee is provided in connection with a loan to a person connected with a Director, Supervisor, manager or other senior management of the Company or its holding company and at the time the loan is advanced the lender is not aware of such circumstances; or
- (b) the security provided by the Company has been lawfully disposed of by the lender to a bona fide purchaser.

A guarantee includes an undertaking or property provided to secure the performance of obligations by the obligor.

(v) *Financial assistance to purchase shares in the Company or any of its subsidiaries*

Save as described below, no financial assistance shall be provided at any time and in any manner by the Company and its subsidiaries to any person acquiring or intending to acquire the shares of the Company. The person(s) acquiring the shares of the Company aforesaid shall include the person(s) who undertake(s), directly or indirectly, obligations for the purpose of purchase of shares of the Company.

Save as described below, no financial assistance shall be provided at any time and in any manner by the Company and its subsidiaries to reduce or release the obligations of the said person(s) undertaking such obligations.

The following transactions are not prohibited:

- (a) the financial assistance is given in good faith in the interests of the Company and the principal purpose for giving that assistance is not for the acquisition of shares in the Company, or the assistance is but an incidental part of a larger proposal of the Company;
- (b) a distribution of the Company's assets by way of dividend in accordance with laws;
- (c) the allotment of bonus shares as dividends;
- (d) a reduction of registered capital, a repurchase of shares of the Company and adjustment of the shareholding structure of the Company effected in accordance with the Articles of the Company;
- (e) the lending of money by the Company in the ordinary course of its business where the lending of money is within the scope of its business, provided that the Company's net assets are not thereby reduced or, to the extent that the assets are thereby reduced, that financial assistance is provided out of the distributable profits of the Company; and
- (f) the provision of moneys by the Company for contribution to employees' share scheme, provided that the Company's net assets are not thereby reduced or, to the extent that those assets are thereby reduced, that financial assistance is provided out of distributable profits of the Company.

For the purposes of the foregoing provisions,

- (a) "financial assistance" includes without limitation:
  - (1) a gift;
  - (2) assistance given by way of guarantee (including the provision of an undertaking or property to secure the performance of obligations by the obligor), or compensation (other than an compensation in respect of the Company's own neglect or default), or by way of a release or waiver;

- (3) assistance given by way of a loan or agreement under which the obligations of the Company are to be fulfilled before the obligations of the other party to the agreement, or by way of the novation of, or the assignment of rights arising under, a loan or such other agreement; and
  - (4) any other forms of financial assistance given by the Company when the Company is insolvent or has no net assets or when its net assets would thereby be reduced by a material extent, and
- (b) “undertaking” includes changing the obligor’s financial position by making an agreement or arrangement (whether enforceable or not, and whether made on the own account of the obligor or with any other person) in the form of contract or by any other means.

(vi) *Disclosure of interests in contracts to which the Company or any of its subsidiaries is a party*

Where a Director, Supervisor, manager or other senior management of the Company is in any way, directly or indirectly, materially interested in a contract, transaction or arrangement entered into or proposed to be entered into by the Company, other than his contract of service, he shall declare the nature and extent of his interest to the Board at the earliest opportunity, whether or not under normal circumstances, the aforesaid matters are subject to the approval of the Board. Unless the interested Director, Supervisor, manager or other senior management has disclosed his interest in accordance with the Articles and the contract, transaction or arrangement has been approved by the Board at a meeting in which such interested person is not counted in the quorum and has refrained from voting, that contract, transaction or arrangement is voidable at the instance of the Company except as against a bona fide party thereto acting without notice of the breach of duty by the Director, Supervisor, manager or other senior management concerned. For the purposes of this provision, a Director, Supervisor, manager or other senior management is deemed to be interested in a contract, transaction or arrangement in which a person connected with him is interested.

Where a Director, Supervisor, manager or other senior management gives to the Board a general notice in writing stating that, by reason of the facts specified in the notice, he is interested in contracts or transactions or any other forms of arrangement which may subsequently be made by the Company, that notice shall be deemed for the purposes of the foregoing to be a sufficient declaration of his interest, so far as attributable to those facts, in relation to any contract, transaction or arrangement of that description which may subsequently be made by the Company, provided that such general notice shall have been received before the date on which the question of entering into the relevant contract, transaction or arrangement is first taken into consideration by the Company.

(vii) *Remuneration*

The emoluments of a Director shall be approved by shareholders in general meeting as referred to under the paragraph headed “Remuneration and payments for loss of office”.

(viii) *Retirement, appointment and removal*

The term of office of the Chairman and other Directors shall be three years commencing from the date of appointment or re-election, renewable upon re-election.

A Director is not required to hold any shares in the Company.

The Directors shall be elected and removed by the shareholders at general meeting. If there is a vacancy but the number of Directors does not fall below the number required by the Company Law or two-thirds of the number required by the Articles, the Directors shall have the power to appoint any person to be a Director to fill the casual vacancy. Any Director so appointed shall hold office only until the next general meeting of the Company and shall then be eligible for re-election at that meeting.

A person may not serve as a Director, Supervisor, manager or other senior management of the Company if such person:

- (1) has no civil capacity or has limited civil capacity;
- (2) was punished for the offence of corruption, bribery, expropriation or misappropriation of property or for disrupting the social and economic order, and less than five (5) years has elapsed since the punishment was completed, or who was deprived of political rights as punishment for a criminal offence and less than five (5) years has elapsed since the deprivation was completed;
- (3) was a former director, factory chief or general manager of a company or enterprise which entered into insolvent liquidation due to mismanagement, and was personally liable for that insolvent liquidation, and less than three (3) years has elapsed since the date of completion of the liquidation proceedings;
- (4) was a former legal representative of a company or an enterprise which has had its business license revoked for violating the laws, and was personally liable for that revocation, and less than three (3) years has elapsed from the date of revocation;
- (5) has comparatively large individual debts that have fallen due but have not been settled;
- (6) has been placed on file for investigation or prosecution by judicial organs for criminal offence, and such investigation, or prosecution has not been concluded;
- (7) is prohibited from acting as leader of an enterprise by virtue of any laws and administrative regulations;
- (8) is not a natural person; or
- (9) has been convicted by any relevant regulatory authorities of violation of securities-related laws and regulations, where such violation involved acts of a fraudulent or dishonest nature, and less than five years has elapsed since the date of conviction.

The representation of Director, Supervisor, manager or other senior management to bona fide third party is not affected by any contravention of their appointment, election or eligibility against the relevant regulations.

The Board shall consist of seven members. Members of the Board should elect within themselves a chairman and a deputy chairman. The chairman should be elected and removed by a simple majority of the Board.



(ix) *Borrowing powers*

Subject to the provisions of applicable laws and regulations of the PRC and the Articles of the Company, the Company is empowered to raise or borrow money including by the issue of bonds, and to mortgage its assets. Subject to the scope of authority granted by the Company in general meeting and the approval from the relevant governmental authorities (if necessary), the board of Directors may proceed with the raising or borrowing money as mentioned above.

(x) *Notice and Minutes of Board Meetings*

Board meetings shall be held at least twice every year. Board Meetings shall be convened by the Chairman. Notice of the meeting shall be served on all Directors 15 days before the date of the meeting. On case of any urgent matters, upon requisition by at least one-third of the Directors or by the general manager of the Company, an extraordinary meeting of the Board may be held. The Board shall keep minutes of Board resolutions and the attending Directors and the person taking the minutes shall sign the board minutes.

(xi) *Duties*

Each Director, Supervisor, manager or other senior management shall, in exercise of his powers and discharge of his duties empowered by the Company, exercise the care, diligence and skill that a reasonable prudent person would exercise in comparable circumstances. In addition to obligations imposed by laws, administrative regulations or required by the stock exchanges on which shares of the Company are listed, each Director, Supervisor, manager and other senior management owes a duty to each shareholder, in exercise of the powers of the Company entrusted to him:

- (a) not to cause the Company to exceed the scope of business stipulated in its business licence;
- (b) to act honestly in what he considers to be in the best interests of the Company;
- (c) not to expropriate in any guise the Company's property, including without limitation, opportunities beneficial to the Company; and
- (d) not to expropriate the individual rights and interests of shareholders, including, without limitation, rights to distribution and voting rights, save and except pursuant to a restructuring of the Company submitted to the general meeting for approval in accordance with the Articles.

Director, Supervisor, manager or other senior management of the Company shall, in the exercise of his powers and the discharge of his duties, exercise the care, diligence and skill that a reasonable prudent person would exercise in comparable circumstances.

Each Director, Supervisor, manager or other senior management shall, in the exercise of powers of the Company entrusted to him, observe his fiduciary obligations and not to place himself in a position where his interests and obligations may conflict. This principle includes, without limitation, the following obligations:

- (a) to act honestly in what he considers to be in the best interests of the Company;
- (b) to exercise the powers within his authority without abuse;

- (c) to exercise the discretion vested in him personally and not to allow himself to act under the direction of others and, unless and to the extent permitted by laws or the informed consent of shareholders in general meeting, not to delegate the exercise of his discretion;
- (d) to treat shareholders of the same class equally and to treat shareholders of different classes fairly;
- (e) except in accordance with the Articles or otherwise permitted by shareholders in general meeting, not to enter into any contract, transaction or arrangement with the Company;
- (f) unless otherwise permitted by shareholders in general meeting, not to use the Company's property for his own benefit;
- (g) not to obtain money from bribery or other illegal income by using his authority or to expropriate in any manner the Company's property, including, without limitation, not to usurp the opportunities beneficial to the Company;
- (h) unless otherwise permitted and approved by shareholders in general meeting, not to accept commissions in connection with the Company's transactions;
- (i) to abide by the Articles, faithfully execute his official duties and protect the Company's interests, and not to exploit his position and power in the Company for his personal interests;
- (j) unless otherwise permitted by shareholders in general meeting, not to compete in any form with the Company;
- (k) not to embezzle the Company's capital or lend them to others, and not to deposit the Company's capital in accounts opened in his own name or in the name of other persons and not to use the Company's assets to provide security for the debts of the Company's shareholders or other individuals; and
- (l) unless otherwise agreed by shareholders in general meeting with known facts of and circumstances about the matter, not to disclose confidential information of the Company acquired by him in the course of and during his tenure and not to use such information other than in furtherance of the interests of the Company, save and except the disclosure of such information to the court or other governmental authorities where (i) the disclosure is made under compulsion of laws; (ii) there is a duty to the public to disclose; or (iii) such disclosure is necessary to protect the interests of the Directors, Supervisors, managers or senior management of the Company.

