



展望  
ZHANWANG

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)*



2004  
Annual Report

*\* for identification purpose only*

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

# Contents

2	Corporate Information
3	Chairman's Statement
5	Management Discussion & Analysis
12	Profiles of Directors, Supervisors and Senior Management
16	Report of the Board of Directors
24	Report of the Supervisory Committee
25	Auditors' Report
26	Income Statement
27	Balance Sheet
28	Statement of Changes in Equity
29	Cash Flow Statement
31	Notes to the Financial Statements
48	Financial Summary
49	Notice of Annual General Meeting

## **BOARD OF DIRECTORS**

### **Executive Directors**

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

### **Non-executive Directors**

Mr. Tang Cheng Fang  
Mr. Li Zhang Rui

### **Independent non-executive Directors**

Mr. Wang He Rong  
Mr. Lu Guo Qing  
Mr. Ma Hong Ming

### **Supervisors**

Mr. Hong Jin Shiu  
Mr. Feng Yun Lin  
Mr. Chen Jin Long

### **Independent Supervisors**

Mr. Wang Zhong  
Mr. Wang Ye Gang

### **Senior Management**

Mr. Hong Jin Zhu  
Mr. Fu Yong Jun

### **Qualified Accountant**

Ms. Kwok Pui Ching *CPA*

### **Company Secretary**

Ms. Kwok Pui Ching *CPA*

### **Audit Committee**

Mr. Wang He Rong  
Mr. Lu Guo Qing  
Mr. Ma Hong Ming

### **Compliance Officer**

Mr. Hong Guo Ding

### **Authorized Representatives**

Mr. Tang Li Min  
Mr. Fei Guo Yang

### **Authorized Person to Accept Service of Process and Notice**

Loong & Yeung in association with Rodyk & Davidson

### **Sponsor**

South China Capital Limited

### **Auditors**

CCIF CPA Limited

### **Legal Advisors**

Loong & Yeung in association with Rodyk & Davidson

### **Principal Bankers**

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

### **Hong Kong Share Registrar and Transfer Office**

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

### **Registered Office**

Zhanwang Village  
Yangxunqiao Town  
Shaoxing County  
Zhejiang Province  
The PRC

### **Principal Place of Business in Hong Kong**

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

### **GEM Stock Code**

8273

I am pleased to present to our shareholders the annual report of Zhejiang Prospect Company Limited (the "Company") for the year ended 31st December, 2004.

## **BUSINESS REVIEW**

The Company continued to experience considerable growth in 2004, attributable to the commitment and hard work devoted by the staff members under the leadership of the Board of Directors of the Company. This has laid a firm foundation for further growth of the Company.

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

In order to develop new markets and new customers, new products were tailored for customers' needs and special efforts were made to develop new overseas markets. The total number of universal joints produced and sold in 2004 amounted to 5.67 million sets and 5.44 million sets respectively, representing an increase of 27.13% and 15.01% as compared with previous year of 4.46 million sets and 4.73 million sets.

Turnover for the year ended 31st December, 2004 amounted to RMB79.07 million, representing approximately 19.64% increase year on year compared to RMB66.09 million in 2003. Net profit after tax amounted to RMB8.96 million, a mild decrease of approximately 2.35% compared to RMB9.18 million in 2003.

## **BUSINESS OBJECTIVES AND OUTLOOK**

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

### **Expand the production capacity of primary products**

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

### **Strengthen product research and development**

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

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

### **Expand PRC and international markets**

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

### **Continually improve product quality**

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

### **LOOKING AHEAD**

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

### **Zhejiang Prospect Company Limited**

#### **Tang Li Min**

*Chairman*

Zhejiang Province, the PRC

17th March 2005

## COMPARISON ON BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is the comparison of the implementation plan of the Company's business objectives for the year ended 31st December, 2004 and its actual progress. The Directors consider that the Company has followed its implementation plan as disclosed in the prospectus of the Company dated 9th February, 2004 (the "Prospectus"). Nevertheless, in order to attain long-term business goals, the Company will review its business objectives and strategies on an on-going basis and makes adjustments as necessary.

### Business objectives stated in the Prospectus

### Actual progress up to 31st December, 2004

#### Expansion of production capacity

- |  |  |
|--|--|
| <ul style="list-style-type: none"> <li>– Renovate the bottleneck craftsmanship to further expand existing production facilities</li> <li>– Complete construction of factories</li> </ul> | <p>Expansion work of existing production facilities was in final stage</p> <p>First phase of construction on approximately 3,000 square meters of production plant completed. Second phase of construction on approximately 6,000 square meters of production plant expected to be completed by June 2005 (note 1)</p> |
| <ul style="list-style-type: none"> <li>– Purchase of equipment for technical renovation project</li> </ul>   | <p>Purchase of equipment as planned</p>  |
| <ul style="list-style-type: none"> <li>– Procure, install and test production equipment and gradually commence trial production for the technical renovation project</li> </ul>          | <p>Completed</p>   |

#### Research and development

- |   |  |
|---|--|
| <ul style="list-style-type: none"> <li>– Purchase computers and product development software and refine the means of product development</li> </ul>   | <p>Purchase of computers and software as planned</p>   |
| <ul style="list-style-type: none"> <li>– Purchase trial devices</li> </ul>  | <p>Purchase of equipment as planned</p>  |
| <ul style="list-style-type: none"> <li>– Enter into cooperative agreement with Automobile Motor Parts and Components Quality Testing Centre of Zhejiang Province and commence construction of a testing centre</li> </ul> | <p>The cooperative agreement was under negotiation and the construction work of a testing centre has not been commenced (note 2)</p> |
| <ul style="list-style-type: none"> <li>– Commence construction of a testing centre</li> </ul>   | <p>Not commenced (note 2)</p>  |

#### Expansion of PRC and overseas market

- |   |   |
|---|---|
| <ul style="list-style-type: none"> <li>– Set up sales outlets in Wuhan and Chengdu in PRC</li> </ul>            | <p>Set up sales outlets in Jinan, Shandong Province, the PRC (note 3)</p>                     |
| <ul style="list-style-type: none"> <li>– Participate in exhibitions of automobiles and related parts</li> </ul> | <p>Participated in trade fairs held in Beijing and Middle East</p>                            |
| <ul style="list-style-type: none"> <li>– Promote the corporate image by advertisement, etc</li> </ul>           | <p>Completed production of promotional materials and distributed the promotional material</p> |

### **Business objectives stated in the Prospectus**

### **Actual progress up to 31st December, 2004**

#### **Human resources**

- |  |  |
|--|--|
| – Recruit technical experts for research and development, and personnel for technology and quality control, sales and marketing, production and administration | Recruit 2 technical staff for research and development, two for quality control, two for sales and marketing, 99 additional workers and 4 for administration |
| – Provide training to staff responsible for renovation project   | Completed  |
| – Provide training to existing staff   | Training provided on an ongoing basis  |

#### *Notes:*

- (1) Construction work for the factory was delayed because the processing time of obtaining the government's approval regarding the construction was longer than expected. The second phase of construction of the factory is expected to be completed by the end of June 2005.
- (2) The Company intends to enter into cooperative agreement with Automobile Motor Parts and Components Quality Testing Centre once the construction work of a new production plant and testing centre is completed. As the new production plant was still under construction, the construction work of testing centre had not been commenced as at 31st December, 2004.
- (3) After reviewing the business plan of the Company, the Directors decided to set up sales outlet in Jinan rather than in Wuhan and Chengdu in order to attract more customers.



**USE OF PROCEEDS**

Up to 31st December, 2004, the net proceeds from the initial placing of the H shares of the Company had been utilized in line with the terms stipulated in the Prospectus, particulars of which are set out as follows:

	<i>Note</i>	<b>Proposed amount to be used up to 31st December, 2004 as per Prospectus</b> <i>RMB million</i>	<b>Actual amount used up to 31st December, 2004</b> <i>RMB million</i>
Technical renovation for universal joint production lines			
– purchase of equipment	1	14.65	15.12
– construction of factories		4.28	4
– installation and testing of equipment		0.67	0.63
Research and development			
– purchase of computer and product development software		0.11	0.08
– purchase of equipment		0.27	0.28
– construction of testing centre	2	0.11	–
– cooperative arrangements	3	0.05	–
Marketing and promotional activities		0.43	0.33
Staff recruitment and training		0.11	0.1
Expansion of sales and distribution network		0.43	0.4
General working capital		0.11	0.1
<b>Total</b>		<b>21.22</b>	<b>21.04</b>

*Notes:*

- (1) Due to increase in sales forecast, budgeted capital expenditure for machinery was insufficient, the Company purchased additional machinery of RMB0.47 million.
- (2) The construction work of the testing centre has not been commenced as the new plant was still under construction.
- (3) Save as mentioned in note (2) to the section headed "Comparison on Business Objectives with Actual Business Progress" above, the other cooperative arrangements were still under negotiation.

### **BUSINESS OVERVIEW**

The Company continued to experience considerable growth in 2004, attributable to the commitment and hard work devoted by the staff members under the leadership of the Board of Directors of the Company. This has laid a firm foundation for further growth of the Company.

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

In order to develop new markets and new customers, new products were tailored for customers' needs and special efforts were made to develop new overseas markets. The total number of universal joints produced and sold in 2004 amounted to 5.67 million sets and 5.44 million sets respectively, representing an increase of 27.13% and 15.01% as compared with previous year of 4.46 million sets and 4.73 million sets.

Turnover for the year ended 31st December, 2004 amounted to RMB79.07 million, representing approximately 19.64% increase year on year compared to RMB66.09 million in 2003. Net profit after tax amounted to RMB8.96 million, a mild decrease of approximately 2.35% compared to the same in 2003.

### **MARKET OVERVIEW**

According to the statistics released by the Transmission Shaft Committee of China Association of Automobile Manufacturers ("CAAM"), it estimated that in 2003, there were about 15 universal joint manufactures in the PRC. In addition, sales volume of nine manufacturers, which are members of the Transmission Shaft Committee of CAAM, was approximately 32.19 million sets in 2003. The Company ranked second in terms of scale, production volume and sales volume among the above nine manufacturers of universal joints in the PRC which it studied. The sales volumes of the nine respective universal joint manufacturers in the PRC in 2003 are (in accordance of sales volume from the highest to the lowest) 24.22, 4.44, 1.76, 0.84, 0.43, 0.25, 0.12, 0.09 and 0.04 million sets. The sales volume of the Company, being 4.44 million sets, accounted for approximately 13.7% of the total market shares contributed by the above nine manufacturers. The top three manufacturers accounted for approximately 75%, 14% and 5% of the market share of these nine manufacturers which in aggregate amounted to approximately 94% among the nine manufacturers.

