



**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)



\* for identification purpose only

**Annual Report** 2005  
Stock Code: 8273

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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.

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# Corporate Information

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

## Sponsor

South China Capital Limited

## Auditors

CCIF CPA Limited

## Legal Advisors as to Hong Kong Laws

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, 2005.

### **BUSINESS REVIEW**

The Company continued to experience considerable growth in 2005 in terms of production capacity and sales volume, attributable to the commitment and hard work devoted by the staff members under the leadership of the Board. 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 2005 amounted to 6.59 million sets and 6.48 million sets respectively, representing an increase of 16.23% and 19.12% as compared with previous year of 5.67 million sets and 5.44 million sets.

Turnover for the year ended 31st December, 2005 amounted to RMB94.76 million, representing approximately 19.84% increase year on year compared to RMB79.07 million in 2004. Net profit after tax amounted to RMB7.60 million, a decrease of approximately 16.81% compared to RMB9.13 million in 2004.

### **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

## Chairman's Statement

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  
28th March, 2006

# Management Discussion and Analysis

## 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, 2005 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, 2005

#### Expansion of production capacity

- |   |           |
|---|-----------|
| — Stabilization period for the technological renovation project | Completed |
|---|-----------|

#### Research and development

- |  |  |
|--|--|
| — Develop new specifications and types of universal joint products according to market demands                 | New specifications and types of universal joint products developed |
| — Continue to purchase computers and product development software and refine the means of product development  | Purchase of computers and software as planned                      |
| — Purchase testing devices   | Purchase of equipment as planned                                   |
| — Implement the plan for the technical research and development centre and commence construction of the centre | Completed  |

#### Expansion of PRC and overseas market

- |  |  |
|--|--|
| — Commence feasibility studies for establishment of overseas offices | Commenced  |
| — Participate in exhibitions of automobiles and related parts        | Participated in trade fairs held in Shanghai, USA, France and Malaysia |
| — Promote the corporate image by advertisement, etc                  | Participated in various promotion events                               |

#### 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, 103 additional workers and 4 for administration |
| — Provide training to existing staff   | Training provided on an ongoing basis   |

## Management Discussion and Analysis

**USE OF PROCEEDS**

Up to 31st December, 2005, 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:

	<b>Proposed amount to be used up to 31st December, 2005 as per Prospectus</b>	<b>Actual amount used up to 31st December, 2005</b>
	<i>RMB million (Note)</i>	<i>RMB million</i>
Technical renovation project for universal joint production lines		
— purchase of equipment	14.31	15.12
— construction of factories	4.18	4.28
— installation and testing of equipment	0.66	0.63
Research and development		
— purchase of computer and product development software	0.21	0.21
— purchase of equipment	0.37	0.36
— construction of testing centre	0.11	0.17
— cooperative arrangements	0.05	0.05
Marketing and promotional activities	0.84	0.82
Staff recruitment and training	0.21	0.21
Expansion of sales and distribution network	0.84	0.82
General working capital	0.20	0.20
<b>Total</b>	<b>21.98</b>	<b>22.87</b>

Note: Amounts denominated in HK\$ have been translated, for the purpose of illustration only, into RMB at a rate of HK\$1.00 = RMB1.045.



## **BUSINESS OVERVIEW**

The Company continued to experience considerable growth in 2005 in terms of production capacity and sales volume, attributable to the commitment and hard work devoted by the staff members under the leadership of the Board. 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 2005 amounted to 6.59 million sets and 6.48 million sets respectively, representing an increase of 16.23% and 19.12% as compared with previous year of 5.67 million sets and 5.44 million sets.

Turnover for the year ended 31st December, 2005 amounted to RMB94.76 million, representing approximately 19.84% increase year on year compared to RMB79.07 million in 2004. Net profit after tax amounted to RMB7.60 million, a decrease of approximately 16.81% compared to the same in 2004. This is mainly attributable to the decrease in gross profit margin of more than 4% during the year.

## **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 2005, the Company completed the development of new models and specifications of wing bearing universal joints and heavy-duty series of universal joints.

## Management Discussion and Analysis

### **TURNOVER**

Turnover amounted to RMB94.76 million in 2005, represents approximately 19.84% increase year on year compared to RMB79.07 million in 2004. The increase in turnover during the period was due to increase in export sales to approximately RMB25.92 million contributed by new overseas customers, sales of approximately RMB39.17 million to the largest import and export corporation, which then sold to various overseas market; and local sales of RMB29.67 million.