A Director, Supervisor, manager or other senior management shall not cause a person connected with him to do what he is prohibited from doing. A person is connected with a Director, Supervisor, manager or other senior management officer if he is:

- (a) the spouse or minor child of that Director, Supervisor, manager or other senior management of the Company;
- (b) a person acting in the capacity of trustee of that Director, Supervisor, manager or other senior management of the Company or any person referred to in (a) above;

- (c) a person who is a partner of that Director, Supervisor, manager or other senior management or any person referred to in (a) and (b) above;
- (d) a company in which that Director, Supervisor, manager or other senior management, severally or jointly with one or more persons referred to in (a), (b) or (c) above or other Directors, Supervisors, managers or senior management, has de facto control; or
- (e) a Director, Supervisor, manager or other senior management of a company referred to in (d) above.

The fiduciary duties of a Director, Supervisor, manager or other senior management do not necessarily cease with the termination of his term of office.

Their duty of confidence in relation to trade secrets of the Company survives the termination of their term of office. Other duties may continue for such period as fairness may require depending on the time lapse between such termination and the matter concerned and the circumstances and the terms under which the relationship with the Company was terminated.

A Director, Supervisor, manager or other senior management officer in breach of his liability and duty to the Company, in addition to being subject to the rights and remedies provided by the laws and administrative regulations, is also subject to the following measures by the Company to:

- (1) require the relevant Director, Supervisor, manager or other senior management to compensate for losses sustained by the Company as a consequence of such breach;
- (2) rescind any contract or transaction entered into by the Company with the relevant Director, Supervisor, manager and other senior management or with a third party where such third party knows or should have known that there was such a breach of the relevant Director, Supervisor, manager and other senior management;
- (3) require the relevant Director, Supervisor, manager or other senior management to return the profits that they have made from violating their obligations;
- (4) recover any monies received by the relevant Director, Supervisor, manager or other senior management which should have been received by the Company, including without limitation, commissions; and
- (5) recover the interest earned or which may have been earned by the relevant Director, Supervisor, manager or other senior management in respect of the monies that should have been given to the Company.

A specific obligation may be released by informed shareholders at the general meeting, subject to obligations of controlling shareholders (as defined in paragraph (R)) to other shareholders as set out in the Articles.

#### **(B) Alterations to constitutional documents**

The Company may amend the Articles in accordance with the following procedures:

- (i) the Board shall adopt a proposal to amend the Articles in accordance with the Articles and shall formulate proposal for amendments;

- (ii) shareholders shall be informed of the proposal for amendments and a general meeting of shareholders shall be convened to vote on the amendments;
- (iii) the amendments shall require the sanction of a special resolution at a general meeting; and

any amendments to the Articles involving the Mandatory Provisions shall be effective only after obtaining approval from the relevant departments authorised by the State Council and CSRC. Amendments involving registered matters of the Company shall be registered according to laws.

**(C) Variation of rights of existing shares or classes of shares**

Rights conferred on any class of shareholders in the capacity of shareholders (“class rights”) may not be varied or abrogated unless approved by a special resolution of shareholders in general meeting and by holders of shares of that class at a separate meeting conducted in accordance with the Articles. The following circumstances shall be deemed to be a variation or abrogation of the class rights of a class:

- (i) the increase or decrease in the number of shares of such class, or an increase or decrease in the number of shares of a class having voting or distribution rights or other privileges equal or superior to the shares of such class;
- (ii) the exchange into all or part of the shares of another class or the exchange or the grant of a right of exchange of all or part of the shares of another class into the shares of such class;
- (iii) the cancellation or reduction of accrued dividends or rights to cumulative dividends of such class;
- (iv) the reduction or cancellation of any privileges or any preference to a distribution of assets upon the Company’s liquidation of shares of such class;
- (v) the addition, removal or reduction of conversion privileges, options, voting, transfer or pre-emptive rights or rights to acquire securities of the Company of such class;
- (vi) the removal or reduction of rights to receive payment in particular currencies from the Company of shares of such class;
- (vii) the creation of a new class of shares having voting or distribution rights or other privileges equal or superior to shares of such class;
- (viii) the imposition of restrictions on the transfer or ownership of shares of such class;
- (ix) the allotment and issue of rights to subscribe for, or convert into, shares in the Company of such class or another class;
- (x) the increase of the rights or privileges of another class;
- (xi) the restructuring of the Company which will result in different classes of shareholders bearing a disproportionate responsibility of such proposed restructuring; and
- (xii) the variation or abrogation of provisions of the Articles.

In relation to paragraphs (ii) to (viii) and (xi) to (xii), affected class shareholders shall have the right to vote at the class meeting notwithstanding their right to vote at a general meeting. Interested shareholders (as defined below) may not vote at the class meeting.

Resolutions of any class of shareholders shall be approved by votes of not less than two-thirds of the voting rights of the shareholders of that class represented at that meeting.

Where the Company convenes a shareholders' class meeting, it shall issue a written notice to all class shareholders whose names appear in the register of members of that class setting out the motions to be considered at the class meeting and the date and venue of the class meeting 45 days prior to the date of the class meeting. Shareholders who intend to attend the meeting shall give a written reply to the Company stating such intention 20 days prior to the date of the class meeting.

Where the number of voting shares represented by those shareholders intending to attend the meeting exceeds half of the total number of shares having voting rights at that meeting, the Company may convene the class meeting. If the above number is not reached, the Company shall, within 5 days, inform the shareholders again of the motions to be considered, the date and the venue of the meeting by way of a public announcement. After making such announcement, the Company may convene the class meeting.

Notices of the class meeting of shareholders are only required to be served on shareholders who have the right to vote at the class meeting.

Class meetings shall be conducted, as far as is possible, in the same manner as shareholders' general meetings. The provisions of the Articles relating to the manner of conducting any shareholders' general meeting shall apply to any class meeting of shareholders. Holders of domestic and foreign shares are deemed to be different classes of shareholders.

The special voting procedures for class shareholders shall not apply in the following circumstances:

- (1) where the Company issues, upon approval by a special resolution of its shareholders in general meeting, either separately or concurrently once every twelve months, not more than 20 per cent. of each of its existing issued domestic shares and overseas listed foreign shares; or
- (2) where the Company's plan to issue domestic shares and overseas-listed foreign shares at the time of its incorporation is completed within fifteen months from the date of approval by the CSRC.

For the purposes of the class rights provisions of the Articles, the meaning of "interested shareholders" is:

- (1) in the case of a repurchase of Share by offers to all shareholders on a pro-rata basis or public dealing on a stock exchange, a "controlling shareholder" within the meaning of the Articles;
- (2) in the case of a repurchase of Shares by an off-market contract, a holder of the Shares to which the proposed contract relates; and
- (3) in the case of a restructuring proposal of the Company, a shareholder within a class who bears less than a proportionate burden imposed on that class of shareholders under the proposed restructuring or who has an interest in the proposed restructuring different from the interest of others shareholders of that class.

**(D) Ordinary and special resolutions — majority required**

Resolutions of shareholders' general meetings shall be divided into ordinary resolutions and special resolutions.

An ordinary resolution shall be passed by a simple majority of votes represented by the shareholders (including proxies) present at the meeting. A special resolution shall be passed by at least two-thirds of the votes represented by the shareholders (including proxies) at the shareholders' general meeting.

**(E) Voting rights (generally, on a poll and right to demand a poll)**

The shareholders of the Company have the right to attend or appoint a proxy to attend shareholders' general meetings and to vote thereat. A shareholder (including proxy) voting at a shareholders' general meeting shall have one vote in respect of each of his shares carrying the right to vote.

At any meeting of shareholders a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is demanded (before or after any vote by show of hands):

- (i) by the chairman of the meeting;
- (ii) by at least two shareholders having the right to vote either present in person or by proxy; or
- (iii) by one or more shareholders present in person or by proxy and representing not less than 10 per cent. of all shares carrying the right to vote at the meeting.

Unless a poll be so demanded, a declaration by the chairman as to the passing of the resolution based on the result of the show of hands and an entry to that effect in the minutes of the Company, shall be conclusive evidence of that fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.

The demand for a poll may be withdrawn by the person who made the demand. A poll demanded on the election of the chairman of the meeting, or on a question of adjournment, shall be taken forthwith. A poll demanded on any other question shall be taken at such time as the chairman of the meeting directs, and any business other than that upon which a poll has been demanded may be proceeded with, pending the taking of the poll. The result of the poll shall be deemed as a resolution of the meeting at which the poll was demanded.

On a poll taken at a meeting, a shareholder entitled to two or more votes need not cast all his votes in the same way.

In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting shall be entitled to one extra vote.

**(F) Requirements for general meetings**

Shareholders' general meetings shall be convened by the Board. Annual general meetings are held once every year within six months after the last financial year end.

The Board shall convene an extraordinary general meeting within two months upon the occurrence of the following events:

- (i) when the number of Directors falls below the number required by the PRC Company Law or two-thirds of the number required by the Articles;
- (ii) when the losses of the Company which have not been made up amount to one-third of the total share capital of the Company;
- (iii) upon written requisition of shareholders holding 10 per cent. or more of the Company's issued shares carrying voting rights for the convening of an extraordinary general meeting;
- (iv) when the Board deems necessary or the supervisory committee proposes to convene the same; or
- (v) when at least two independent Directors propose to convene the same.

Where the Company convenes a shareholders' general meeting, it shall, not less than 45 days before the meeting, issue a written notice to all shareholders whose names appear in the members' register setting out matters to be considered and the date and venue of the meeting. Shareholders intending to attend the shareholders' general meeting shall give the Company a written reply stating his intention to attend the meeting 20 days prior to the date of the meeting.

Where the Company convenes an annual general meeting, shareholders holding not less than 5 per cent. of the total number of voting shares of the Company shall be entitled to submit new motions in writing to the Company. The Company shall include in the agenda of the meeting all items in the motion that fall within the scope of the shareholders' general meeting.

An extraordinary shareholders' meeting shall not decide on matters which are not specified in the notice.

#### **(G) Accounts and audit**

The Company shall formulate its own financial and accounting system and internal audit system in accordance with the relevant requirements of PRC laws, administrative regulations and the PRC accounting standards formulated by the Ministry of Finance under the State Council.

The Company shall prepare financial statements at the end of each fiscal year. Such statements shall be audited and examined under the requirements of laws.

The Board of the Company shall place before the shareholders at every annual general meeting such financial statements prepared by the Company under relevant laws, administrative regulations or directives promulgated by competent local and central governmental authorities.

The financial reports of the Company shall be deposited at the Company for inspection by its shareholders no later than 20 days before the annual general meeting. Each shareholder of the Company shall be entitled to access the financial statements referred to in this article.

The Company shall send by prepaid mail 21 days before the annual general meeting the printed copies of the above financial reports together with the directors' report to each holder of overseas listed foreign shares. The service address shall be the address in the register of shareholders.

The financial statements of the Company shall, in addition to being prepared in accordance with PRC accounting standards and regulations, be prepared in accordance with either international accounting standards, or that of the place of listing of the Company's overseas listed foreign shares. If there is any material difference between the financial statements prepared respectively in accordance with the two accounting standards, such difference shall be stated in a note to the financial statements. When the Company is to distribute its after-tax profits, the lower of the after-tax profits as shown in the two financial statements shall be adopted.