### **AUTOMOBILES COMPONENTS PARTS INDUSTRY**

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

### **DEVELOPMENT AFTER THE ACCESSION INTO WORLD TRADE ORGANIZATION ("WTO")**

While the automobile manufacturing enterprises in the PRC are seeing a rapid boost in their market sales capability in the international arena following the PRC's accession to the WTO, the export volume of parts and components products will experience a greater extent of increase. At the same time, under the trend of localization of foreign automobile manufacturers upon entering the PRC market, the PRC automotive parts and

components industry will be of increasingly greater interest to the foreign automobile manufacturers. The PRC's accession to the WTO has brought about lower tariff, larger quota and stronger purchasing power of the market for automotive parts and components as well as an increasingly more mature capital market in the PRC.

#### **DEVELOPMENT OF NEW PRODUCTS**

During 2004, the Company completed the development of new models and specifications of wing bearing universal joints and heavy-duty series of universal joints.

#### **TURNOVER**

Turnover amounted to RMB79.07 million in 2004, represents approximately 19.64% increase year on year compared to RMB66.09 million in 2003. The increase in turnover during the period was due to nearly tenfold increase in export sales of approximately RMB20.94 million contributed by new overseas customers, sales of approximately RMB34.59 million to the largest import and export corporation, which then sold to various overseas market; and local sales of RMB23.54 million as well as the development of overseas channels.

#### **COST OF SALES AND GROSS PROFIT**

Cost of sales increased to RMB58.11 million in 2004 from RMB44.88 million in 2003 or an increase of approximately 29.48%. This is more than the 19.64% increases in turnover for the same period. Gross margin of the Company's products decreases slightly to approximately 26.50% in 2004 from approximately 32.09% in 2003 which was mainly attributable to the increase in steel price in 2004.

#### **OTHER REVENUE**

Other operating income in 2004 amounted to RMB1.97 million, or an increase of 1.7 times from RMB0.73 million in 2003. This was mainly due to increase in sales of work-in-progress and scrap materials of approximately RMB1.30 million.

#### **DISTRIBUTION EXPENSES AND GENERAL AND ADMINISTRATIVE EXPENSES**

The Company continued to expand its sales and marketing network. As a result, distribution expenses for 2004 totaled RMB1.56 million. This represents an increase of RMB0.46 million, or approximately 42% from that of 2003. The increase is generally in line with the increase in sales turnover.

In 2004, administrative expenses of the Company were approximately RMB4.92 million, increase of RMB0.94 million or 23.62% compared to that of RMB3.98 million in 2003. The administrative expenses including management salaries, professional fees and depreciation increased in line with the expansion of operation of the Company.

### **OTHER OPERATING EXPENSES**

Other operating expenses for the financial year of 2004 amounted to RMB0.21 million, as compared to RMB0.14 million in 2003.

In the financial year of 2004, the net finance costs of approximately RMB2.27 million, comprised interest on bank advances and other borrowings, represented approximately 2.87% of turnover in 2004 compared to 2.9% in 2003. This represented an increase of RMB0.35 million, or approximately 18.23%, as compared to approximately RMB1.92 million in 2003.

### **MATERIAL INVESTMENTS AND CAPITAL ASSETS**

The Company does not have other future plans for material investments or capital assets.

### **EXPOSURE IN EXCHANGE RATE FLUCTUATIONS**

Most of the Company sales and raw materials purchase are settled in RMB. In such circumstances, the Directors considered that the exchange rate fluctuations was limited for the year of 2004.

### **SIGNIFICANT INVESTMENTS HELD**

The Company has no significant investments held during the year of 2004.

### **FINANCIAL RESOURCES AND LIQUIDITY**

The Company continues to be in a healthy financial position with shareholders equity amounted to RMB100.63 million as at 31st December, 2004 (2003: RMB68.42 million). Current assets amounted to RMB106.78 million as at 31st December, 2004 (2003: RMB87.03 million), of which RMB55.51 million (2003: RMB42.85 million) were cash and bank balances. As at 31st December, 2004, the Company had a short-term bank loans of about RMB35.40 million (2003: RMB35.4 million). The short term bank loans were repayable within one year.

### **CONTINGENT LIABILITIES**

As at 31st December, 2004, the Directors were not aware of any material contingent liabilities.

### **CHARGES ON ASSETS**

As at 31st December, 2004, the short-term bank loans of RMB35.40 million were secured by the Company's land use rights and buildings at net book value of RMB22.81 million (2003: RMB23.3 million).

### **GEARING RATIO**

The Company's gearing ratio, based on total liabilities to shareholders' equity, was 0.54 (2003: 0.73) as at 31st December, 2004.

## **CAPITAL STRUCTURE**

The Company issued 23,000,000 new H shares with a nominal value at RMB1.00 each at a price of HK\$1.33 per H share upon the listing of the Company's H shares on GEM board of the Stock Exchange on 18th February, 2004. Since the listing of the Company's H shares on the GEM of the Stock Exchange on 18 February, 2004, there has been no change in the capital structure of the Company.

As at 31st December, 2004, the Company's operations were financed mainly by shareholders' equity, internal resources and bank loans. The Company will continue to adopt its treasury policy of placing the Company cash and cash equivalents in interest bearing deposits.

## **EMPLOYEE INFORMATION**

During the year, the Company had an average number of employees of 471 (2003: 429). They were remunerated in accordance with their performance and market condition. Other benefits available to eligible employees includes retirement benefits. The Company does not have share option scheme.

## **OUTLOOK AND PROSPECT**

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

The Company's products are distributed through its own sales force to transmission shaft factories as well as automobile repair factories in the PRC. These domestic sales represented 28.92% of the total turnover in 2004, compared to 42.65% of the total turnover in 2003. In addition, the Company sells its products to import and export corporations in the PRC, accounted for 53.46% and 43.75% of the total turnover in 2003 and 2004 respectively. Since January 2003, the Company has been selling its products directly to overseas customers in countries and regions including the United Kingdom, Taiwan, South Korea, India, Iran, Singapore and Israel. For 2004, direct sales to overseas customers represented approximately 26.49% of the Company's total turnover. The management will continue to expand the Company's domestic and overseas sales networks. For the PRC market, the Company intends to increase its market share by expanding its sales and marketing team as well as establishing sales networks in certain regions of the PRC. For the overseas market, the Company intends to further expand its own export networks by boosting its direct export sales. It will strengthen its brand name promotion by means of advertisement, promotional campaigns and participating in automobile exhibitions to enhance the publicity of the Company.

## DIRECTORS

### Executive Directors

*Mr. Tang Li Min* (唐利民先生), aged 42, is the chairman of the Company and an executive Director. He is responsible for planning and overall management of the Company. From March 1981 to June 1987, he was the factory head of Shaoxing Zhanwang Socks Factory\* (紹興縣展望襪廠); from July 1987 to December 1992, he was the factory head of Shaoxing Zhanwang Knitting Factory\* (紹興縣展望針織廠); and from December 1992 to June 1994, Mr. Tang was the chairman and general manager of Shaoxing Prospect Industrial Company Limited\* (紹興縣展望實業有限公司). From July 1994 onwards, he has been the chairman of Zhejiang Prospect Industrial Group Limited\* (浙江展望實業集團有限公司). He has over 20 years of experience in corporate management in the PRC. He completed his studies at Financial and Economic Studies Class of Shaoxing Administration School (紹興市行政學校財經研究進修班) in 1998. He was accredited as "Senior Economist" by the Personnel Bureau of Shaoxing County (紹興縣人事局) in September 2000. Mr. Tang joined Shaoxing Prospect Universal Joint Company Limited\* (紹興展望萬向節有限公司), the predecessor of the Company, at the time of its establishment in 1995 as a director.

*Mr. Hong Guo Ding* (洪國定先生), aged 41, is an executive Director and a compliance officer of the Company. He is responsible for the administration and finance of the Company. From February 1991 to December 1992, he was the deputy head of Shaoxing Zhanwang Knitting Factory\* (紹興縣展望針織廠); from January 1993 to January 1995, he was the deputy general manager of Shaoxing Prospect Industrial Company Limited\* (紹興縣展望實業有限公司) and factory head of Shaoxing Huqiao Garment Factory (紹興縣滬橋製衣廠); and from February 1995 to August 1999, he was the deputy general manager of Zhejiang Prospect Industrial Group Limited\* (浙江展望實業集團有限公司). From September 2000 onwards, he has been the general manager of Zhejiang Prospect Industrial Group Limited\* (浙江展望實業集團有限公司). He completed his tertiary education in administration and management at Hangzhou University (杭州大學) in 1996. He was accredited as "Economist" by the Personnel Bureau of Shaoxing County (紹興縣人事局) in July 1998. He has over 10 years of experience in corporate administrative management. He joined Shaoxing Prospect Universal Joint Company Limited\* (紹興展望萬向節有限公司), the predecessor of the Company, at the time of its establishment in 1995 as a supervisor.

*Mr. Fei Guo Yang* (費國揚先生), aged 34, is an executive Director and a general manager of the Company. He is responsible for the production and sales of the Company. From June 1991 to November 1994, he was the workshop head of Shaoxing Zhanwang Knitting Factory\* (紹興縣展望針織廠); from December 1994 to December 2002, he was the head of general office of Zhejiang Prospect Industrial Group Limited\* (浙江展望實業集團有限公司); and from January 2000 to February 2002, he became the deputy general manager of Shaoxing Prospect Universal Joint Company Limited\* (紹興展望萬向節有限公司), the predecessor of the Company. From March 2002 onwards, he has been the general manager of the Company. He completed his vocational education in finance and accounting at Shaoxing Broadcasting and Television Vocational School (紹興市廣播電視中等專業學校) in 1997. He has been attending courses of economics and management at Huazhong University of Science & Technology (華中科技大學). He has over 8 years of working experience in production and sales. He joined Shaoxing Prospect Universal Joint Company Limited\* (紹興展望萬向節有限公司), the predecessor of the Company, at the time of its establishment in 1995 as a supervisor.