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

Cost of sales increased to RMB73.94 million in 2005 from RMB57.99 million in 2004 or an increase of approximately 27.50%. This is more than the 19.84% increases in turnover for the same period. Gross margin of the Company's products decreases 4.5% to approximately 21.97% in 2005 from approximately 26.7% in 2004. This was mainly attributable to the decrease in sale price of motor vehicles spare parts and increase of depreciation charge by about RMB1 million due to major acquisition of fixed assets during the year.

### **OTHER REVENUE**

Other operating income in 2005 amounted to RMB2.08 million, or an increase of RMB0.11 million from RMB1.97 million in 2004. This was mainly due to increase in interest income.

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

The Company continued to expand its sales and marketing network. As a result, distribution expenses for 2005 totaled RMB2.41 million. This represents an increase of RMB0.85 million, or approximately 54% from that of RMB1.56 million 2004. The increase is mainly due to increase in participation in trade fairs during the year.

In 2005, administrative expenses of the Company were approximately RMB5.43 million, increase of RMB0.56 million or 11.5% compared to that of RMB4.87 million in 2004. 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 2005 amounted to RMB0.25 million, as compared to RMB0.21 million in 2004.

In the financial year of 2005, the net finance costs of approximately RMB2.97 million, comprised interest on bank advances and other borrowings, represented approximately 3.1% of turnover in 2005 compared to 2.8% in 2004. This represented an increase of RMB0.70 million, or approximately 31%, as compared to approximately RMB2.27 million in 2004.

**MATERIAL INVESTMENTS AND CAPITAL ASSETS**

The Company had substantially completed the material investment and capital assets as disclosed in the Company's prospectus dated 9th February 2004 under the section headed "Statement of Business Objectives". The Company does not have other future plans for material investments or capital assets.

**EXPOSURE IN EXCHANGE RATE FLUCTUATIONS**

Most of the Company's 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 2005.

**SIGNIFICANT INVESTMENTS HELD**

The Company has no significant investments held during the year of 2005.

**FINANCIAL RESOURCES AND LIQUIDITY**

The Company continues to be in a healthy financial position with shareholders equity amounted to RMB104.67 million as at 31st December, 2005 (2004 (restated): RMB97.07 million). Current assets amounted to RMB119.13 million as at 31st December, 2005 (2004: RMB106.78 million), of which RMB54.81 million (2004: RMB55.51 million) were cash and bank balances. As at 31st December, 2005, the Company had a short-term bank loans of about RMB49.0 million (2004: RMB35.4 million). The short term bank loans were repayable within one year.

**CONTINGENT LIABILITIES**

As at 31st December, 2005, the Directors were not aware of any material contingent liabilities.

**CHARGES ON ASSETS**

As at 31st December 2005, the short-term bank loans of RMB49 million were secured by the Company's land use rights and buildings and guarantee provided by the parties set out in note 30 to the financial statements, interest bearing at a range of 5.58% to 7.366% per annum and repayable within one year.

**GEARING RATIO**

The Company's gearing ratio, based on total liabilities to shareholders' equity, was 0.71 (2004 (restated): 0.56) as at 31st December, 2005.

**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 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 18th February, 2004, there has been no change in the capital structure of the Company.

## Management Discussion and Analysis

As at 31st December, 2005, 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 600 (2004: 471). 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.

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 27.35% of the total turnover in 2005, compared to 29.77% of the total turnover in 2004. In addition, the Company sells its products to import and export corporations in the PRC, accounted for 41.33% and 43.75% of the total turnover in 2005 and 2004 respectively. 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 2005, direct sales to overseas customers represented approximately 31.32% (2004: 26.48%) 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.

# Profiles of Directors, Supervisors and Senior Management

## DIRECTORS

### Executive Directors

*Mr. Tang Li Min* (唐利民先生), aged 43, 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 42, 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 35, 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

## Profiles of Directors, Supervisors and Senior Management

*Mr. Hong Chun Qiang* (洪春強先生), aged 28, 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 41, 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 40, 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 45, 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 41, 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 43, 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 41, 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 47, 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 32, 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.