Any interim results or financial information published or disclosed by the Company must also be prepared and presented in accordance with PRC accounting standards and regulations, and also in accordance with either international accounting standards or that of the place of listing of Company's overseas listed foreign shares.

The Company shall prepare interim financial reports in accordance with the provisions under the GEM Listing Rules.

**(H) Notice of meetings and business to be conducted thereat**

The shareholders' general meeting is the authority of the Company.

The Company shall not, without the prior approval of shareholders in general meeting, enter into any contract with any person other than a Director, Supervisor, manager or other senior management whereby the management and administration of the whole or any substantial part of the business of the Company is to be handed over to such person.

General meetings shall be divided into annual general meetings and extraordinary general meetings. The general meetings shall be convened by the Board.

Written notice of general meeting shall be given not less than 45 days before the date of the meeting. A notice of general meeting of shareholders shall:

- (i) be in writing;
- (ii) specify the venue, date and time of the meeting;
- (iii) state the business to be transacted at the meeting;
- (iv) provide such information and explanation as are necessary for the shareholders to make an informed decision on the proposals before them. Without limiting the generality of the foregoing, where a proposal is made to amalgamate the Company with another, to repurchase shares of the Company, to reorganise the share capital, or to restructure the Company in any other way, the terms of the proposed transaction must be provided in detail together with copies of the proposed agreement, if any, and the cause and effect of such proposal must be properly explained;
- (v) contain a disclosure of the nature and extent, if any, of material interests of any Director, Supervisor, manager or other senior management in the proposed transaction and the effect of the proposed transaction on such Director, Supervisor, manager or other senior management in his capacity as shareholder in so far as it is different from the effect on the interests of other shareholders of the same class;



- (vi) contain the full text of any special resolution proposed to be moved at the meeting;
- (vii) contain a clear statement that a shareholder entitled to attend and vote is entitled to appoint one or more proxies to attend and vote instead of him and that a proxy need not also be a shareholder; and
- (viii) specify the time and place for lodging the proxy form of the relevant meeting.

Notice of general meetings of shareholders shall be served on all shareholders, whether or not entitled to vote thereat, by delivery or prepaid mail to the address of any such shareholder as appearing on the register of members. In respect of holders of Domestic Shares, notice of general meetings of shareholders can be published on any one day within the period of 45 to 50 days prior to the meeting in one or more publications specified by the State Council securities regulatory authority. Once published, all holders of Domestic Shares shall be deemed to have received the notice of the relevant general meeting.

The accidental omission to give notice of a meeting to, or the non-receipt of notice of a meeting by, any person entitled to receive notice shall not invalidate that meeting or any resolutions passed thereat.

Where the Company convenes a general meeting, shareholders holding not less than 5 per cent. of the total number of voting shares of the Company shall be entitled to submit new motions in writing to the Company. The Company shall include in the agenda all items in the motions that fall within the scope of the shareholders' general meeting.

The following matters shall be resolved by way of ordinary resolution of the shareholders' general meeting:

- (1) reports of the board of Directors and the board of Supervisors;
- (2) profit distribution proposals and proposals for making up losses formulated by the Board;
- (3) appointment and removal of members of the board of Directors and the board of Supervisors and their remuneration and methods of payment;
- (4) the Company's financial budgets, audited accounts, balance sheet, profit and loss account and other financial statements; and
- (5) matters other than those required by the laws, regulations and provisions of the Articles to be adopted by a special resolution.

The following matters are to be resolved by way of special resolution of the shareholders' general meeting:

- (1) increase or reduction of the Company's share capital and the issuance of shares of any class, warrants and other similar securities;
- (2) issuance of Company debentures;
- (3) demerger, merger, dissolution and liquidation of the Company;
- (4) amendment of the Articles; and

- (5) any other matters considered by the shareholders in general meeting, resolved by way of an ordinary resolution, to be of a nature which may have a material impact on the Company and should be adopted by a special resolution.

**(I) Transfer of shares**

All fully paid H shares listed in Hong Kong are freely transferable pursuant to the Articles. The Board may refuse to recognise any instrument of transfer without giving any reason unless such transfer is carried out in compliance with the following conditions:

- (i) payment of HK\$2.50 or higher charge as permitted by the Stock Exchange has been made to the Company for the purpose of registering the instrument of transfer and other documents in connection of or may affect the title to the shares;
- (ii) the instrument of transfer only involves H Shares listed in Hong Kong;
- (iii) the stamp duty payable on the instrument of transfer has been paid;
- (iv) relevant share certificates and evidence that the transferor has the right to transfer such shares as reasonably required by the Board have been provided;
- (v) if the shares are to be transferred to joint holders, the number of joint holders shall not exceed 4; and
- (vi) the Company has no lien over the relevant shares.

Any alteration or rectification of the share register shall be carried out in accordance with the laws of the place where the register is maintained.

Changes in the shareholders' register due to the transfer of shares should not be made within 30 days of the shareholders' general meeting or less than 5 days before the record date for the Company's distribution of dividends.

**(J) Register of shareholders**

The Company shall keep a register of shareholders and enter therein the following particulars:

- (i) the names, addresses, occupations or descriptions of shareholders, the class and number of each class of shares held, the amount paid or payable on the shares and, the serial number of the share certificates held by the shareholder;
- (ii) the date on which the person was entered in the register as a shareholder; and
- (iii) the date on which any person ceased to be a shareholder.

The Company shall maintain a complete register of shareholders which shall be comprised of the following parts:

- (i) a part maintained at the Company's place of incorporation in relation to shares not required to be registered in the parts of the register referred to in (ii) and (iii) below;

- (ii) register of shareholders of the overseas listed foreign invested shares maintained in the location of the overseas stock exchange where the overseas listed foreign invested shares are listed; and
- (iii) any part in such other places as the Board may deem necessary for listing purposes.

The Company may appoint overseas agents to maintain the register of shareholders outside the PRC. A duplicate of parts of the register of shareholders maintained pursuant to (ii) and (iii) above shall be maintained at the Company's place of incorporation. The appointed overseas agents shall ensure that the original of any overseas part of the register of shareholders is consistent with the duplicate thereof. In the event of discrepancy, the information recorded in the original part shall prevail. Different parts of the register of shareholders shall not overlap. No transfer of any shares registered in any part of the register shall, during the continuance of that registration, be registered in any other part of the register of shareholders. The alteration and rectification of any part of the register of shareholders shall be made in accordance with the laws of the place where that part of the register is maintained. The register of shareholders shall be conclusive evidence, in the absence of evidence to the contrary, of a shareholding in the Company.

**(K) Power of the Company to purchase its own shares and reduce its share capital**

Subject to the Articles, the Company may reduce its registered capital.

Subject to governmental approvals, the Company may, subject to the procedures provided in the Articles, repurchase its own shares:

- (1) for cancellation to reduce its share capital;
- (2) to merge with another company which holds the Company's Shares; or
- (3) under other circumstances permitted by laws and administrative regulations.

Subject to approval by the relevant regulatory authorities, the Company may carry out a share repurchase by one of the following methods:

- (i) making a pro rata general offer of repurchase to all shareholders;
- (ii) repurchase shares through public dealing on a stock exchange; or
- (iii) repurchase by an off-market agreement.

The Company may, with the prior sanction of shareholders obtained in accordance with the Articles, repurchase its shares by an off-market contract, but the Company may release or modify its rights under a contract so entered into by the Company with the prior approval of shareholders in general meeting obtained in the same manner. A contract to repurchase shares includes but is not limited to an agreement to become obliged to repurchase or to acquire rights to repurchase shares of the Company. Rights of the Company under a contract to repurchase its shares shall not be assigned.

Shares repurchased by the Company shall be cancelled within the period stipulated by laws and administrative regulations and the amount of the Company's registered capital shall be reduced by the par value of those shares. The Company shall apply to the authority for companies registration with which it was originally registered to amend the registration as to registered capital.

Unless the Company has commenced liquidation:

- (i) where the Company repurchases its own shares at nominal value, payment shall be made out of distributable profits in the books of the Company or out of the proceeds of a fresh issue of shares made for that purpose;
- (ii) where the Company repurchases its own shares at a premium, payment of the portion equivalent to the nominal value shall be made out of the distributable profits in the books of the Company or out of the proceeds of a fresh issue of shares made for that purpose. Payment of the portion in excess of the nominal value shall be effected as follows:
  - (A) if the shares being repurchased were issued at nominal value, payment shall be made out of distributable profits in the books of the Company;
  - (B) if the shares being repurchased were issued at a premium, payment shall be made out of distributable profits in the books of the Company and out of proceeds of a fresh issue of shares made for that purpose, provided that the amount paid out of the proceeds of the fresh issue may not exceed the aggregate of premiums received by the Company on the issue of the shares repurchased nor the amount of the Company's capital reserve fund account at the time of such repurchase including the premiums on the fresh issue of shares;
- (iii) payment by the Company shall be made from its distributable profits in consideration for:
  - (A) the acquisition of rights to repurchase shares of the Company;
  - (B) the variation of any contract to repurchase shares of the Company; or
  - (C) the release of any of the Company's obligations under any contract to repurchase shares of the Company;
- (iv) The amount of the Company's registered capital shall be reduced by the par value of those cancelled shares accordingly. The amount which has been deducted from the distributable profits and used for repurchasing the shares at nominal value shall be credited to the capital reserve fund account.

Upon the reduction of registered capital, the Company shall prepare a balance sheet and a list of its assets. The Company shall notify its creditors within 10 days from the date of passing of the resolution for the reduction of registered capital and shall publish the notice at least three times in a newspaper within 30 days thereof. Creditors who receive this notice shall have the right within 30 days from the date of receiving the notice, and the creditors who have not received the notice shall have the right within 90 days from the date of the first public announcement, to require the Company to settle the debt or to provide corresponding security in respect of the debt.

The registered capital shall not be less than the minimum statutory requirement after the reduction of registered capital.

**(L) Power for any subsidiary of the Company to own shares in the Company**

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

**(M) Dividends and other methods of distribution**

After being approved by the shareholders' general meeting, the Board of the Company may distribute final or interim dividend. Dividend may be distributed by way of cash or shares.

Dividends and other distributions declared by the Company to be payable to domestic shares shall be calculated, declared and paid in Renminbi. Dividends and other distributions payable on H Shares shall be calculated and declared in Renminbi but paid in foreign currency. There are no provisions relating to any time limit after which entitlement to dividend lapses.

The Company shall appoint a receiving agent to receive on behalf of holders of H Shares dividends declared and all other monies payable by the Company in respect of H Shares. Such receiving agent shall be one that has been registered as a trust company under the Trustee Ordinance of Hong Kong.