\* for identification purpose only

*Mr. Hong Chun Qiang* (洪春強先生), aged 27, is an executive Director of the Company. He is responsible for the administration and management of the Company. From July 1996 to December 1997, he worked at the finance department of Zhejiang Prospect Industrial Group Limited\* (浙江展望實業集團有限公司); from January 1999 to March 2000, he was secretary to chairman of Zhejiang Prospect Industrial Group Limited\* (浙江展望實業集團有限公司); and from April 2000 to February 2003, he was the deputy head of the general office of Zhejiang Prospect Industrial Group Limited\* (浙江展望實業集團有限公司). From March 2003 onwards, he has been a department manager of the Company. He completed his tertiary education in economics and management at Shaoxing School of Arts and Science (紹興文理學院). He was appointed as a supervisor of the Company in February 2000, and was appointed as an executive Director of the Company in May 2004 for a term of three years.

### **Non-executive Directors**

*Mr. Tang Cheng Fang* (唐成芳先生), aged 40, is a non-executive Director. From January 1991 to June 1992, he was in charge of the accounting division of Shaoxing Zhanwang Knitting Factory\* (紹興縣展望針織廠); from July 1992 to July 1995, he served as the chief accountant of Shaoxing Prospect Industrial Company Limited (紹興縣展望實業有限公司); and from August 1995 to April 2001, he served as the finance manager of Zhejiang Prospect Industrial Group Limited\* (浙江展望實業集團有限公司). From May 2001 onwards, he has been the general manager of Zhejiang Prospect New Synthetic Fibre Company Limited\* (浙江展望新合纖有限公司). He completed his tertiary education in economics and management at Zhejiang University of Technology (浙江工業大學) in 1998. He was qualified as an assistant accountant in March 1999 and has over 10 years of experience in corporate finance and accounting. He joined Shaoxing Prospect Universal Joint Company Limited\* (紹興展望萬向節有限公司), the predecessor of the Company, at the time of its establishment in 1995 as a supervisor.

*Mr. Li Zhang Rui* (李張瑞先生), aged 39, is a non-executive Director. From July 1987 to April 1993, he worked for Hangzhou Vacuum Tube Factory\* (杭州電子管廠); from April 1993 to October 1994, he was the manager of the development department of Zhejiang Rongsheng Textile Company Limited\* (浙江榮盛紡織有限公司); from October 1994 to May 2000, he worked for Zhejiang International Economic and Technical Cooperation Corporation\* (浙江國際經濟技術合作公司); and from July 2000 to June 2002, he served as the deputy general manager of Zhejiang Prospect Industrial Group Limited\* (浙江展望實業集團有限公司). From August 2002 onwards, he has been the general manager of Zhejiang Zhanwang Printing and Dyeing Company Limited (浙江展望印染有限公司). He obtained a bachelor's degree in electrical engineering from Xi'an Jiaotong University (西安交通大學) in 1987. He joined the Company as a non-executive Director in August 2002.

### **Independent non-executive Directors**

*Mr. Wang He Rong* (王和榮先生), aged 44, 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.

\* for identification purpose only

*Mr. Lu Guo Qing* (陸國慶先生), aged 40, 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.

*Mr. Ma Hong Ming* (馬洪明先生), aged 42, is the principal of Shaoxing Zhong Xing Accounting Firm\* (紹興中興會計師事務所). He obtained his master degree in management from Shanghai Financial and Economic Studies University\* (上海財經大學). From December 1981 to March 1992, he worked for Shaoxing Xing Hong Chemical Fibre Company Limited\* (紹興興虹化纖公司) as finance manager; from March 1992 to December 1999, he was the assistant principal of Shaoxing County Audit Firm\* (紹興縣審計事務所); and from January 2000 onwards, he served as the principal of Shaoxing Zhong Xing Accounting Firm\* (紹興中興會計師事務所). He is the general manager of Shaoxing Zhong Xing Assets Valuation Company\* (紹興中興資產評估公司) and Shaoxing Zhong Xing Tax Consultants\* (紹興中興稅務師事務所). He is also an independent director of Zhejiang Jing Gong Technology Company Limited\* (浙江精工科技股份有限公司). He has been appointed as an independent non-executive director of the Company in May 2004 for a term of three years.

### **SUPERVISORS**

*Mr. Hong Jin Shiu* (洪金水), aged 40, is the accountant of the Company since 1996. From October 1986 to October 1989, he worked for the sales department of Shanghai Qian Jiang branch of Shaoxing County Qian Qing Supplier\* (紹興縣錢清供銷社上海錢江經營部) as cashier; from November 1989 to 1990, he was the salesman of the Yangxunqiao branch of Shaoxing County Qian Qing Supplier\* (紹興縣錢清供銷社楊汛橋分社); from 1991 to 1994, he was the salesman of the retail department of Qian Qing Association\* (錢清聯購分銷服務部); from 1995 to 1996, he served as the cashier of Shaoxing Prospect Universal Joint Company Limited\* (紹興展望萬向節有限公司), the predecessor of the Company. He was appointed as a supervisor of the Company in May 2004 for a term of three years.

*Mr. Feng Yun Lin* (馮雲林先生), aged 46, is a Supervisor. From April 1991 to May 1995, he was the deputy general manager of Shaoxing Zhanwang Wool Sweater Factory\* (紹興展望羊毛衫廠); and from July 1996 to August 2000, he was the deputy general manager of Zhejiang Prospect Industrial Group Limited\* (浙江展望實業集團有限公司). From September 2000 onwards, he has been the head of the Village Committee of Zhanwang Village, Yangxunqiao Town, Shaoxing County\* (紹興縣楊汛橋鎮展望村村民委員會). He was appointed as a supervisor of the Company in August 2002.

*Mr. Chen Jin Long* (陳金龍先生), aged 31, 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 of the Company in February 2000.



### INDEPENDENT SUPERVISORS

*Mr. Wang Zhong* (王眾先生), aged 37, is an independent Supervisor. He is responsible for supervising the Board, managers and other senior officers of the Company and reporting directly to the shareholders in general meeting of the Company. He is a practising attorney in the PRC. He is currently a deputy head (operations) of the Shanghai Branch of Beijing Jingdu Law Firm\* (北京市京都律師事務所). Mr. Wang Zhong is a member of the law society in the PRC. In 2002, he attended training sessions for independent directors of listed companies held by China Securities Regulatory Commission and Fudan University. He was appointed as an independent Supervisor in March 2003.

*Mr. Wang Ye Gang* (王葉剛先生), aged 36, is an independent Supervisor. He is responsible for supervising the Board, managers and other senior officers of the Company and reporting directly to shareholders in general meeting of the Company. He obtained a master degree in business administration from Zhejiang University (浙江大學). He is currently a general manager of the marketing division of the securities department, Hangzhou Xiaoran Road East, Guosen Securities Company Limited\* (國信證券有限責任公司杭州蕭然東路證券營業部). He was appointed as an independent Supervisor in March 2003.

### SENIOR MANAGEMENT

*Mr. Hong Jin Zhu* (洪金柱先生), aged 37, is in charge of the finance division of the Company. From July 1993 to May 1995, he was the head of the finance division of Shaoxing Huqiao Textile Garment Factory\* (紹興縣滬橋針紡織製衣廠); from June 1996 to March 1998, he was in charge of the accounting division of Zhejiang Liyuan Chemical Fibre Company Limited\* (浙江利源化纖有限公司); and from April 1998 to January 2002, he was the deputy manager of the finance department of Zhejiang Prospect Industrial Group Limited\* (浙江展望實業集團有限公司). He joined the Company in March 2002.

*Mr. Fu Yong Jun* (傅永君先生), aged 33, 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.

### QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

*Ms. Kwok Pui Ching* (郭佩貞女士), aged 39, 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 Institute of Certified Public Accountants. She had worked for Ernst and Young. During the period from 1996 to 1998, she worked for a foreign-invested enterprise responsible for financial management. From September 1998 to August 2000, she was employed by PCCW Limited as finance manager. Subsequently, she worked for an investment consultancy limited. She joined the Company in June 2003.

\* for identification purpose only

# Report of the Board of Directors

The board of Directors ("the Board") takes the pleasure in submitting the report of the Board together with the audited financial statements of the Company for the year ended 31st December, 2004.

## **PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATION**

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

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

The results and the state of affairs of the Company for the year ended 31st December, 2004 are set out on pages 25 to 48 of the annual report.

## **MAJOR CUSTOMERS AND SUPPLIERS**

The Company's sales to the five largest customers accounted for less than 56.7% of the Company's turnover during the financial year. The Company's sales to the largest customer accounted for 20.82% of the Company's turnover during the financial year. The Company's purchases attributable to the five largest suppliers in aggregate during the financial year amounted to 49.92% of the total purchases. The Company's purchases attributable to the largest supplier accounted for 14.37% of the Company's total purchases during the financial year.

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

## **FINANCIAL STATEMENTS**

The profit and cash flows of the Company for the year ended 31st December, 2004 and the state of the Company's affairs as at the date are set out in the financial statements on pages 26 to 30.

## **DIVIDENDS**

No dividend was paid or declared during the year.

## **CHARITABLE DONATIONS**

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

## **PROPERTY, PLANT AND EQUIPMENT**

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

## **SHARE CAPITAL**

Details of the share capital during the year are set out in note 24 the financial statement.

**FIXED ASSETS**

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

**RESERVES**

Details of movements in reserves of the Company during the year are set out in note 25 on the financial statements.

**DISTRIBUTABLE RESERVES**

At 31st December, 2004, the Company's reserves available for distribution as dividends, calculated in accordance with the relevant rules and regulations, amounted to RMB16.71 million.

**DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES OF THE COMPANY**

As at 31 December, 2004, the interests and short positions of the Directors, chief executives and supervisors of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are 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 under such provisions of the SFO) or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors as referred to in Rules 5.46 of the Rules Governing the Listing of Securities on the GEM (the "GEM Listing Rules"), were as follows:

**Long position in shares**

<b>The Company Director/Supervisor</b>	<b>Capacity</b>	<b>No. and class of securities</b>	<b>Approximate percentage of domestic shares</b>	<b>Approximate percentage of total registered share capital</b>
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%	4.2%
Mr. Tang Cheng Fang	Beneficial owner	2,680,000 domestic shares	5%	3.5%
Mr. Fei Guo Yang	Beneficial owner	1,072,000 domestic shares	2%	1.4%
Mr. Feng Yun Lin	Beneficial owner	1,072,000 domestic shares	2%	1.4%

*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.

Saved as disclosed above, as at 31 December, 2004, none of the Directors, chief executives and supervisors of the Company has any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which are 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 under such provisions of the SFO) or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors as referred to in Rule 5.46 of the GEM Listings Rules.

### SUBSTANTIAL SHAREHOLDERS

So far as was known to any Director or Chief Executive of the Company, as at 31 December, 2004, the following persons (other than the Directors, chief executives and supervisors of the Company as disclosed in the paragraph headed "Directors' and Supervisors' interests in Shares of the Company" above) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

#### Long position in shares

<b>Names of Shareholders</b>	<b>Capacity</b>	<b>No. and class of securities</b>	<b>Approximate percentage of shareholding in the same class of securities</b>	<b>Approximate percentage of shareholding in the total registered share capital</b>
Mr. Tang Liu Jun	Beneficial owner	4,466,667 domestic shares	8.33%	5.83%
Ms. Tang Jing Jing	Beneficial owner	4,466,667 domestic shares	8.33%	5.83%
Greater China 1 Private Placement Fund	Investment Manager	1,360,000 H shares	5.91%	1.77%

Saved as disclosed above, as at 31 December, 2004, the Directors were not aware of any other person (other than the Directors, chief executives and supervisors of the Company as disclosed in the paragraph headed "Directors' and Supervisors' interests in Shares of the Company" above) who had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

### DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

Save as disclosed in note 27 on the financial statements, no contract of significance to which the Company, its holding company or any of its fellow subsidiaries was a party in which a director or supervisor of the company had a material interest, subsisted at the end of the year or at any time during the year.

## SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

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

## DIRECTORS AND SUPERVISORS

The Directors and supervisors of the Company during the financial year and up to the date of this report are:

### Executive Directors

Mr. Tang Li Min (*Chairman*)  
 Mr. Hong Guo Ding  
 Mr. Fei Guo Yang  
 Mr. Hong Chun Qiang (appointed in May 2004)

### Non-executive Directors

Mr. Tang Cheng Fang  
 Mr. Li Zhang Rui

### Independent non-executive Directors

Mr. Wang He Rong  
 Mr. Lu Guo Qing  
 Mr. Ma Hong Ming (appointed in May 2004)

### Supervisors

Mr. Hong Jin Shiu (appointed in May 2004)  
 Mr. Feng Yun Lin  
 Mr. Chen Jin Long  
 Mr. Hong Chun Qiang (resigned in May 2004)

### Independent supervisors

Mr. Wang Zhong  
 Mr. Wang Ye Gang

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

Mr. Tang Li Min, Mr. Hong Guo Ding, Mr. Fei Guo Yang, Mr. Tang Cheng Fang and Mr. Li Zhang Rui were appointed in August 2002 for a term of three years, and Mr. Wang He Rong and Mr. Lu Guo Qing were appointed in March 2003 for a term of three years, and they offer themselves for re-election at the forthcoming annual general meeting of the Company.

In accordance with articles 119 and 120 of the Company's articles of association, supervisors representing the shareholders shall be elected at the shareholders' general meeting and the supervisor representing the staff members of the Company shall be elected by the staff members of the Company. The term for supervisors are three years and a supervisor may serve consecutive terms if re-elected upon the expiration of the term.

Mr. Feng Yun Lin and Mr. Chen Jin Long were elected in August 2002 for a term of three years, and Mr. Wang Zhong and Mr. Wang Ye Gang were appointed in March 2003 for a term of three years, and they offer themselves for re-election at the forthcoming annual general meeting of the Company.

### **BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

Brief biographical details of directors, supervisors and senior management are set out on pages 12 to 15.

### **DIRECTORS' AND SUPERVISORS' EMOLUMENTS**

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

### **CONNECTED TRANSACTIONS**

Significant related party transactions entered into by the Company or previously entered into by the Company and subsisted during the year ended 31 December, 2004 are disclosed in note 27 to the financial statements. Those constituted connected transactions under the GEM Listing Rules required to be disclosed in accordance with Chapter 20 of the GEM Listing Rules, are as follows:

Pursuant to an electricity tariff agency agreement between the Company and Zhejiang Prospect New Synthetic Fibre Company Limited\* (浙江展望新合織有限公司) dated 1st July, 2002, Zhejiang Prospect New Synthetic Fibre Company Limited\* (浙江展望新合織有限公司) 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\* (浙江展望新合織有限公司) to Keqiao Power Supply Division of the Shaoxing Power Supply Bureau\* (紹興電力局柯橋供電分局). The fee payable by the Company to Zhejiang Prospect New Synthetic Fibre Company Limited\* (浙江展望新合織有限公司) is determined on an actual cost basis and is allocated on a fair and equitable basis. Upon expiry of the term or the renewed term of the above agreement, the term will be renewed automatically annually until both parties agree to terminate the above agreement by negotiation. The expenses paid by the Company to Zhejiang Prospect New Synthetic Fibre Company Limited in accordance with the above agreement for the financial year ended 31st December, 2004 were RMB3.41 million.

Pursuant to the GEM Listing Rules, Zhejiang Prospect New Synthetic Fibre Company Limited\* (浙江展望新合織有限公司) is a connected person of the Company as Mr. Tang Li Min, who is one of the promoters of the Company, an executive Director and a controlling shareholder of the Company, holds 70.48% of the equity interests of Zhejiang Prospect Industrial Group Limited\* (浙江展望實業集團有限公司) which, in turn, holds 57.14% equity interests in Zhejiang Liyuan Chemical Fibre Limited\* (浙江利源化織有限公司), whereas Zhejiang Liyuan Chemical Fibre Limited\* (浙江利源化織有限公司) holds 70% of the equity interests of Zhejiang Prospect New Synthetic Fibre Company Limited\* (浙江展望新合織有限公司). Four promoters of the Company, namely Mr. Hong Guo Ding, Mr. Tang Cheng Fang, Mr. Fei Guo Yang and Mr. Feng Yun Lin, have the following interests in Zhejiang Prospect Industrial Group Limited\* (浙江展望實業集團有限公司): 10.84%, 9.97%, 3.68% and 5.03% respectively. Mr. Tang Cheng Fang and Mr. Hong Guo Ding, two of the Directors, promoters and management shareholders of the Company, and Mr. Fung Yun Lin, one of the Supervisors, promoters and management shareholders of the

\* for identification purpose only

Company have a direct equity interest of 14.29%, 9.52% and 9.52% respectively in Zhejiang Liyuan Chemical Fibre Limited (浙江利源化纖有限公司). Accordingly, the agreement constitutes a continuing connected transaction under the GEM Listing Rules upon the listing of the H Shares of the Company on GEM on 18th February, 2004. Details of such continuing connected transactions had been disclosed in the Company's prospectus dated 9 February, 2004.

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

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

The auditors of the Company have also confirmed that the continuing connected transactions (a) had received approval from the Company's board of directors; (b) had been entered into in accordance with the relevant agreement governing such transactions; and (c) had not exceeded the relevant cap for the year ended 2004 as disclosed in the prospectus of the Company dated 9 February, 2004.

#### **COMPETING INTERESTS**

None of the Directors, supervisors and management shareholders of the Company and their respective associates has any interest in any businesses which directly or indirectly compete with the business of the Company for the year ended 31st December, 2004.

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

Since the commencement of dealings in the H Shares of the Company on GEM on 18 February, 2004, the Company has not purchased, sold or redeemed any of its listed securities.

#### **INDEPENDENT NON-EXECUTIVE DIRECTORS**

Confirmation of independence has been received from each of the independent non-executive directors of the Company pursuant to rule 5.09 of the GEM Listing Rules and the Company considers all existing independent non-executive directors to be independent.

#### **MANAGEMENT CONTRACTS**

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

### **AUDIT COMMITTEE**

The Company set up an audit committee (the "Committee") on 14th January, 2004 with written terms of reference in compliance with the requirements as set out in Rules 5.28 to 5.30 of the GEM Listing Rules. The primary duties of the Committee are to review and provide supervision over the financial reporting process and internal control of the Company. The Committee comprises three independent non-executive directors, Mr. Wang He Rong, Mr. Lu Guo Qing and Mr. Ma Hong Ming. Four meetings were held during the year of 2004. The Committee has reviewed the Company's annual report, including the Company's financial statements for the year ended 31st December, 2004 and has provided advice and comments thereon to the Board. The Committee is of the opinion that the financial statements comply with applicable accounting standards, GEM Listing Rules, and that adequate disclosures have been made.

### **BANK LOANS**

Particulars of bank loans as at 31st December, 2004 are set out in note 23 to the financial statements.

### **RETIREMENT SCHEME**

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

### **INTERESTS OF SPONSOR**

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

### **PRACTICES AND PROCEDURES OF THE BOARD**

The Directors considered that since the listing of its H shares on GEM on 18th February, 2004, the Company has complied with the requirement of Board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules, which applied before the amendment of the GEM Listing Rules relating to the Code on Corporate Governance Practices and Rules on Corporate Governance Report on 1st January, 2005. The Company will prepare a Corporate Governance Report in accordance with Rule 18.44 of the GEM Listing Rules for the financial year ending 31st December, 2005.

### **REQUIRED STANDARD OF SECURITIES DEALINGS BY DIRECTORS**

During the year ended 31 December 2004, the Company had adopted a code of conduct for directors' securities transactions on terms no less exacting than the required standards of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry with all the directors, the directors of the Company had complied with the required standard of dealings and the code of conduct for directors' securities transactions during the year ended 31 December 2004.

### **POST BALANCE SHEET EVENTS**

Details of the significant post balance sheet events of the Company are set out in note 28 to the financial statements.



## **FINANCIAL SUMMARY**

A summary of the results and of the assets and liabilities of the Company is set out on page 49.