## Profiles of Directors, Supervisors and Senior Management

### INDEPENDENT SUPERVISORS

*Mr. Wang Zhong* (王眾先生), aged 38, 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 37, 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 38, 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 34, 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

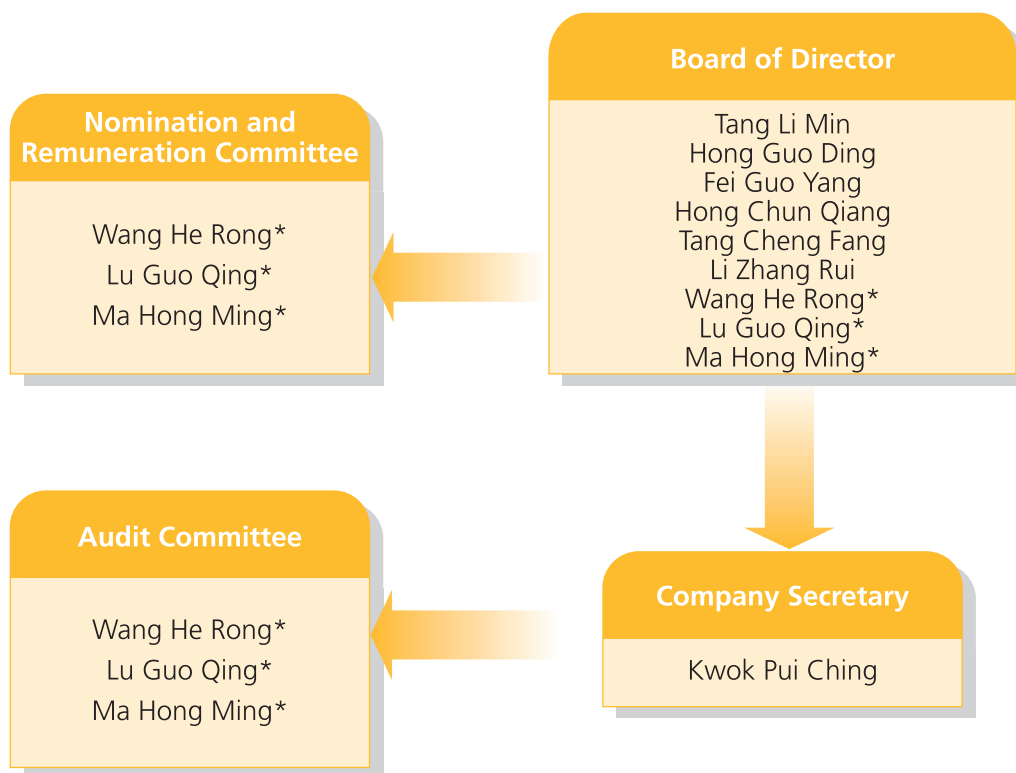
*Ms. Kwok Pui Ching* (郭佩貞女士), aged 40, is a qualified accountant with over 7 years of experience in accounting, auditing and financial management. She graduated with a degree of Bachelor of Social Sciences from The University of Hong Kong in 1986 and is an associate member of the Hong Kong Institute 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



The Company is committed to maintaining a high standard of corporate governance. The principles of good corporate governance emphasise transparency and accountability to shareholders, an effective Board for leadership and control of the Company, and high standards of business ethics integrity in all activities. Throughout the year, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices as stated in Appendix 15 of the Rules Governing the Listing of Securities on the Growth Enterprise Market (“GEM”) on The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”).

The following chart illustrates the composition of the Board of the Company as well as its corporate governance structure:



\* Independent Non-Executive Director

## BOARD OF DIRECTORS

The Board of Directors currently comprises nine persons, consisting of four executive Directors, namely, Mr. Tang Li Min, Mr. Hong Guo Ding, Mr. Fei Guo Yang and Mr. Hong Chun Qiang; two non-executive directors, namely Mr. Tang Cheng Fang and Mr. Li Zhang Rui and three independent non-executive Directors, namely, Mr. Wang He Rong, Mr. Lu Guo Qing and Mr. Ma Hong Ming. Non-executive Directors possess appropriate academic and professional qualifications or related financial management expertise and have brought a wide range of business and financial experience to the Board.

## Corporate Governance

Board Meetings are held at least four times a year. It is also held as and when necessary to discuss significant transactions, including material acquisitions and disposals, and connected transactions, if any. All Directors are given an opportunity to include matters in the agenda for Board Meetings. There were four meetings of the Board of Directors held in 2005 and were attended by all of the Directors and the average attendance rate was 100%.

All the Directors have access to timely information in relation to the Company's business and make further enquiries where necessary. Procedure has been agreed by the Board to enable Directors to seek independent professional advice at the Company's expense. The Directors are responsible for ensuring continuity of leadership, development of sound business strategies, availability of adequate capital and managerial resources to implement the business strategies adopted, adequacy of systems of financial and internal controls and conduct of business in conformity with applicable laws and regulations. They acknowledge their responsibility for preparing the financial statements on a going concern basis, with supporting assumptions or qualifications as necessary. The Board is also responsible for presenting a balanced, clear and understandable assessment of annual, interim and quarterly reports, price-sensitive announcements and other disclosures required under the GEM Listing Rules and other statutory requirements.