**(N) Proxies**

Any shareholder entitled to attend and vote at a meeting of the Company shall be entitled to appoint one or more persons (whether a shareholder or not) as his proxies to attend and vote instead of him, and a proxy so appointed shall:

- (i) have the same rights as the shareholder to speak at the meeting;
- (ii) have the right to demand or join in demanding for a poll; and
- (iii) have the right to vote on a show of hands or on a poll, but a proxy of a shareholder who has appointed more than one proxy may only vote on a poll.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney duly authorised in writing, or if the appointor is a body corporate either under seal or under the hand of a director or an officer or attorney duly authorised. The instrument appointing a proxy and, if such instrument is signed by a person under a power of attorney or other authority on behalf of the appointor, a notarially certified copy of that power of attorney or other authority shall be deposited at the legal address of the Company or at such other place specified in the notice convening the meeting, not less than 24 hours before the time for holding the meeting at which the proxy proposes to vote or the time appointed for the taking of the poll.

If the appointor is a body corporate, its legal representative or such person as is authorised by resolution of its board of directors or other governing body to act as its representative may attend at any meeting of shareholders of the Company on its behalf.

Any form issued to a shareholder by the Board for use by the shareholder for appointing a proxy to attend and vote at a general meeting of the Company shall be such as to enable the shareholder, according to his intention, to instruct the proxy to vote in favour of or against each resolution dealing with the business to be transacted at the meeting. Such a form shall contain a statement to the effect that, in the absence of such instructions, the proxy may vote as he thinks fit. A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or loss of capacity of the principal or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the shares in respect of which the proxy is given, provided that no notice in writing of such death, loss of capacity, revocation or transfer as aforesaid have been received by the Company before the commencement of the meeting at which the proxy is used.

**(O) Calls on Shares and forfeiture of Shares**

There are no provisions in the Articles relating to the making of calls on Shares or for the forfeiture of Shares.

**(P) Inspection of register of shareholders and shareholders' other rights to information**

The holders of ordinary shares of the Company shall enjoy the following rights:

- (i) to receive dividends and other distributions in proportion to the number of Shares held;
- (ii) to attend or appoint a proxy to attend on his behalf shareholders' general meetings and to vote thereat;
- (iii) to supervise the business operations and activities of the Company and to give advice or raise questions there on;
- (iv) to transfer his Shares according to applicable laws, administrative regulations and provisions of the Articles;
- (v) to receive any relevant information in accordance with the Articles;
- (vi) to participate in the event of the termination or liquidation of the Company, in the distribution of surplus assets of the Company in proportion to the number of Shares held;
- (vii) other rights conferred by the Articles and the relevant laws and regulations.

The right of the shareholders to information includes the following:

- (i) the right to a copy of the Articles at cost;
- (ii) the right to inspect and copy for reasonable charges:
  - (a) all parts of the register of shareholders;
  - (b) particulars of Directors, Supervisors, managers and other senior management of the Company as follows:
    - (1) his present forename and surname and any former forename or surname and any aliases;
    - (2) his principal residential address;
    - (3) his nationality;
    - (4) his primary and all other business occupations; and
    - (5) his identification document and its number;
  - (c) the state of the Company's share capital;

- (d) reports showing the aggregate number and par value of Shares repurchased by the Company since the end of the last financial year, the aggregate amount paid by the Company for the Shares repurchased and the maximum and minimum price paid in respect of each class of Shares repurchased; and
- (e) minutes of general meetings.

**(Q) Quorum for general meetings and class meetings**

A shareholder proposing to attend a shareholder's general meeting shall deposit a written reply confirming his attendance 20 days prior to the holding of the meeting. The Company shall, according to the written replies received 20 days prior to the holding of a shareholders' general meeting, calculate the number of shares carrying the right to vote represented by the shareholders proposing to attend the meeting. If the number of shares carrying the right to vote represented by the shareholders proposing to attend the meeting reaches half of the total number of shares of the Company carrying the right to vote, then the Company may hold the shareholders' general meeting; if that number is not reached, the Company shall within five days notify the shareholders again of the matters proposed to be considered at the meeting, the date and the place of the meeting by way of public announcement. After such public announcement, the Company may hold the shareholder's general meeting.

The Company may convene a class meeting where the number of voting shares represented by those shareholders from whom the Company has received, 20 days before the meeting, notices of intention to attend the meeting reaches one half or more of the total number of voting shares of that class; or if not, the Company shall within five days notify the shareholders again of the matters proposed to be considered at the meeting, the date and the place of the meeting by way of public announcement. After such public announcement, the Company may hold the meeting.

**(R) Rights of minority shareholders in relation to fraud or oppression**

In addition to obligations imposed by laws, administrative regulations or required by the stock exchanges on which H Shares of the Company are listed, a Controlling Shareholder (as defined below) shall not exercise his voting rights in a manner prejudicial to the interests of all or part of the shareholders of the Company in respect of the following matters:

- (i) to relieve a Director or Supervisor of his duty to act honestly in the best interests of the Company;
- (ii) to approve a Director or Supervisor (for his own benefit or for the benefit of another person) taking in any manner, the Company's assets, including without limitation, opportunities beneficial to the Company; or
- (iii) to approve a Director or Supervisor (for his own benefit or for the benefit of another person) taking the individual rights of other shareholders, including without limitation, rights to distributions and voting rights save and except pursuant to a restructuring of the Company submitted to the general meeting for approval in accordance with the Articles.

For these purposes, a "Controlling Shareholder" means a person who satisfies any one of the following conditions:

- (i) he alone or acting in concert with others has the power to elect more than half of the Directors;

- (ii) he alone or acting in concert with others has the power to exercise or to control the exercise of 30 per cent. or more of the voting rights in the Company;
- (iii) he alone or acting in concert with others holds 30 per cent. or more of the issued Shares of the Company; or
- (iv) he alone or acting in concert with others in any other manner de facto controls the Company.

**(S) Shareholders' rights relating to, and procedures on, liquidation**

Shareholders have the right to participate in the distribution of the surplus assets of the Company in proportion to the number of shares held by them in the event of a liquidation of the Company.

The Company shall be dissolved and liquidated upon the occurrence of any of the following events:

- (i) where the shareholders' general meeting resolves that the Company should be dissolved;
- (ii) where dissolution is necessary as a result of the merger or demerger of the Company;
- (iii) where the Company is declared insolvent according to law as a result of its failure to pay its debts as they fall due; or
- (iv) when the Company is ordered to be closed down by reason of its violation of laws or administrative regulations.

Where the Board decides to liquidate the Company otherwise than because of a declaration of insolvency, the Board shall, in the notice convening a general meeting of shareholders for this purpose, include a statement to the effect that, after having made full inquiry into the affairs of the Company, the Board is of the opinion that the Company will be able to pay its debts in full within 12 months from the commencement of the liquidation.

In the event the Company shall be dissolved under the provisions of (i) above, it shall set up within 15 days thereof a liquidation team, the members of which shall be determined by an ordinary resolution passed in the general meeting. If the team has not been set up within the said period, its creditors may petition to the People's Court for the designation of the members of the liquidation team so as to proceed with the liquidation thereof.

In the event the Company shall be dissolved under the provisions of (iii) above, the People's Court shall form a liquidation team comprising the shareholders, relevant authorities and relevant professionals in accordance with the laws to proceed with the liquidation thereof.

In the event the Company shall be dissolved under (iv) above, the relevant competent authorities shall form a liquidation team comprising of the shareholders, relevant authorities and relevant professionals in accordance with the laws to proceed with the liquidation thereof. Upon the passing of a resolution to liquidate the Company, all powers of Directors shall cease. The liquidation team shall:

- (i) not less than once each year report at the shareholders' general meeting the team's receipts and payments, the business of the Company and the progress of liquidation;
- (ii) present a final report at the shareholders' general meeting on completion of the liquidation; and
- (iii) comply with the instructions from shareholders in general meeting.



**(T) Other provisions material to the Company or its shareholders***(i) General Provision*

The Company is a joint stock limited company which has perpetual existence.

From the date on which the Articles come into effect, the Articles shall constitute a legally binding public document regulating the Company's organization and activities, and the rights and obligations between the Company and each shareholder and among the shareholders inter se.

The Company may invest in other limited liability companies or joint stock limited companies. The Company's liabilities to an investee company shall be limited to the amount of its capital contribution to the investee company.

Upon approval of the companies approving department authorised by the State Council, the Company may, according to its operating and management needs, operate as a holding company.

The Company may, based on its operating and development needs, increase its share capital pursuant to the Articles.

The Company may increase its capital in the following ways:

- (1) by offering new shares for subscription to unspecified investors;
- (2) by issuing new shares to its exiting shareholders;
- (3) by allotting bonus shares to its existing shareholders; and
- (4) by any other means which is permitted by laws and administrative regulations.

After the Company's increase of share capital by means of the issuance of new shares has been approved in accordance with the provision of the Articles, the issuance thereof should be made in accordance with procedures set out in the relevant laws and administrative regulations.

Unless otherwise stipulated in the relevant laws or administrative regulations, shares in the Company shall be freely transferable and are not subject to any lien.

The holders of ordinary shares of the Company shall assume the following obligations:

- (1) to comply with the Articles;
- (2) to pay subscription monies according to the number of shares subscribed and the method of subscription;
- (3) other obligations imposed by laws, administrative regulations and the Articles.

Shareholders are not subject to any additional obligations in respect of their shareholdings other than as agreed by the subscriber of the relevant shares at the time of subscription.

(ii) *Secretary of the Board*

The secretary of the Board shall be a natural person who has the requisite professional knowledge and experience, and shall be appointed by the Board. His primary responsibilities are to ensure that:

- (1) the Company maintains a complete collection of documents of association and records;
- (2) the Company prepares and submits all the necessary reports and documents to the relevant authorities in accordance with the legal procedures; and
- (3) the register of shareholders of the Company is properly maintained and that the shareholders are entitled to readily access the relevant records and documents of the Company.

(iii) *Supervisory Committee*

The Company shall set up a supervisory committee. The Directors, general manager and financial controller shall not act concurrently as Supervisors. The supervisory committee shall be composed of 5 supervisors, the term of office of which shall be three years, renewable upon re-election and re-appointment.

The supervisory committee shall have a chairman. The election or removal of the chairman of the supervisory committee shall be determined by two-thirds or more of the members of the supervisory committee. The term of office of the chairman shall be three years, renewable upon re-election and re-appointment. The supervisory committee shall comprise of 2 representatives nominated by the shareholders, a representative of staff of the Company and 2 independent supervisors. The representatives of shareholders shall be elected and removed by shareholders' general meeting; the representative of workers and staff of the Company shall be elected and removed by the workers and staff of the Company democratically thereby.