## **CLOSURE OF SHARE REGISTER**

The H Share register of members of the Company will be closed from Monday, 18th April 2005 to Tuesday, 17th May 2005 (both dates inclusive), during which no transfer of H Shares will be registered.

## **AUDITORS**

CCIF CPA Limited retire and being eligible, offer themselves for reappointment. A resolution for the re-appointment of CCIF CPA Limited as the international auditors of the Company respectively will be proposed at the forthcoming Annual General Meeting.

By order of the Board

**Zhejiang Prospect Company Limited**

**Mr. Tang Li Min**

*Chairman*

Zhejiang Province, the People's Republic of China

17th March 2005

# Report of the Supervisory Committee

To the shareholders of the Company

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

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

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

The Supervisory Committee is satisfied with the achievement and cost-effectiveness of the Company in 2004 and has great confidence in the future of the Company.

By Order of the Supervisory Committee

**Hong Jin Shiu**

*Chairman*

Zhejiang Province, the PRC  
17th March 2005



**CCIF**

**CCIF CPA LIMITED**

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**AUDITORS' REPORT TO THE SHAREHOLDERS OF  
ZHEJIANG PROSPECT COMPANY LIMITED**

*(Incorporated in the People's Republic of China with Limited Liability)*

We have audited the financial statements on pages 26 to 48 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

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

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

**BASIS OF OPINION**

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

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

**OPINION**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 31st December, 2004 and of the Company's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**CCIF CPA Limited**

*Certified Public Accountants*  
Hong Kong, 17 March 2005

**Chan Wai Dune, Charles**

*Practising Certificate Number P00712*

# Income Statement

Year ended 31st December, 2004

	Note	2004 RMB'000	2003 RMB'000
<b>Turnover</b>	2	<b>79,071</b>	66,089
<b>Cost of sales</b>		<b>(58,113)</b>	(44,884)
<b>Gross profit</b>		<b>20,958</b>	21,205
<b>Other revenue</b>	3	<b>1,966</b>	726
<b>Distribution costs</b>		<b>(1,564)</b>	(1,098)
<b>Administrative expenses</b>		<b>(4,920)</b>	(3,977)
<b>Other operating expenses</b>		<b>(208)</b>	(141)
<b>Profit from operations</b>	4	<b>16,232</b>	16,715
<b>Finance costs</b>	5	<b>(2,274)</b>	(1,918)
<b>Profit from ordinary activities before taxation</b>		<b>13,958</b>	14,797
<b>Taxation</b>	6(a)	<b>(4,994)</b>	(5,617)
<b>Net profit after tax</b>		<b>8,964</b>	9,180
<b>Dividends</b>	7	<b>—</b>	—
<b>Earnings per share</b>			
Basic	8	<b>RMB 0.12</b>	RMB 0.17

The notes on pages 31 to 48 form an integral part of these financial statements

# Balance Sheet

As at 31st December, 2004

	Note	2004 RMB'000	2003 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	13	33,324	24,389
Land use rights	14	6,899	7,042
Construction-in-progress	15	7,834	78
		<b>48,057</b>	31,509
<b>Current assets</b>			
Inventories	16	22,612	15,134
Trade receivables	17	23,836	20,589
Prepayments, deposits and other receivables	18	4,759	8,465
Amount due from a director	19	55	—
Cash at banks and in hand	20	55,513	42,845
		<b>106,775</b>	87,033
<b>Current liabilities</b>			
Trade and other payables	21	16,262	12,584
Amounts due to related companies	22	253	224
Short-term bank loans	23	35,400	35,400
Income tax payable	6(b)	2,283	1,910
		<b>54,198</b>	50,118
<b>Net current assets</b>		<b>52,577</b>	36,915
<b>Net assets</b>		<b>100,634</b>	68,424
<b>Capital and reserves</b>			
Share capital	24	76,600	53,600
Reserves	25	24,034	14,824
		<b>100,634</b>	68,424

Approved and authorized for issue by the board of directors on 17th March, 2005.

On behalf of the board

**Mr. Tang Li Min**  
Director

**Mr. Hong Guo Ding**  
Director

The notes on pages 31 to 48 form an integral part of these financial statements

# Statement of Changes in Equity

Year ended 31st December, 2004

	<b>Share capital</b>	<b>Share premium</b>	<b>Statutory surplus reserve</b>	<b>Statutory public welfare fund</b>	<b>Revaluation reserve</b>	<b>Retained profit</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1st January, 2003	53,600	—	195	97	—	1,623	55,515
Net profit for the year	—	—	—	—	—	9,180	9,180
Transfer	—	—	1,006	503	—	(1,509)	—
Revaluation surplus	—	—	—	—	3,729	—	3,729
At 31st December, 2003 and 1st January 2004	53,600	—	1,201	600	3,729	9,294	68,424
Net profit for the year	—	—	—	—	—	8,964	8,964
Transfer	—	—	987	561	—	(1,548)	—
Issue of shares upon listing	23,000	9,520	—	—	—	—	32,520
Issuing expense	—	(9,274)	—	—	—	—	(9,274)
At 31st December, 2004	76,600	246	2,188	1,161	3,729	16,710	100,634

The notes on pages 31 to 48 form an integral part of these financial statements

# Cash Flow Statement

Year ended 31st December, 2004

	<b>2004</b>	2003
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
<b>Cash flows from operating activities</b>		
Profit from ordinary activities before taxation	<b>13,958</b>	14,797
Adjustments for:		
Depreciation of property, plant and equipment	<b>2,025</b>	1,434
Amortization of land use rights	<b>143</b>	104
Interest income	<b>(420)</b>	(335)
Finance costs	<b>2,274</b>	1,918
Property, plant and equipment written off	<b>—</b>	17
Loss on disposal of property, plant and equipment	<b>40</b>	14
Bad debts written off	<b>—</b>	40
Provision for bad and doubtful debts	<b>468</b>	333
<b>Operating profit before changes in working capital</b>	<b>18,488</b>	18,322
Increase in inventories	<b>(7,478)</b>	(6,274)
Increase in trade and other receivables	<b>(9)</b>	(12,129)
Increase in trade and other payables	<b>3,678</b>	414
<b>Cash generated from operations</b>	<b>14,679</b>	333
PRC enterprise income tax paid	<b>(4,621)</b>	(7,682)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>10,058</b>	(7,349)
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	<b>(3,663)</b>	(8,150)
Acquisition of land use rights	<b>—</b>	(6,961)
Purchase of construction-in-progress	<b>(15,302)</b>	(78)
Receipts from disposal of property, plant and equipment	<b>209</b>	375
Interest received	<b>420</b>	852
<b>Net cash outflow from investing activities</b>	<b>(18,336)</b>	(13,962)

## Cash Flow Statement

Year ended 31st December, 2004

	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
<b>Cash flows from financing activities</b>		
Proceeds from issue of new shares	<b>23,246</b>	—
(Increase)/decrease in amount due from a director	<b>(55)</b>	43
Decrease in amounts due from related companies	—	2,988
Decrease in bank deposits with maturity more than 3 months	—	50,000
Increase in amounts due to related companies	<b>29</b>	65
Proceeds from new short-term bank loans	<b>60,400</b>	85,900
Repayment of short-term bank loans	<b>(60,400)</b>	(73,500)
Interest paid	<b>(2,274)</b>	(1,961)
<b>Net cash inflow from financing activities</b>	<b>20,946</b>	63,535
<b>Increase in cash and cash equivalents</b>	<b>12,668</b>	42,224
<b>Cash and cash equivalents at beginning of year</b>	<b>42,845</b>	621
<b>Cash and cash equivalents at end of year</b>	<b>55,513</b>	42,845
<b>Analysis of cash and cash equivalents</b>		
Cash at banks and in hand	<b>55,513</b>	42,845

The notes on pages 31 to 48 form an integral part of these financial statements



## 1. SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of preparation

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of securities on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Company is set out below.

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005.

The Company has not early adopted these new HKFRSs in the financial statements for the year ended 31st December, 2004. The Company has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

The financial statements are prepared under the historical cost convention as modified for the revaluation of certain property, plant and equipment.

### (b) Property, plant and equipment

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

Buildings	20 – 30 years
Machinery and equipment	12 years
Office equipment and furniture	2 – 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.

### 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (b) Property, plant and equipment (continued)

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

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

#### (c) Land use rights

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

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

#### (d) Impairment of assets

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

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized 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).

## 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (d) Impairment of assets (continued)

#### (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 recognized in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognized.

### (e) Construction-in-progress

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

### (f) Inventories

Inventories comprise raw materials, work-in-progress and finished goods are stated at the lower of cost and net realizable 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 realizable 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 recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized 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 realizable value, is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

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

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

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

**(h) Provisions and contingent liabilities**

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

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

**(i) Research and development costs**

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

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

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

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

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

**(k) Revenue recognition**

Revenue is recognized 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 recognized in the income statement as follows:

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

**(l) Translation of foreign currencies**

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

**(m) Retirement benefit costs**

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

**(n) Trade receivables**

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

**(o) Cash and cash equivalents**

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

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

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

**(q) Segment reporting**

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

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

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

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

**2. TURNOVER**

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

**3. OTHER REVENUE**

	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
Sales of work-in-progress and scrap materials	<b>1,390</b>	390
Bank interest income	<b>420</b>	335
Compensation received	<b>—</b>	1
Sundry income	<b>156</b>	—
	<b>1,966</b>	726

**4. PROFIT FROM OPERATIONS**

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

	<b>2004</b>	2003
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Cost of inventories sold	<b>58,113</b>	44,884
Staff costs	<b>5,969</b>	5,481
Staff welfare costs	<b>909</b>	871
Directors' emoluments	<b>160</b>	51
Research and development	<b>174</b>	314
Depreciation of property, plant and equipment	<b>2,025</b>	1,434
Amortization of land use rights	<b>143</b>	104
Auditors' remuneration	<b>671</b>	468
Provision/(written back) for bad and doubtful debts		
– Trade receivables	<b>378</b>	391
– Other receivables	<b>90</b>	(58)
Bad debts written off	<b>–</b>	40
Loss on disposal of property, plant and equipment	<b>40</b>	14
Property, plant and equipment written off	<b>–</b>	17

**5. FINANCE COSTS**

	<b>2004</b>	2003
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Interest expense on bank loans, repayable within one year	<b>2,274</b>	1,918

## Notes to the Financial Statements

31st December, 2004

### 6. TAXATION

(a) Taxation in the income statement represents:

	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
Provision for PRC enterprise income tax	<b>4,994</b>	5,617

The provision for PRC enterprise income tax is calculated at a standard rate of 33% (2003: 33%) of the estimated assessable income for the year ended 31st December, 2004 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:

	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
Profit before taxation	<b>13,958</b>	14,797
Calculated at a taxation rate of 33%	<b>4,606</b>	4,883
Expenses not deductible for taxation purposes	<b>388</b>	734
Taxation charge	<b>4,994</b>	5,617

(b) Taxation in the balance sheet represents:

	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
Provision for PRC enterprise income tax	<b>4,994</b>	5,617
Balance of PRC enterprise income tax provision relating to prior years	<b>1,910</b>	3,975
Payment of PRC enterprise income tax	<b>(4,621)</b>	(7,682)
	<b>2,283</b>	1,910

(c) There was no material unprovided deferred taxation for the year ended 31st December, 2004 (2003: Nil).