The supervisory committee shall be accountable to the shareholders' general meeting and shall exercise the following powers in accordance with laws:

- (1) to examine the Company's financial situation;
- (2) to examine whether the Directors, managers and other senior management act in contradiction with the laws, administrative regulations and the Articles when performing their duties;
- (3) to demand rectification from a Director, the manager or any other senior management when the acts of such persons are harmful to the Companies's interest;
- (4) to verify financial information such as the financial report, business report and plans for distribution of profits to be submitted by the Board to the shareholders' general meetings and, should any queries arise, to authorise, in the name of the Company, a re-examination by certified public accountants and practising auditors;
- (5) to propose to convene an extraordinary general meeting;
- (6) to represent the Company in negotiation with or bringing an action against a Director; and

(7) to exercise other powers specified in the Articles.

Members of the supervisory committee shall be present at the meetings of the Board.

(iv) *General manager of the Company*

The Company shall have one general manager, who shall be appointed and dismissed by the Board.

The general manager shall be accountable to the Board and shall exercise the following powers:

- (1) to be in charge of the Company's production, operation and management and to head the implementation of the resolutions of the Board;
- (2) to head the implementation of the Company's annual business plan and investment plan;
- (3) to draft plans for the establishment of the Company's internal management structure;
- (4) to draft the Company's basic management system;
- (5) to formulate basic provisions of the rules of the Company;
- (6) to propose the appointment or dismissal of the Company's financial controller;
- (7) to appoint or dismiss management personnel other than those required to be appointed or dismissed by the Board; and
- (8) to decide various employees' issues;
- (9) to represent the Company to handle important business according to the authorization given by the board of Directors; and
- (10) to exercise other powers conferred by the Articles and the Board.

Managers shall be present at meetings of the Board, but shall have no voting rights at the meetings.

The general manager, in performing its functions and powers, shall act honestly and diligently and in accordance with laws, administrative regulations and the Articles.

(v) *Board*

The Board is accountable to the shareholders' general meeting and shall exercise the following powers:

- (1) to be responsible for convening shareholders' general meetings and to report on its work to the shareholders' general meeting;
- (2) to implement the resolutions of the shareholders' general meetings;
- (3) to decide on the Company's business plans and investment plans;

- (4) to formulate the Company's annual budget and audited accounts;
- (5) to formulate the Company's profit distribution plan and plan for recovery of losses;
- (6) to formulate proposals for the increase or reduction of the Company's registered share capital and the issue of corporate debentures;
- (7) to draw up plans for the merger, demerger or dissolution of the Company;
- (8) to decide on the establishment of the Company's internal management structure;
- (9) to appoint or remove the Company's general manager, to appoint or remove the financial controller of the Company based on the recommendations of the general manager, and to decide on its remuneration;
- (10) to formulate the Company's basic management system;
- (11) to formulate the alteration plan for the Articles;
- (12) if there is a vacancy but the number of Directors does not fall below the number required by the Company Law or two-thirds of the number required by the Articles, the Directors shall have the power to appoint any person to be a Director to fill the casual vacancy. Any Director so appointed shall hold office only until the next general meeting of the Company and shall then be eligible for re-election at that meeting;
- (13) subject to the relevant laws, regulations and the Articles, to decide on the raising and borrowing moneys and to mortgage, lease, contract out and transfer of the major assets of the Company, and may authorize the general manager to exercise such powers within certain limits and period; and
- (14) to exercise any other powers conferred by the shareholders in general meetings or the Articles.

Except the Board's resolutions in respect of the matters specified in items (6), (7) and (11) to (13) above, which shall be passed by two-thirds or more of the Directors, the Boards resolutions in respect of all other matters may be passed by a simple majority of the Directors.

A decision of the Board on connected transactions of the Company may be valid only when it was approved by independent non-executive directors' signature.

Meetings of the Board shall be held at least twice every year and convened by the chairman of the Board. Notice of the meeting shall be served on all of the Directors 15 days before the date of the meeting. On case of any urgent matters, upon requisition by the general manager or at least one-third of the members of the Board, an extraordinary meeting of the Board may be held.

Meetings of the Board shall be held only if more than half of all the Directors are present. Each Director shall have one vote. Where the number of votes casted for and against a resolution are equal, the chairman of the Board shall have a casting vote. If one-fourth of the Directors or 2 independent non-executive Directors consider the information required for deciding on the matters to be resolved is not sufficient or not clear, they may propose to adjourn the Board meeting or submit such matter for discussion at the Board meeting by making a joint request to this effect, which the Board shall adopt.

Where a Director is interested in any resolution proposed at a Board meeting, such Director shall have no right to vote. Such Director shall not be counted in the quorum of the relevant meeting.

(vi) *Accounts and audit*

**(1) *Appointment of an accounting firm***

The Company shall appoint an independent firm of certified public accountants (“CPA”) which is qualified under the relevant regulations of the State to audit the Company’s annual financial statements and review the Company’s other financial reports. The first CPA firm of the Company may be appointed by the inaugural meeting of the Company before the first annual general meeting and the CPA firm so appointed shall hold office until the conclusion of the first annual general meeting. If the inaugural meeting fails to exercise its aforementioned power, the power shall be exercised by the Board.

The CPA firm appointed by the Company shall hold office from the conclusion of the annual general meeting of shareholders at which the appointment is made until the conclusion of the next annual meeting of shareholders.

Before the convening of the shareholders’ general meeting, the Board may fill any casual vacancy in the office of the CPA firm, but while any such vacancy continues, the surviving or continuing firm, if any, may act.

The shareholders in general meeting may by ordinary resolution remove a CPA firm before the expiration of its office, notwithstanding any terms in the contract between the Company and the firm, but without prejudice to the firm’s right to claim, if any, for damages in respect of such removal.

The remuneration of a CPA firm or the manner in which such remuneration is determined shall be determined by the shareholders in general meeting. The remuneration of a CPA firm appointed by the Board shall be determined by the Board.

**(2) *Change and removal of an accounting firm***

The Company’s appointment, removal and non-reappointment of a CPA firm shall be resolved by shareholders in general meeting. The relevant resolution of the shareholders’ general meeting shall be filed with the securities authority of the State Council.

Where it is proposed that any resolution be passed at a shareholders’ general meeting concerning the appointment of a CPA firm, which is not an incumbent firm, to fill a casual vacancy in the office of the CPA firm, reappointment of a retiring CPA firm before the expiration of its term of office, or the removal of a CPA firm before the expiration of its term of office, the following provision shall apply:

- (1) A copy of the proposal shall be sent to the firm proposed to be appointed or proposing to leave its post or the firm which has left its post (leaving includes leaving by removal, resignation and retirement) before notice of meeting is given to the shareholders.

- (2) If the firm leaving its post makes representations in writing and requests the Company to notify such representations to the shareholders, the Company shall (unless the representations are received too late):
  - (i) in any notice of the resolution given to shareholders, state the fact of the representations having been made; and
  - (ii) attach a copy of the representations to the notice and deliver it to the shareholders in the manner stipulated in the Articles.
- (3) If the firm's representations are not sent in accordance with the preceding paragraph, the relevant firm may require that the representations be read out at the shareholders' general meeting and may lodge further complaints.
- (4) A CPA firm which is leaving its post shall be entitled to attend:
  - (i) the shareholders' general meeting at which its term of office would otherwise have expired;
  - (ii) any shareholders' general meeting at which it is proposed to fill the vacancy caused by its removal; and
  - (iii) any shareholders' general meeting convened on its resignation;

and to receive all notices of, and other communications relating to, any such meetings, and to speak at any such meeting in relation to matters concerning its role as the former CPA firm of the Company.

**(3) *Resignation of an accounting firm***

Where the CPA firm resigns its post, it shall make clear to the shareholders' general meeting whether there has been any impropriety on the part of the Company.

Any CPA firm may resign its office by depositing at the Company's legal address a resignation notice which shall become effective on the date of such deposit or on such later date as may be stipulated in such notice. Such notice shall include the following:

- (1) a statement to the effect that there are no circumstances connected with its resignation which it considers should be brought to the notice of the shareholders or creditors of the Company; or
- (2) a statement of any such circumstances.

Where a notice is deposited under the preceding paragraph, the Company shall within 14 days send a copy of the notice to the relevant governing authority. If the notice contains a statement under subparagraph (2) above, a copy of such statement shall be kept at the Company's legal address for shareholders' inspection. A copy of such statement shall also be sent by prepaid mail to all holders of H Shares and other shareholders who has the right to receive the financial report of the Company, at the address registered in the register of shareholders.

Where the CPA firm's notice of resignation contains a statement of any circumstances which should be brought to the notice of the shareholders or creditors of the Company, the CPA firm may require the Board to convene an extraordinary general meeting for the purpose of giving an explanation of the circumstances connected with its resignation.

(vii) *Dispute resolution*

Whenever any disputes or claims arise between holders of the overseas-listed foreign-invested shares and the Company, between holders of the overseas-listed foreign-invested shares and the Company's Directors, Supervisors, Managers or other senior management or between holders of the overseas-listed foreign-invested shares and holders of domestic-invested shares, based on any rights or obligations conferred or imposed by the Articles, the Company Law or any other relevant laws and administrative regulations concerning the affairs of the Company, such disputes or claims shall be referred by the relevant parties to arbitration.

A claimant may elect arbitration at either the CIETAC in accordance with its rules or the HKIAC Centre in accordance with its Securities Arbitration Rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant.

If a claimant elects arbitration at HKIAC, any party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the Securities Arbitration Rules of the HKIAC.

In the case of any disputes or claims of rights as referred to in paragraph (1) of section (vii), the laws of the PRC shall apply, save as otherwise provided in laws and administrative regulations.

Where a dispute or claim of rights is referred to arbitration, the entire claim or dispute must be referred, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, shall abide by the arbitration provided that such person is the Company or the Company's shareholder, Director, Supervisor, manager or other senior management. Disputes in relation to the identification of shareholders and disputes in relation to the share register of Shareholders may be settled without arbitration.

The award of an arbitration body shall be final and conclusive and binding on all parties.

## A. FURTHER INFORMATION ABOUT THE COMPANY

## 1. Incorporation

- (a) The Company was established in the PRC under the Company Law as a joint stock limited company on 9th August, 2002 by the Promoters. The Company has established a place of business at Suites 2911–2912, 29th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong and has been registered as an oversea company in Hong Kong under Part XI of the Companies Ordinance on 22nd August, 2003. Loong & Yeung of Suites 2911–2912, 29th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong has been appointed as the process agent of the Company for the acceptance of service of process in Hong Kong.
- (b) At the time of its establishment, the Company's registered capital was RMB53,600,000 divided into 53,600,000 Shares of RMB1.00 each, all of which were held and paid up or credited as paid up as follows:

Promoters	Number of Shares held by each Promoter	Approximate percentage of shareholding of each Promoter in the registered capital of the Company
Mr. Tang Li Min (唐利民)	32,160,000	60.00%
Ms. Hong Yin Juan (洪銀娟)	13,400,000	25.00%
Mr. Hong Guo Ding (洪國定)	3,216,000	6.00%
Mr. Tang Cheng Fang (唐成芳)	2,680,000	5.00%
Mr. Fei Guo Yang (費國楊)	1,072,000	2.00%
Mr. Feng Yun Lin (馮雲林)	1,072,000	2.00%
	<u>53,600,000</u>	<u>100.00%</u>

- (c) Since the Company was established in the PRC, it is required to comply with the laws and regulations of the PRC. A summary of the relevant laws and regulations of the PRC and a summary of its articles of association are set out in Appendix IV and V to this prospectus respectively.
- (d) The conversion of the Company into a joint stock limited company involved, among other matters, the following procedures and approvals:
- (i) On 10th July, 2002, Zhejiang East Certified Public Accountants Company Limited (浙江東方會計師事務所有限公司) issued an audited report in respect of the financial status of Shaoxing Prospect for the period up to 30th June, 2002 (Zhe Dong Kuai Shen [2002] No. 695).



- (ii) On 15th July, 2002, an extraordinary general meeting of Shaoxing Prospect was held at which, among other matters, the following resolutions were passed:
- (a) Shaoxing Prospect be converted into the Company, and the total registered capital of the Company be equal to the net asset value of Shaoxing Prospect as at 30th June, 2002.
  - (b) The original shareholders of Shaoxing Prospect agreed to be the Promoters of the Company, and all the Promoters would have the number of Shares of the Company in proportion to their shareholdings in Shaoxing Prospect.
- (iii) Mr. Tang Li Min, Ms. Hong Yin Juan, Mr. Hong Guo Ding, Mr. Tang Cheng Fang, Mr. Fei Guo Yang and Mr. Feng Yun Lin entered into the Promoters Agreement on 15th July, 2002, pursuant to which the Promoters agreed to establish the Company.
- (iv) On 15th July, 2002, Zhejiang East Certified Public Accountants Company Limited (浙江東方會計師事務所有限公司) issued a capital verification report concerning the capital contribution of the Promoters (Zhe Dong Kuai Yan [2002] No. 83).
- (v) On 29th July, 2002, the Leading Group of the Enterprise Listing Work of the People's Government of Zhejiang Province (浙江省人民政府企業上市工作領導小組) issued an approval approving the conversion of Shaoxing Prospect into the Company (Zhe Shang Shi [2002] No. 48).
- (vi) On 1st August, 2002, the inaugural meeting of the Company was held by the Promoters of the Company at which, among other matters, the following resolutions were passed:
- (i) the establishment of the Company;
  - (ii) the adoption of the initial articles of association of the Company; and
  - (iii) the appointment of Mr. Tang Li Min, Mr. Hong Guo Ding, Mr. Tang Cheng Fang, Mr. Fei Guo Yang and Mr. Li Zhang Rui (李張瑞) as Directors and Mr. Hong Chun Qiang (洪春強), Mr. Feng Yun Lin and Mr. Chen Jin Long (陳金龍) as Supervisors.
- (vii) On 9th August, 2002, the Administrative Bureau of Industry and Commerce of Zhejiang Province (浙江省工商行政管理局) issued the business license of the Company (registration no. 3300001008906) evidencing that the Company was incorporated as a joint stock limited company.
- (viii) On 4th November, 2003, CSRC issued an approval (Zheng Jian Guo He Zi [2003] No. 36) approving the issue and the listing of H Shares on GEM by the Company.

## 2. Changes in share capital

The following changes in the share capital of the Company have taken place within the two years preceding the date of this prospectus:

- (1) On 29th May, 2002, by a series of equity transfer agreements, Shaoxing Group transferred its equity interest of RMB1.5 million in Shaoxing Prospect to the following persons in the following portion: Mr. Tang Li Min of RMB1.2 million, Mr. Hong Guo Ding of RMB120,000, Mr. Tang Cheng Fang of RMB100,000, Mr. Fei Guo Yang of RMB40,000, Mr. Feng Yun Lin of RMB40,000. By an equity transfer agreement of the same date, Mr. Hong Guo Lin (洪國林) transferred his equity interest of RMB500,000 in Shaoxing Prospect to Ms. Hong Yin Juan. The consideration paid by Mr. Tang Li Min, Ms. Hong Yin Juan, Mr. Hong Guo Ding, Mr. Tang Cheng Fang, Mr. Fei Guo Yang and Mr. Feng Yun Lin were RMB3,444,000, RMB1,435,000, RMB344,400, RMB287,000, RMB114,800 and RMB114,800 respectively. The respective share transfer agreements specified that the rights and obligations as a shareholder of Shaoxing Prospect should have been transferred by 1st May, 2002. The shareholding structure of Shaoxing Prospect became the followings:

Name of shareholders	Amount of Investment (percentage in registered capital of Shaoxing Prospect)
Mr. Tang Li Min (唐利民)	RMB1,200,000 (60%)
Ms. Hong Yin Juan (洪銀娟)	RMB500,000 (25%)
Mr. Hong Guo Ding (洪國定)	RMB120,000 (6%)
Mr. Tang Cheng Fang (唐成芳)	RMB100,000 (5%)
Mr. Fei Guo Yang (費國楊)	RMB40,000 (2%)
Mr. Feng Yun Lin (馮雲林)	RMB40,000 (2%)
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	<u>RMB2,000,000 (100%)</u>

- (2) On 5th June, 2002, a shareholders' meeting of Shaoxing Prospect was held at which, among other matters, it was approved that the registered capital of Shaoxing Prospect be increased from RMB2,000,000 to RMB50,660,000, and be injected by the original shareholders in proportion to their existing shareholdings. The shareholding structure of Shaoxing Prospect became the followings:

Name of shareholders	Amount of Investment (percentage in registered capital of Shaoxing Prospect)
Mr. Tang Li Min (唐利民)	RMB30,396,000 (60%)
Ms. Hong Yin Juan (洪銀娟)	RMB12,665,000 (25%)
Mr. Hong Guo Ding (洪國定)	RMB3,039,600 (6%)
Mr. Tang Cheng Fang (唐成芳)	RMB2,533,000 (5%)
Mr. Fei Guo Yang (費國楊)	RMB1,013,200 (2%)
Mr. Feng Yun Lin (馮雲林)	RMB1,013,200 (2%)
	<hr style="border-top: 1px solid black;"/>
	<u>RMB50,660,000 (100%)</u>

- (3) On 9th August, 2002, the net asset value of approximately RMB53,600,000 of Shaoxing Prospect was converted to registered capital of the Company (details of which are set out in sub-paragraph (d) of the paragraph headed “Incorporation” of this Appendix), and the registered capital of the Company increased to RMB53,600,000.
- (4) On 27th August, 2003, Ms. Hong Yin Juan, one of the Promoters and the wife of Mr. Tang Li Min, involved in a car accident and passed away on the same date. Pursuant to the Disposal Agreement, the entire equity interests in the Company held by Ms. Hong Yin Juan would be transferred to the following persons in the following portions at nil consideration:
- 1) Mr. Tang Li Min, the husband of Ms. Hong Yin Juan, as to 4,466,666 Shares;
  - 2) Mr. Tang Liu Jun (唐瀏君), the son of Ms. Hong Yin Juan, as to 4,466,667 Shares; and
  - 3) Ms. Tang Jing Jing (唐暉晶), the daughter of Ms. Hong Yin Juan, as to 4,466,667 Shares.

Since Mr. Tang Liu Jun and Ms. Tang Jing Jing are minors, they do not have the requisite legal capacity to transfer or dispose of such shares. Mr. Tang Li Min, their father and legal guardian, shall be the person to exercise the rights (including but not limited to right of transfer and disposal) pertaining to such Domestic Shares transfer to them and responsible for their respective shareholder’s rights and responsibilities in the Company on their behalf until they reach the age of 18.

On 15th September, 2003, the Leading Group of the Enterprise Listing Work of the People’s Government of Zhejiang Province (浙江省人民政府企業上市工作領導小組) issued an approval for the alteration in the Company’s shareholding structure, and the Administrative Bureau of Industry and Commerce of Zhejiang Province (浙江省工商行政管理局) had subsequently approved the registration of such alteration on 23 October, 2003.

The shareholding structure of the Company after the transfer of Domestic Shares as aforesaid is set out as below:

Name of shareholders	Number of shares	Approximate percentage of shareholding (%)
Mr. Tang Li Min (唐利民)	36,626,666	68.33
Mr. Tang Liu Jun (唐瀏君)	4,466,667	8.33
Ms. Tang Jing Jing (唐暉晶)	4,466,667	8.33
Mr. Hong Guo Ding (洪國定)	3,216,000	6.00
Mr. Tang Cheng Fang (唐成芳)	2,680,000	5.00
Mr. Fei Guo Yang (費國楊)	1,072,000	2.00
Mr. Feng Yun Lin (馮雲林)	<u>1,072,000</u>	<u>2.00</u>
Total	<u><u>53,600,000</u></u>	<u><u>100.00*</u></u>

\* The discrepancy between the total and sums of amounts listed is due to rounding.

- (5) Immediately following the Placing, the registered capital of the Company will be increased to RMB76,600,000 divided into 53,600,000 Domestic Shares and 23,000,000 H Shares, all such Shares having a nominal value of RMB1 each. The Domestic Shares, all of which were fully paid up or credited as fully paid up, are held by the Initial Management Shareholders and their respective shareholdings are set out in sub-paragraph (4) above.

Save as disclosed above, there has been no change in the share capital of the Company within the two years immediately preceding the date of this prospectus.