### 7. DIVIDENDS

The Company resolved not to declare any dividend in respect of the year ended 31st December, 2004 (2003: Nil).



**8. EARNINGS PER SHARE**

The basic earnings per share is calculated based on the profit attributable to shareholders at RMB8,964,000 (2003: RMB9,180,000) and the weighted average number of 73,583,607 (2003: 53,600,000) shares in issue during the year.

No diluted earnings per share have been presented as the Company did not have any dilutive potential shares for the years ended 31st December, 2003 and 2004.

**9. RETIREMENT BENEFIT COSTS**

The Company contributes on a monthly basis to defined contribution retirement benefit plan organized 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, 2003 and 31st December, 2004 were approximately RMB184,000 and RMB278,000 respectively.

**10. DIRECTORS' EMOLUMENTS**

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

	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
Fees	—	—
Other emoluments	<b>208</b>	50
Bonus	—	—
Retirement benefits	<b>2</b>	1
	<b>210</b>	51
The number of directors having emoluments fell within the following bands		
Nil – RMB1,000,000	<b>9</b>	7

During the year ended 31st December, 2004, the four (2003: three) executive directors received individual emoluments of approximately RMB51,000 (2003: RMB51,000), nil (2003: nil), nil (2003: nil) and RMB50,000 (2003: nil) respectively. The five (2003: four) non-executive directors received individual emoluments of approximately RMB49,000 (2003: nil), nil (2003: nil), RMB30,000 (2003: nil), RMB30,000 (2003: nil) and nil (2003: nil) respectively.

31st December, 2004

**11. INDIVIDUALS WITH HIGHEST EMOLUMENTS**

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

	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
Salaries and other emoluments	<b>215</b>	399
Number of directors	<b>3</b>	—
Number of employees	<b>2</b>	5
	<b>5</b>	5

During the year ended 31st December, 2004, 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>2004</b>	2003
	<b>RMB'000</b>	RMB'000
<b>Revenue from external customers</b>		
– PRC		
Domestic sales	<b>23,537</b>	28,190
Import and export corporations	<b>34,590</b>	35,332
– Overseas	<b>20,944</b>	2,567
<b>Total revenue from external customers</b>	<b>79,071</b>	66,089

At 31st December, 2003 and 31st December, 2004, all the Company's assets were located in the PRC.

**13. PROPERTY, PLANT AND EQUIPMENT**

	<b>Buildings</b> <i>RMB'000</i>	<b>Machinery and equipment</b> <i>RMB'000</i>	<b>Office equipment and furniture</b> <i>RMB'000</i>	<b>Motor vehicles</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
<b>Cost or valuation</b>					
At 1st January, 2004	17,881	11,234	542	435	30,092
Additions	333	2,773	183	374	3,663
Transfer from construction-in-progress	1,871	5,675	—	—	7,546
Disposals	—	(40)	—	(230)	(270)
At 31st December, 2004	20,085	19,642	725	579	41,031
<b>Representing</b>					
Cost	2,204	10,708	323	579	13,814
Valuation — 2002	—	8,934	402	—	9,336
Valuation — 2003	17,881	—	—	—	17,881
At 31st December, 2004	20,085	19,642	725	579	41,031
<b>Accumulated depreciation and impairment losses</b>					
At 1st January, 2004	1,671	3,720	194	118	5,703
Charge for the year	635	1,136	134	120	2,025
Written back on disposals	—	(2)	—	(19)	(21)
At 31st December, 2004	2,306	4,854	328	219	7,707
<b>Net book value</b>					
At 31st December, 2004	17,779	14,788	397	360	33,324
At 31st December, 2003	16,210	7,514	348	317	24,389

The Company's land use rights and buildings held for own use were revalued at 31st December, 2003 by Sallmanns (Far East) Limited, independent professionally qualified valuers, at an aggregate of RMB23,252,000. All the Company's land use rights and buildings were revalued using depreciated replacement costs basis. A revaluation surplus of RMB3,729,000, resulting from the above valuations, has been credited to the relevant asset revaluation reserve (note 25).

The carrying amount of the land use rights and buildings held for own use of the Company at 31st December, 2004 would have been RMB6,718,000 (2003: RMB6,857,000) and RMB12,528,000 (2003: RMB12,666,000) respectively had they been carried at cost less accumulated depreciation.

At 31st December, 2004, the Company's land use rights and buildings with net value of approximately RMB6,899,000 and RMB15,908,000 respectively were pledged to secure general banking facilities granted to the Company (note 23).

## Notes to the Financial Statements

31st December, 2004

### 14. LAND USE RIGHTS

	<b>2004</b>	2003
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Valuation		
At 1st January, and 31st December	<b>7,149</b>	7,149
Accumulated amortization		
At 1st January	<b>107</b>	—
Addition	<b>143</b>	104
Revaluation	<b>—</b>	3
At 31st December	<b>250</b>	107
Net book value at 31st December	<b>6,899</b>	7,042

### 15. CONSTRUCTION-IN-PROGRESS

	<b>2004</b>	2003
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
At 1st January	<b>78</b>	—
Additions	<b>15,302</b>	78
Transfer to fixed assets	<b>(7,546)</b>	—
At 31st December	<b>7,834</b>	78

### 16. INVENTORIES

	<b>2004</b>	2003
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Raw materials	<b>6,578</b>	5,069
Work-in-progress	<b>10,210</b>	6,956
Finished goods	<b>5,824</b>	3,109
	<b>22,612</b>	15,134

At 31st December, 2003 and 31st December, 2004, no inventories were carried at net realizable value.

**17. TRADE RECEIVABLES**

The aging analysis of trade receivables is as follows:

	<b>2004</b>	2003
	<b>RMB'000</b>	<i>RMB'000</i>
1-30 days	<b>7,632</b>	6,538
31-60 days	<b>6,110</b>	5,256
61-90 days	<b>4,789</b>	3,397
91-180 days	<b>2,769</b>	3,794
More than 180 days	<b>6,036</b>	4,726
	<b>27,336</b>	23,711
Less: Provision for bad and doubtful debts	<b>(3,500)</b>	(3,122)
	<b>23,836</b>	20,589

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

**18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES**

	<b>2004</b>	2003
	<b>RMB'000</b>	<i>RMB'000</i>
Bill receivables	<b>2,138</b>	350
Prepayments and other receivables	<b>2,220</b>	6,917
Trade deposits paid to suppliers	<b>401</b>	1,198
	<b>4,759</b>	8,465

**19. AMOUNT DUE FROM A DIRECTOR**

	<b>Maximum outstanding balances during the year</b>			
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>RMB'000</b>	<i>RMB'000</i>	<b>RMB'000</b>	<i>RMB'000</i>
Fei Guo Yang	<b>55</b>	—	<b>55</b>	76

The amount is unsecured, interest free and repayable on demand. At 31st December, 2003 and 31st December, 2004, there were no outstanding overdue interests and no provision has been made for the amount due.

## Notes to the Financial Statements

31st December, 2004

### 20. CASH AT BANKS AND IN HAND

	<b>2004</b>	2003
	<b>RMB'000</b>	<i>RMB'000</i>
Cash at banks	<b>54,355</b>	42,220
Cash in hand	<b>1,158</b>	625
	<b>55,513</b>	42,845

### 21. TRADE AND OTHER PAYABLES

	<b>2004</b>	2003
	<b>RMB'000</b>	<i>RMB'000</i>
Trade payables	<b>8,869</b>	7,065
Bills payable	<b>1,200</b>	—
Other payables	<b>5,391</b>	3,714
Value added tax, business tax and other taxes payable	<b>178</b>	138
Dividend payable	<b>37</b>	37
Accruals	<b>524</b>	1,588
Trade deposits received from customers	<b>63</b>	42
	<b>16,262</b>	12,584

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:

	<b>2004</b>	2003
	<b>RMB'000</b>	<i>RMB'000</i>
Due within 3 months	<b>8,359</b>	6,346
Due after 3 months but within 6 months	<b>376</b>	358
Due after 6 months but within 12 months	<b>43</b>	208
Due after 12 months	<b>91</b>	153
	<b>8,869</b>	7,065

### 22. AMOUNTS DUE TO RELATED COMPANIES

The amounts are unsecured, interest free, repayable on demand and have been fully settled on 27th January, 2005.

**23. SHORT-TERM BANK LOANS**

The short-term bank loans are secured by the land use rights and buildings of the Company, interest bearing at a range of 5.576% to 7.306% per annum and repayable within one year. The short-term bank loans of RMB19,000,000 as at 31st December, 2004 have been repaid during January, 2005.

**24. SHARE CAPITAL**

	2004		2003	
	No. of shares	RMB'000	No. of shares	RMB'000
Issued and fully paid:				
At 1st January, (note a)	<b>53,600,000</b>	<b>53,600</b>	53,600,000	53,600
Issue of shares upon listing (note b)	<b>23,000,000</b>	<b>23,000</b>	—	—
At 31st December	<b>76,600,000</b>	<b>76,600</b>	53,600,000	53,600

(a) 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.