### 3. Proceedings at the Company's extraordinary general meetings

- (1) At an extraordinary general meeting of the Company held on 8th October, 2002, the following resolutions and/or matters, among other resolutions, were duly passed:
- (a) the authorization granted to the Board to deal with matters relating to the listing of H Shares on the GEM;
  - (b) conditional upon (i) the obtaining of the approval from the GEM Listing Committee; and (ii) the confirmation from the Underwriters in respect of the number of H Shares to be issued and its mode of issue pursuant to the Underwriting Agreement, the Placing and sale of no more than 300,000,000 H Shares;
  - (c) the listing of H Shares to be issued pursuant to the resolutions as mentioned in paragraph (b) above on GEM;
  - (d) the authorization granted to the Board to amend the articles of association of the Company in accordance with the comments from the relevant PRC government departments and regulatory authorities and the consequential change to the registered capital of the Company pursuant to the H Shares to be issued pursuant to the resolutions as mentioned in paragraph (b) above;
  - (e) each share in the Company of nominal value of RMB1.00 be subdivided into 10 shares of nominal value of RMB0.10 each, subject to the approval of CSRC and other regulatory authority; and
  - (f) the authorization granted to Mr. Yu Hong Tu (喻宏圖) to deal with matters relating to the listing of H Shares on the GEM as far as the law permitted.
- (2) At an extraordinary general meeting of the Company held on 20th March, 2003, the following resolutions and/or matters, among other resolutions, were duly passed:
- (a) the issue and sale of 230,000,000 H Shares, subject to the over-allotment option;
  - (b) the appointment of Mr. Wang He Rong (王和榮) and Mr. Lu Guo Qing (陸國慶) as independent non-executive Directors;
  - (c) the appointment of Mr. Wang Zhong (王眾) and Mr. Wang Ye Gang (王葉剛) as independent Supervisors;
  - (d) the approval of the draft Articles of Association;

- (e) the authorization granted to the Board to deal with all matters relating to the Placing and the listing of H Shares on the GEM and the Board was authorized to sub-delegate its power in this regard to the listing committee of the Board.
- (3) At an extraordinary general meeting of the Company held on 26th June, 2003, the following resolutions and/or matters, among other resolutions, were duly passed:
- (a) not to adopt the plan of sub-division of the Shares of RMB1.00 each of the company into 10 Shares of RMB0.10 each at the current stage;
  - (b) the Placing shall consisted of 18,600,000 H Shares of nominal value RMB1.00 each instead of 230,000,000 H Shares of nominal value RMB0.10 each; and
  - (c) the approval of the draft Articles of Association.
- (4) on 3rd February, 2004, an extraordinary general meeting of the Company was held at which, among other matters, the following resolutions were passed:
- (a) the Articles of Association were adopted, subject to such changes as the regulatory authority in the PRC and the Stock Exchange may require;
  - (b) conditional upon (i) the GEM Listing Committee granting listing of and permission to deal in the H Shares on GEM; and (ii) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional and not being terminated in accordance with the terms of that agreement or otherwise, in each case on or before 30 days after the date of this prospectus:
    - (i) the registered capital of the Company was increased from RMB53,600,000 to RMB76,600,000 by the creation of 23,000,000 H Shares having a nominal value of RMB1.00 each;
    - (ii) the Placing was approved and the Directors (or a committee of Directors) were authorized to allot and issue the H Shares pursuant thereto.
  - (c) the authorization granted to the Board (or a committee of Directors) to deal with all matters relating to the Placing and the listing of H Shares on the GEM.

## B. SUBSIDIARIES

As at the Latest Practicable Date, the Company had no subsidiary.

## C. FURTHER INFORMATION ABOUT THE BUSINESS

### 1. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Company within the two years preceding the date of this prospectus are or may be material:


- (a) an electricity tariff agency agreement in Chinese dated 1st July, 2002 entered into between the Company and 浙江展望新合織有限公司 (Zhejiang Prospect New Synthetic Fibre Company Limited), pursuant to which Zhejiang Prospect New Synthetic Fibre Company Limited agreed to provide electricity tariff agency service to the Company at cost for a term of 3 years commencing from 1st July, 2002;

- (b) an electricity tariff agency agreement in Chinese dated 1st July, 2002 entered into between the Company and 浙江展望印染有限公司 (Zhejiang Zhanwang Printing and Dyeing Company Limited), pursuant to which Zhejiang Zhanwang Printing and Dyeing Company Limited agreed to provide electricity tariff agency service to the Company at cost for a term of 3 years commencing from 1st July, 2002;
- (c) a termination agreement in Chinese dated 25th May, 2003 entered into between the Company and 浙江展望印染有限公司 (Zhejiang Zhanwang Printing and Dyeing Company Limited) pursuant to which the parties agreed to terminate the electricity tariff agency agreement referred to in sub-paragraph (b) above;
- (d) an asset transfer agreement in Chinese dated 22nd April, 2003 entered into between the Company and Shaoxing Group, pursuant to which Shaoxing Group agreed to sell a premises together with its facilities to the Company for a consideration of RMB8,504,702;
- (e) a supplemental agreement in Chinese dated 3rd August, 2003 entered into between the Company and Shaoxing Group, pursuant to which the parties agreed to amend certain terms of the asset transfer agreement referred to in sub-paragraph (d) above. Pursuant to this supplemental agreement, Shaoxing Group agreed to sell the premises together with its facilities to the Company for a consideration of RMB5,001,199.20 instead of RMB8,504,702;
- (f) a memorandum in Chinese dated 14th January, 2004 entered into between the Company and Shaoxing Group in respect of the assignment of trademark at nil consideration on 21st August, 2002;
- (g) a deed of non-competition in Chinese dated 2nd February, 2004 entered into between the Company and the Initial Management Shareholders pursuant to which the Initial Management Shareholders have undertaken that they will not, and will procure their respective associates not to, directly or indirectly, participate in any business which may be in competition with the Company and its subsidiaries (as may be incorporated from time to time);
- (h) a letter of undertaking in Chinese dated 2nd February, 2004 given by Shaoxing Group, Zhejiang Prospect Green Fibre Textile Company Limited (浙江展望綠纖紡織品有限公司), Zhejiang Liyuan Chemical Fibre Company Limited (浙江利源化纖有限公司), Zhejiang Prospect New Synthetic Fibre Company Limited (浙江展望新合纖有限公司), Zhejiang Zhanwang Printing and Dyeing Company Limited (浙江展望印染有限公司) and Zhejiang Jiali Protein Fibre Company Limited (浙江嘉利蛋白纖維有限公司) pursuant to which they have undertaken that they will not directly or indirectly participate in any business which may be in competition with the Company;
- (i) deed of indemnity dated 9th February, 2004 (“Deed of Indemnity”) given by Mr. Tang Li Min, Mr. Hong Guo Ding, Mr. Tang Cheng Fang, Mr. Fei Guo Yang and Mr. Feng Yun Lin, five of the six Promoters in favour of the Company containing, inter alia, the indemnities in respect of taxation referred to in sub-paragraph 1 of paragraph E of this appendix and the indemnities as disclosed in the paragraph headed “Relationship between Shaoxing Group and the Company” in the section headed “Risk Factors” to this prospectus; and
- (j) Underwriting Agreement.


## 2. Intellectual property rights

### (a) Trademark

As at the Latest Practicable Date, the Company is the registered proprietor of the following trademark registered in the PRC in respect of the class of goods specified below:

Mark	Class	Registration No.	Effective period for the registration
	12 ( <i>Note 1</i> )	962852	14th March, 1997 to 13th March, 2007 ( <i>Note 2</i> )

As at the Latest Practicable Date, the Company had applied for the trademark registration of the following trademark in Hong Kong:

Mark	Class	Application Number:	Application Date:
	12 ( <i>Note 1</i> )	300053045	25th July, 2003

*Note 1:* Accessories of vehicle

*Note 2:* Shaoxing Group assigned the trademark to the Company and the assignment was approved by the Trademark Bureau of the PRC on 7th December, 2002.

### (b) Design Patent

The Company is the registered proprietor of the following design patents registered in the PRC:

Design Patent	Patent No.	Date of Application
Package box for differential spider (差速器十字軸包裝盒)	ZL01322232.5	31st July, 2001
Package box for cardan universal joint (萬向節十字軸總成包裝盒)	ZL01322231.7	31st July, 2001

### (c) Website

As at the Latest Practicable Date, the following domain name is registered by the Company:

Domain Name	Registration Date
zhejiangprospect.com	23rd June, 2003

*Note:* The content of the website of the Company does not form part of this prospectus.

**D. FURTHER INFORMATION ABOUT DIRECTORS, SUPERVISORS, MANAGEMENT AND STAFF****Directors and Supervisors**1. *Particulars of service agreements*

Each of the Directors and Supervisors (including the independent non-executive Directors and independent Supervisors) has entered into a service contract with the Company for a term commencing from 14th January, 2004 and ending on the expiry of the three year period starting from their respective dates of appointment as a Director or Supervisor (as the case may be). Each of the Director and Supervisor was appointed as director and supervisor of the Company respectively subject to termination in certain circumstances as stipulated in the relevant service contracts.

The current basic annual salaries of the Directors and Supervisors are as follow:

<b>Executive Directors</b>	<b>Effective Date</b>	<b>RMB</b>
Mr. Tang Li Min	14/01/04	Nil
Mr. Hong Guo Ding	14/01/04	Nil
Mr. Fei Guo Yang	14/01/04	50,000

**Non-executive Directors**

Mr. Tang Cheng Fang	14/01/04	Nil
Mr. Li Zhang Rui	14/01/04	50,000

<b>Independent non-executive Directors</b>	<b>Effective Date</b>	<b>RMB</b>
Mr. Wang He Rong	14/01/04	30,000
Mr. Lu Guo Qing	14/01/04	30,000

The current basic annual salaries of the Supervisors are as follows:

	<b>Effective Date</b>	<b>RMB</b>
Mr. Hong Chun Qiang	14/01/04	50,000
Mr. Feng Yun Lin	14/01/04	Nil
Mr. Chen Jin Long	14/01/04	30,000
Mr. Wang Zhong	14/01/04	30,000
Mr. Wang Ye Gang	14/01/04	30,000

2. *Directors' and Supervisors' remuneration*

The aggregate remuneration paid to the Directors and Supervisors for the year ended 31st December, 2002 were approximately RMB31,086 and RMB13,825, respectively.

The aggregate remuneration paid to the Directors and Supervisors for the year ended 31st December, 2003 were approximately RMB51,003 and RMB24,982, respectively.



Under the current arrangements, the Directors and Supervisors will be entitled to receive remuneration for the year ending 31st December, 2004 which is expected to be approximately RMB160,935 and RMB141,870 respectively.

3. *Interest and short positions of Directors and Supervisors in the share capital of the Company and its associated corporations (within the meaning of SFO) immediately after the Placing*

Immediately following completion of the Placing, the beneficial interests (including interests and short positions in the shares, underlying shares and debentures) of the Directors or Supervisors in the registered capital of the Company and its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 & 8 of Part XV of the SFO (including interests and short position which they are taken or deemed to have taken under such provisions of the SFO) or which will be required pursuant to section 352 of the SFO to be entered in the register referred to in that section, or will be required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange once the H Shares are listed will be as follows:

The Company Director/Supervisor	Capacity	No. and class of securities	Approximate percentage of shareholding	
			in the same class of securities	in the registered capital
Mr. Tang Li Min ( <i>Note</i> )	Beneficial owner	36,626,666 Domestic Shares	68.33%	47.82%
	Interest of children under 18	8,933,334 Domestic Shares	16.66%	11.66%
Mr. Hong Guo Ding	Beneficial owner	3,216,000 Domestic Shares	6.00%	4.20%
Mr. Tang Cheng Fang	Beneficial owner	2,680,000 Domestic Shares	5.00%	3.50%
Mr. Feng Yun Lin	Beneficial owner	1,072,000 Domestic Shares	2.00%	1.40%
Mr. Fei Guo Yang	Beneficial owner	1,072,000 Domestic Shares	2.00%	1.40%

*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.