(b) The Company issued 23,000,000 new H shares with a nominal value at RMB1.00 each at a price of HK\$1.33 per H share upon the listing of the Company's shares on GEM board of The Stock Exchange of Hong Kong Limited at 18th February, 2004.

**25. RESERVES**

	Share premium	Statutory surplus reserve	Statutory public welfare fund	Revaluation reserve	Retained profit	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1st January, 2003	—	195	97	—	1,623	1,915
Net profit for the year	—	—	—	—	9,180	9,180
Transfer	—	1,006	503	—	(1,509)	—
Revaluation surplus (note 13 and 14)	—	—	—	3,729	—	3,729
At 31st December, 2003 and 1st January, 2004	—	1,201	600	3,729	9,294	14,824
Net profit for the year	—	—	—	—	8,964	8,964
Transfer	—	987	561	—	(1,548)	—
Issue of shares upon listing	9,520	—	—	—	—	9,520
Issuing expense	(9,274)	—	—	—	—	(9,274)
At 31st December, 2004	246	2,188	1,161	3,729	16,710	24,034

**25. RESERVES (continued)**

**(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 utilized 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, 2003 and 31st December, 2004 approximately amounted to RMB9,294,000 and RMB16,710,000 respectively.



**26. CAPITAL COMMITMENTS**

The Company's capital commitments outstanding at 31st December, 2003 and 31st December, 2004 and not provided for in the financial statements are as follows:

	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
Contracted but not provided for	<b>6,329</b>	5,261

**27. 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:

	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
<b>Continuing Activity</b>		
Electricity fee paid to related companies ( <i>note a</i> )	<b>3,414</b>	2,171
<b>Discontinuing Activities</b>		
Acquisition of leasehold building ( <i>note b</i> )	<b>—</b>	5,001

- (a) During the two years ended 31st December, 2004, electricity fee paid to related companies was conducted in the normal course of business as the Company has to share the electricity meter with two related companies and prices were charged by the related companies based on actual electricity consumed by the Company at the average unit rate charged by the power company. The outstanding amounts as at the years ended 31st December, 2003 and 31st December, 2004 were all settled in the succeeding month. During the year ended 31st December, 2003, the electricity tariff agency agreement with one of the related companies was terminated.
- (b) The Company acquired a building from a related company, Zhejiang Prospect Industrial Group Limited, in April 2003. The consideration of acquiring the leasehold building was based on the valuation performed by an independent valuer. The amount was settled during the year ended 31st December, 2003.

**28. SUBSEQUENT EVENTS**

The following significant events took place subsequent to 31st December, 2004:

On 18th January, 2005 and 1st March, 2005, the Company entered into agreements with Shaoxing County Credit Union, Jiangqiao Sub-office, Industrial and Commercial Bank of China, Shaxing Sub-branch and Shanghai Pudong Development Bank, Shaxing Sub-branch for short term loans amounted to RMB5,000,000, RMB14,000,000 and RMB5,000,000 respectively. Such loans were secured by the Company's land use rights and buildings, interest bearing at 6.09%, 6.06% and 6.14% per annum respectively and repayable within one year.

## RESULTS

### For the year ended 31st December,

	<b>2004</b>	2003	2002	2001
	<b><i>RMB'000</i></b>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	<b>79,071</b>	66,089	42,355	21,336
Net Profit after tax	<b>8,964</b>	9,180	3,136	1,149

## ASSETS AND LIABILITIES

### As at 31st December,

	<b>2004</b>	2003	2002	2001
	<b><i>RMB'000</i></b>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total assets	<b>154,832</b>	118,542	94,863	38,895
Total liabilities	<b>(54,198)</b>	(50,118)	(39,348)	(35,139)
Balance of shareholders funds	<b>100,634</b>	68,424	55,515	3,756

Note: 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.

# Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN** that the 2004 Annual General Meeting of Zhejiang Prospect Company Limited (the "Company") will be held at the conference room of the Company, Zhanwang Village, Yangxunqiao Town, Shaoxing County, Zhejiang Province, the PRC on Tuesday, 17th May, 2005 at 11:30 a.m. for the following purposes:

1. To consider and approve the report of the directors of the Company for the year ended 31st December, 2004;
2. To consider and approve the audited financial statements and the report of the auditors of the Company for the year ended 31st December, 2004;
3. To consider and approve the report of the supervisory committee of the Company for the year ended 31st December, 2004;
4. To consider and approve remuneration proposals for directors and supervisors of the Company for the financial year ended 31 December 2005;
5. To re-elect the retiring directors and supervisors of the Company and approve their remuneration proposals and the terms of service contracts with the relevant directors and supervisors;
6. To consider the re-appointment of CCIF CPA Limited as the Company's auditors and to authorize the board of directors of the Company to fix their remuneration;
7. To consider and approve any proposal put forward by any shareholder holding 5% or more of the shares with voting rights at such meeting; and
8. To transact any other ordinary business of the Company.

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

Zhejiang Province, the People's Republic of China  
29th March, 2005

\* For identification purpose only

## Notes:

1. Any member of the Company entitled to attend and vote at the aforesaid meeting is entitled to appoint one or more proxies to attend and vote on his behalf at the meeting in accordance with the article of association of the Company. A proxy needs not be a member of the Company.
2. In order to be valid, the proxy form, under which it is signed, must be deposited by hand or post, for holders of H Shares of the Company at the H shares registrar of the Company at Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong and, for holders of domestic shares, to the legal address of the Company (Zhanwang Village,

Yangxunqiao Town, Shaoxing County, Zhejiang Province, the PRC) not less than 24 hours before the time for holding the AGM or not less than 24 hours before the time appointed for taking the poll. If the proxy form is signed by a power of attorney or other authority, a notarially certified copy of that power of attorney or authority shall be deposited at the same time.

3. Shareholders or their proxies shall produce their identity documents when attending the meeting.
4. The register of members of the Company will be closed from Monday, 18th April, 2005 to Tuesday, 17th May, 2005 (both dates inclusive), during which no transfer of shares will be registered.
5. Holders of domestic shares and H shares whose names stand on the register of members of the Company at the close of business on Friday, 15th April, 2005 are entitled to attend and vote at the meeting.
6. The shareholders who intend to attend the meeting should complete and lodge the reply slip at the Company's legal address (Zhanwang Village, Yangxunqiao Town, Shaoxing County, Zhejiang Province, the PRC) on or before Wednesday, 27th April, 2005. The receipt can be delivered in person or by mail.
7. The annual general meeting is expected not to last for more than half a day. Attendants shall bear their own traveling and accommodation expenses.
8. At the annual general meeting, ordinary resolutions will be proposed to re-elect Mr. Tang Li Min, Mr. Hong Guo Ding, Mr. Fei Guo Yang (as executive directors), Mr. Tang Cheng Fang, Mr. Li Zhang Rui (as non-executive directors), Mr. Wang He Rong and Mr. Lu Guo Qing (as independent non-executive directors) as Directors of the Company, and to re-elect Mr. Feng Yun Lin, Mr. Chen Jin Long, Mr. Wang Zhong and Mr. Wang Ye Gang as Supervisors of the Company. To enable shareholders of the Company to make an informed decision on the re-election of these retiring Directors and Supervisors, the biographical details of the retiring Directors and Supervisors, as requested under Chapter 17 of the GEM Listing Rules, are set out as follows:

### **1. Mr. Tang Li Min (唐利民先生), Executive Director**

*Mr. Tang Li Min* (唐利民先生), aged 42, is the chairman of the Company and an executive Director. He is responsible for planning and overall management of the Company. From March 1981 to June 1987, he was the factory head of Shaoxing Zhanwang Socks Factory\* (紹興縣展望襪廠); from July 1987 to December 1992, he was the factory head of Shaoxing Zhanwang Knitting Factory\* (紹興縣展望針織廠); and from December 1992 to June 1994, Mr. Tang was the chairman and general manager of Shaoxing Prospect Industrial Company Limited\* (紹興縣展望實業有限公司). From July 1994 onwards, he has been the chairman of Zhejiang Prospect Industrial Group Limited\* (浙江展望實業集團有限公司). He has over 20 years of experience in corporate management in the PRC. He completed his studies at Financial and Economic Studies Class of Shaoxing Administration School (紹興市行政學校財經研究進修班) in 1998. He was accredited as "Senior Economist" by the Personnel Bureau of Shaoxing County (紹興縣人事局) in September 2000. Mr. Tang joined Shaoxing Prospect Universal Joint Company Limited\* (紹興展望萬向節有限公司), the predecessor of the Company, at the time of its establishment in 1995 as a director.

\* for identification purpose only

Mr. Tang 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 his date of appointment as a director of the Company. Mr. Tang does not receive any emoluments for his directorship of the Company. As at the date of this notice, Mr. Tang personally owned 36,626,666 domestic shares of the Company, and as Mr. Tang is the father of Mr. Tang Liu Jun and Ms. Tang Jing Jing, both of whom are under the age of 18, Mr. Tang shall be deemed under the provisions of the Securities and Futures Ordinance to be interested in the 8,933,334 domestic shares of the Company in aggregate owned by Mr. Tang Liu Jun and Ms. Tang Jing Jing. Save as aforesaid, Mr. Tang is not connected with any directors, senior management or management or substantial or controlling shareholders of the Company.

## 2. Mr. Hong Guo Ding (洪國定先生), Executive Director

*Mr. Hong Guo Ding* (洪國定先生), aged 41, is an executive Director and a compliance officer of the Company. He is responsible for the administration and finance of the Company. From February 1991 to December 1992, he was the deputy head of Shaoxing Zhanwang Knitting Factory\* (紹興縣展望針織廠); from January 1993 to January 1995, he was the deputy general manager of Shaoxing Prospect Industrial Company Limited\* (紹興縣展望實業有限公司) and factory head of Shaoxing Huqiao Garment Factory (紹興縣滬橋製衣廠); and from February 1995 to August 1999, he was the deputy general manager of Zhejiang Prospect Industrial Group Limited\* (浙江展望實業集團有限公司). From September 2000 onwards, he has been the general manager of Zhejiang Prospect Industrial Group Limited\* (浙江展望實業集團有限公司). He completed his tertiary education in administration and management at Hangzhou University (杭州大學) in 1996. He was accredited as "Economist" by the Personnel Bureau of Shaoxing County (紹興縣人事局) in July 1998. He has over 10 years of experience in corporate administrative management. He joined Shaoxing Prospect Universal Joint Company Limited\* (紹興展望萬向節有限公司), the predecessor of the Company, at the time of its establishment in 1995 as a supervisor.

Mr. Hong 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 his date of appointment as a director of the Company. Mr. Hong does not receive any emoluments for his directorship of the Company. As at the date of this notice, Mr. Hong personally owned 3,216,000 domestic shares of the Company. Mr. Hong is not connected with any directors, senior management or management or substantial or controlling shareholders of the Company.

## 3. Mr. Fei Guo Yang (費國揚先生), Executive Director

*Mr. Fei Guo Yang* (費國揚先生), aged 34, is an executive Director and a general manager of the Company. He is responsible for the production and sales of the Company. From June 1991 to November 1994, he was the workshop head of Shaoxing Zhanwang Knitting Factory\* (紹興縣展望針織廠); from December 1994 to December 2002, he was the head of general office of Zhejiang Prospect Industrial Group Limited\* (浙江展望實業集團有限公司); and from January 2000 to February 2002, he became the deputy general manager of Shaoxing Prospect Universal Joint Company Limited\* (紹興展望萬向節有限公司), the predecessor of the Company. From March 2002 onwards, he has been the general manager of the Company. He completed his

\* for identification purpose only

vocational education in finance and accounting at Shaoxing Broadcasting and Television Vocational School (紹興市廣播電視中等專業學校) in 1997. He has been attending courses of economics and management at Huazhong University of Science & Technology (華中科技大學). He has over 8 years of working experience in production and sales. He joined Shaoxing Prospect Universal Joint Company Limited\* (紹興展望萬向節有限公司), the predecessor of the Company, at the time of its establishment in 1995 as a supervisor.

Mr. Fei 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 his date of appointment as a director of the Company. Pursuant to his service contract, Mr. Fei is entitled to an annual salary of RMB50,000. His emoluments are determined with reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions. As at the date of this notice, Mr. Fei personally owned 1,072,000 domestic shares of the Company. Mr. Fei is not connected with any directors, senior management or management or substantial or controlling shareholders of the Company.

#### **4. Mr. Tang Cheng Fang (唐成芳先生), Non-executive Director**

*Mr. Tang Cheng Fang* (唐成芳先生), aged 40, is a non-executive Director. From January 1991 to June 1992, he was in charge of the accounting division of Shaoxing Zhanwang Knitting Factory\* (紹興縣展望針織廠); from July 1992 to July 1995, he served as the chief accountant of Shaoxing Prospect Industrial Company Limited (紹興縣展望實業有限公司); and from August 1995 to April 2001, he served as the finance manager of Zhejiang Prospect Industrial Group Limited\* (浙江展望實業集團有限公司). From May 2001 onwards, he has been the general manager of Zhejiang Prospect New Synthetic Fibre Company Limited\* (浙江展望新合纖有限公司). He completed his tertiary education in economics and management at Zhejiang University of Technology (浙江工業大學) in 1998. He was qualified as an assistant accountant in March 1999 and has over 10 years of experience in corporate finance and accounting. He joined Shaoxing Prospect Universal Joint Company Limited\* (紹興展望萬向節有限公司), the predecessor of the Company, at the time of its establishment in 1995 as a supervisor.

Mr. Tang 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 his date of appointment as a director of the Company. Mr. Tang does not receive any emoluments for his directorship of the Company. As at the date of this notice, Mr. Tang personally owned 2,680,000 domestic shares of the Company. Mr. Tang is not connected with any directors, senior management or management or substantial or controlling shareholders of the Company.

#### **5. Mr. Li Zhang Rui (李張瑞先生), Non-executive Director**

*Mr. Li Zhang Rui* (李張瑞先生), aged 39, is a non-executive Director. From July 1987 to April 1993, he worked for Hangzhou Vacuum Tube Factory\* (杭州電子管廠); from April 1993 to October 1994, he was the manager of the development department of Zhejiang Rongsheng Textile Company Limited\* (浙江榮盛紡織有限公司); from October 1994 to May 2000, he worked for Zhejiang International Economic and Technical Cooperation Corporation\* (浙江國際經濟技術合作公司); and from July 2000 to June 2002, he served as the deputy general manager of Zhejiang Prospect

Industrial Group Limited\* (浙江展望實業集團有限公司). From August 2002 onwards, he has been the general manager of Zhejiang Zhanwang Printing and Dyeing Company Limited (浙江展望印染有限公司). He obtained a bachelor's degree in electrical engineering from Xi'an Jiaotong University (西安交通大學) in 1987. He joined the Company as a non-executive Director in August 2002.

Mr. Li 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 his date of appointment as a director of the Company. Pursuant to his service contract, Mr. Li is entitled to an annual salary of RMB50,000. His emoluments are determined with reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions. Mr. Li does not have any interest in any shares or underlying shares of the Company within the meaning of the Securities and Futures Ordinance. Mr. Li is not connected with any directors, senior management or management or substantial or controlling shareholders of the Company.

#### **6. Mr. Wang He Rong (王和榮先生), Independent non-executive Director**

*Mr. Wang He Rong* (王和榮先生), aged 44, a senior accountant, is an independent non-executive Director. From April 1994 to January 2000, he worked for Shaoxing Hongtai Certified Public Accountants\* (紹興宏泰會計師事務所). From February 2000 onwards, he has been the chief accountant of Shaoxing Hongtai Certified Public Accountants\* (紹興宏泰會計師事務所). He completed his tertiary education in economics and management at Zhejiang China's Communist Party School Distance Learning College\* (中共浙江省委黨校函授學院). He was appointed as an independent non-executive Director in March 2003.

Mr. Wang 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 his date of appointment as a director of the Company. Pursuant to his service contract, Mr. Wang is entitled to an annual salary of RMB30,000. His emoluments are determined with reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions. Mr. Wang does not have any interest in any shares or underlying shares of the Company within the meaning of the Securities and Futures Ordinance. Mr. Wang is not connected with any directors, senior management or management or substantial or controlling shareholders of the Company.

#### **7. Mr. Lu Guo Qing (陸國慶先生), Independent non-executive Director**

*Mr. Lu Guo Qing* (陸國慶先生), aged 40, 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.

\* for identification purpose only

Mr. Lu 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 his date of appointment as a director of the Company. Pursuant to his service contract, Mr. Lu is entitled to an annual salary of RMB30,000. His emoluments are determined with reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions. Mr. Lu does not have any interest in any shares or underlying shares of the Company within the meaning of the Securities and Futures Ordinance. Mr. Lu is not connected with any directors, senior management or management or substantial or controlling shareholders of the Company.

### **8. Mr. Feng Yun Lin (馮雲林先生), Supervisor**

*Mr. Feng Yun Lin (馮雲林先生)*, aged 46, is a Supervisor. From April 1991 to May 1995, he was the deputy general manager of Shaoxing Zhanwang Wool Sweater Factory\* (紹興展望羊毛衫廠); and from July 1996 to August 2000, he was the deputy general manager of Zhejiang Prospect Industrial Group Limited\* (浙江展望實業集團有限公司). From September 2000 onwards, he has been the head of the Village Committee of Zhanwang Village, Yangxunqiao Town, Shaoxing County\* (紹興縣楊汛橋鎮展望村村民委員會). He was appointed as a supervisor of the Company in August 2002.

Mr. Feng 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 his date of appointment as a supervisor of the Company. Mr. Feng does not receive any emoluments for his services as a supervisor of the Company. As at the date of this notice, Mr. Feng personally owned 1,072,000 domestic shares of the Company. Mr. Feng is not connected with any directors, senior management or management or substantial or controlling shareholders of the Company.

### **9. Mr. Chen Jin Long (陳金龍先生), Supervisor**

*Mr. Chen Jin Long (陳金龍先生)*, aged 31, 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 of the Company in February 2000.

Mr. Chen 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 his date of appointment as a supervisor of the Company. Pursuant to his service contract, Mr. Chen is entitled to an annual salary of RMB30,000. His emoluments are determined with reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions. Mr. Chen does not have any interest in any shares or underlying shares of the Company within the meaning of the Securities and Futures Ordinance. Mr. Chen is not connected with any directors, senior management or management or substantial or controlling shareholders of the Company.

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**10. Mr. Wang Zhong (王眾先生), Supervisor**

*Mr. Wang Zhong (王眾先生)*, aged 37, is an independent Supervisor. He is responsible for supervising the Board, managers and other senior officers of the Company and reporting directly to the shareholders in general meeting of the Company. He is a practising attorney in the PRC. He is currently a deputy head (operations) of the Shanghai Branch of Beijing Jingdu Law Firm\* (北京市京都律師事務所). Mr. Wang Zhong is a member of the law society in the PRC. In 2002, he attended training sessions for independent directors of listed companies held by China Securities Regulatory Commission and Fudan University. He was appointed as an independent Supervisor in March 2003.

Mr. Wang entered into a service contract with the Company for a term commencing from 14 January 2004 and ending on the expiry of the three year period starting from his date of appointment as a supervisor of the Company. Pursuant to his service contract, Mr. Wang is entitled to an annual salary of RMB30,000. His emoluments are determined with reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions. Mr. Wang does not have any interest in any shares or underlying shares of the Company within the meaning of the Securities and Futures Ordinance. Mr. Wang is not connected with any directors, senior management or management or substantial or controlling shareholders of the Company.

**11. Mr. Wang Ye Gang (王葉剛先生), Supervisor**

*Mr. Wang Ye Gang (王葉剛先生)*, 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 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.

Mr. Wang entered into a service contract with the Company for a term commencing from 14 January 2004 and ending on the expiry of the three year period starting from his date of appointment as a supervisor of the Company. Pursuant to his service contract, Mr. Wang is entitled to an annual salary of RMB30,000. His emoluments are determined with reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions. Mr. Wang does not have any interest in any shares or underlying shares of the Company within the meaning of the Securities and Futures Ordinance. Mr. Wang is not connected with any directors, senior management or management or substantial or controlling shareholders of the Company.

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### 9. Poll

Article 78 of the Articles of the Company is extracted as follows:

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

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

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

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