4. *So far as the Directors are aware, immediately following completion of the Placing, the following persons will have an interest or short position in the Shares or underlying shares of the Company which would required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO*

Name	Capacity	Number of Domestic Shares	Approximate percentage of shareholding in the registered capital
Mr. Tang Li Min ( <i>Note</i> )	Beneficial owner	36,626,666	47.82%
	Interest of children under 18	8,933,334	11.66%
Mr. Tang Liu Jun ( <i>Note</i> )	Beneficial owner	4,466,667	5.83%
Ms. Tang Jing Jing ( <i>Note</i> )	Beneficial owner	4,466,667	5.83%

*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.

5. *Disclaimers*

Save as disclosed in this Prospectus:

- (a) none of the Directors and Supervisors is aware of any other Director or Supervisor who, as at the Latest Practicable Date, has any interest or short position in any Shares in, underlying shares and debentures of the Company or any associated corporation (within the meaning of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 & 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have taken under such provisions of the SFO), or which will be required pursuant to section 352 of the SFO to be entered in the register referred to therein, or which will be required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules relating to securities transactions by Directors or Supervisors, to be notified to the Company and the Stock Exchange, in each case once the H Shares are listed on GEM. For this purpose, the relevant provisions of the SFO will be interpreted as if they applied to the Supervisors;
- (b) the Directors or the Supervisors are not aware of any person who will, immediately following the completion of the Placing, be directly or indirectly interested in 10% or more of any class of shares of the Company which has or is attached with a voting power in the shareholders' general meeting of the Company;
- (c) none of the Directors or the Supervisors or any of the parties listed in paragraph 1 of the section headed "Further information about directors, supervisors, management and staff" to this Appendix is interested in the promotion of the Company, or in any assets which have within the two years immediately preceding the date of this Prospectus been acquired or disposed of by or leased to the Company, or are proposed to be acquired or disposed of by or leased to the Company;

- (d) none of the Directors or the Supervisors or any of the parties listed in paragraph 1 under the section headed “Further information about directors, supervisors, management and staff” to this Appendix is materially interested in any contract or arrangement subsisting at the date of this Prospectus which is significant in relation to the business of the Company;
- (e) none of the parties listed in paragraph 1 under the section headed “Further information about directors, supervisors, management and staff” to this Appendix has any shareholding in the Company or the right (whether legally enforceable or not) to subscribe for or to nominate person to subscribe for securities in the Company;
- (f) none of the Directors or Supervisors entered or proposed to enter into a service contract with the Company (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation);
- (g) no amount or benefit has been paid or given within the two years preceding the date of this Prospectus to any promoter of the Company nor is any such amount of benefit intended to be paid or given;
- (h) the Directors are not aware of any legal person or individual who will, immediately following the completion of the Placing, be directly or indirectly interested in 5% or more of the Shares then in issue; and
- (i) none of the Directors, Supervisors, their respective associates (as defined in the GEM Listing Rules) or any Shareholder (which to the knowledge of the Directors owns more than 5% of the registered capital of the Company) has any interest in any of the Company’s five largest customers or five largest suppliers for the two years ended 31st December, 2002 and the nine months ended 30th September, 2003.

## **E. OTHER INFORMATION**

### **1. Tax Indemnity and Estate Duty**

Under the Deed of Indemnity (as defined in paragraph CI(i) of this Appendix), Mr. Tang Li Min, Mr. Hong Guo Ding, Mr. Tang Cheng Fang, Mr. Fei Guo Yang and Mr. Feng Yun Lin have undertaken to and covenanted with the Company that they will indemnify and keep the Company indemnified against, among other things, any and all tax liabilities falling on the Company which might be payable by the Company in respect of any incomes, profits or gains earned, accrued or received on or before the date on which the Deed of Indemnity becomes unconditional, save in the following circumstances:

- (a) to the extent that provision or reserve has been made for such taxation in the audited accounts as have been prepared for the Company for the two years ended 31st December, 2002 and the nine months ended 30th September, 2003;
- (b) to the extent of any voluntary action or omission, except for those which are made in the ordinary course of business after the effective date of the Deed of Indemnity;
- (c) to the extent of any taxation liability arising from transactions entered into in the ordinary course of business after 30th September, 2003;

- (d) to the extent that such taxation claim arises or is incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law or practice thereof by the Tax Bureau of the PRC or the Hong Kong Inland Revenue Department or any of the relevant authorities coming into force after the effective date of the Deed of Indemnity or to the extent that any additional tax arising from an increase in rates of taxation with retrospective effect after the effective date of the Deed of Indemnity; or
- (e) to the extent that any provision or reserve made for such taxation in the audited accounts for the Company for the two years ended 31st December, 2002 and the nine months ended 30th September, 2003 is determined to be an excessive reserve, then the liability (if any) of Mr. Tang Li Min, Mr. Hong Guo Ding, Mr. Tang Cheng Fang, Mr. Fei Guo Yang and Mr. Feng Yun Lin in respect of such taxation shall be reduced by an amount not exceeding such over-provision or excessive reserve.

The Directors have been advised that no material liability for estate duty is likely to fall on the Company under the PRC laws.

## **2. Litigation**

The Company is not engaged in any litigation or arbitration of material importance and, so far as the Directors are aware, no litigation, arbitration or claim of material importance is pending or threatened against the Company.

## **3. Underwriters**

The Underwriters will receive underwriting commission pursuant to the Underwriting Agreement.

## **4. Sponsor**

The Sponsor has made an application on behalf of the Company to the GEM Listing Committee for the listing of, and the permission to deal in the H Shares.

In accordance with the requirements of the GEM Listing Rules, the Sponsor has agreed to provide advisory services to the Company to ensure compliance with the GEM Listing Rules. The Company has also agreed to pay a fee for such services.

## **5. No material adverse change**

Save as disclosed in this prospectus, the Directors believe that there has been no material adverse change in the financial or trading position or prospect of the Company since 30th September, 2003.

## **6. Preliminary expenses**

The preliminary expenses of the Company were approximately RMB759,450 and were paid by the Company.

## 7. Promoters

The Promoters of the Company are Mr. Tang Li Min, Ms. Hong Yin Juan, Mr. Tang Cheng Fang, Mr. Hong Guo Ding, Mr. Fei Guo Yang and Mr. Feng Yun Lin. Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given or is proposed to be paid, allotted or given to the Promoters in connection with the Placing or the related transactions described in this prospectus.

## 8. Qualifications of experts

Name	Qualifications
South China Capital Limited	Deemed licensed corporation for types 4, 6 and 9 regulated activities under the SFO
Charles Chan, Ip & Fung CPA Ltd.	Certified public accountants
GF Law Firm Shanghai	PRC lawyers
Sallmanns (Far East) Limited	Property valuers
Partners Capital International Limited	Deemed licensed corporation for types 1 and 6 regulated activities under the SFO
Guodu Securities Co., Ltd.	Registered securities firm in the PRC

## 9. Consents of experts

Each of South China Capital Limited, Charles Chan, Ip & Fung CPA Ltd., GF Law Firm Shanghai, Sallmanns (Far East) Limited, Partners Capital International Limited and Guodu Securities Co., Ltd. has given and has not withdrawn its written consent to the issue of this prospectus with inclusion of its report and/or letter and/or valuation certificates and/or the references to its name in the form and context in which they are respectively included.

## 10. Binding effect

This document shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

## 11. Miscellaneous

- (a) Save as disclosed in this prospectus:
- (i) within the two years preceding the date of this prospectus, no share or loan capital of the Company or any of its subsidiaries, if any, has been issued or agreed fully or partly paid either for cash or a consideration other than cash;
  - (ii) no share or loan capital of the Company or any of its subsidiaries, if any, is under any option or is agreed conditionally or unconditionally to be put under option;

- (iii) within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries, if any;
- (iv) within the two years preceding the date of this prospectus, no commission (but not including commission to sub-underwriters) has been paid for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscription, for any shares in or debenture of the Company;
- (v) there are no founders, management or deferred shares in the Company;
- (vi) none of South China Capital Limited, Charles Chan, Ip & Fung CPA Ltd., GF Law Firm Shanghai, Sallmanns (Far East) Limited, Partners Capital International Limited and Guodu Securities Co., Ltd.:
  - (i) is interested beneficially or non-beneficially in any securities in the Company; or
  - (ii) has any right or option (whether legally enforceable or not) to subscribe for or nominate person to subscribe for any securities in the Company; or
  - (iii) has any direct or indirect interest in the promotion of, or in any assets which have been acquired or disposed of by or leased to the Company within the two years immediately preceding the date of this prospectus, or which are proposed to be acquired or disposed of or leased to the Company.
- (b) The report as set out in Appendix I to this prospectus is not made by an accountant who is an officer or servant, or a partner of or in the employment of an officer or servant, of the Company or any of its subsidiaries, if any.
- (c) The Company currently does not intend to apply for the status of a Sino-foreign investment joint stock limited company and does not expect to be subject to the PRC Sino-Foreign Equity Joint Venture Law (中華人民共和國中外合資經營企業法) (as amended and supplemented from time to time) promulgated on 1st July, 1979 by the National People's Congress of the PRC.

**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES**

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration include the written consents referred to in the paragraph headed “Consents of experts” in Appendix VI, the related statement of adjustment made by Charles Chan, Ip & Fung CPA Ltd. in arising at the figures shown in their accountants’ report set out in Appendix I to this prospectus, and the material contracts referred to in the paragraph headed “Summary of material contracts” in Appendix VI.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copy of each the following documents will be available for inspection at the offices of Loong & Yeung at Suites 2911–2912, 29th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong during normal business hours from this date up to and including 23rd February, 2004:

- (a) the Articles of Association (in Chinese) and its English version (for reference purpose only);
- (b) the accountants’ report on the Company prepared by Charles Chan, Ip & Fung CPA Ltd., the text of which is set out in Appendix I;
- (c) the letter, summary of valuation and valuation certificate relating to the property interests of the Company prepared by Sallmanns (Far East) Limited, the texts of which are set out in Appendix III;
- (d) written statement signed by Charles Chan, Ip & Fung CPA Ltd. setting out the adjustments made by them in arriving at the figures shown in their accountants’ report;
- (e) the letters relating to the profit estimate, the texts of which are set out in Appendix II;
- (f) the PRC legal opinion dated 9th February, 2004 issued by GF Law Firm Shanghai, the legal advisers to the Company on PRC law;
- (g) the material contracts referred to in the paragraph headed “Summary of material contracts” of Appendix VI;
- (h) the service agreements referred to in the paragraph headed “Particulars of service agreements” of Appendix VI;
- (i) the written consents referred to in the paragraph headed “Consents of experts” of Appendix VI;  
and
- (j) the Company Law, the Special Regulations and the Mandatory Provisions together with their unofficial English translations.