Every newly appointed Director will meet with other fellow Directors and members of senior management, and will receive a comprehensive and tailored induction on the first occasion of his appointment, so as to ensure that he has a proper understanding of the operations and business of the Company, and that he is fully aware of his responsibilities under statute and common law, the GEM Listing Rules and other regulatory requirements. According to the Company's Articles of Association, the Company appoints its directors for a maximum term of three years and shall be elected by shareholders at general meeting every three years. New appointments by the Board to fill a casual vacancy in the Board are subject to re-election by shareholders at the upcoming general meeting.

All existing Directors (including executive, non-executive and independent non-executive Directors) are appointed for a term of three years, and are subject to election for appointment by shareholders at the general meeting by end of the three-year period.

The Company has received from each of its independent non-executive Directors an annual confirmation of his independence and the Board considers the independent non-executive Directors to be independent.

To the best knowledge of the Company, save and except that certain members of the Board may have common investments and working relationship in certain companies and business, there is no financial, business and family relationship among members of the board and between the Chairman and the Chief Executive Officer. All of them are free to exercise their independent judgment.

### **CHAIRMAN**

The Chairman, Mr. Tang Li Min, provides leadership the Board. He is responsible for ensuring that Directors receive adequate information, which must be complete and reliable, in a timely manner and all Directors are properly briefed issues arising at Board meetings. He also ensures that:

- the Board works effectively and discharges responsibilities;

- all key and appropriate issues are discussed by the Board in a timely manner;
- good corporate governance practices and procedures are established; and
- appropriate steps are taken to provide effective communication with shareholders and that views of shareholders are communicated to the Board as a whole.

He will encourage all Directors to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the Company.

#### **MANAGING DIRECTOR (CHIEF EXECUTIVE OFFICER)**

The Managing Director, Mr. Hong Guo Ding, is the Chief Executive Officer of the Company. The roles of the Managing Director are separate from those of the Chairman.

The Managing Director is responsible for operating the business of the Company and implementing policies and strategies adopted by the Board. He is in charge of the Company's day-to-day management in accordance with the instructions issued by the Board. He is responsible for developing strategic operating plans that reflect the objectives and priorities established by the Board and maintaining the operational performance. He also ensures adequacy of systems of financial and internal control and conduct of business in conformity with applicable laws and regulations.

#### **AUDIT COMMITTEE**

An Audit Committee was established by the Board in 2004, which comprises three Independent Non-Executive Directors, namely, Mr. Wang He Rong, Mr. Lu Guo Qing and Mr. Ma Hong Ming, with appropriate academic and professional qualifications or related financial management expertise. Mr. Ma Hong Ming is the chairman of the Audit Committee. Meetings are held at least four times a year and are attended by external and internal auditors and company secretary for purpose of discussing the nature and scope of audit work assessing the Group's internal controls. Separate meetings will also be held with external auditor (in the absence management) as and when required. The Audit Committee held four meetings in 2005 to review, inter alia, the Group's financial statements and internal controls and to recommend to the Board the appointment of external auditor and the four meetings were attended by all of the members of the Audit Committee. The average attendance rate was 100%.

The duties of the Committee include the following:

#### **Relationship with the Company's auditors**

- (a) to be primarily responsible for making recommendations to the Board on the appointment, re-appointment removal of the external auditor, and to approve remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal that auditor;
- (b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard, and discuss with the auditor the nature and scope of the audit reporting obligations before the audit commences;

## Corporate Governance

- (c) to develop and implement policy on the engagement of an external auditor to supply non-audit services (for this purpose, the external auditor shall include any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally), and report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;

### **Review of financial information of the Company**

- (d) to monitor integrity of financial statements, annual report and accounts and half-year and quarterly report; and to review significant financial reporting judgments contained within them, focusing particularly on:
  - (i) any changes in accounting policies and practices;
  - (ii) major judgmental areas;
  - (iii) significant adjustments resulting from audit;
  - (iv) the going concern assumptions and any qualifications;
  - (v) compliance with accounting standards; and
  - (vi) compliance with the GEM Listing Rules and other legal requirements in relation to financial reporting;
- (e) in regard to (d) above:
  - (i) members of the Committee must liaise with the Board, senior management and the person appointed as the Company's qualified accountant and the Committee must meet, at least once a year, with the Company's auditors; and
  - (ii) the Committee shall consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Company's qualified accountant, compliance officer or auditors;

### **Oversight of the Company's financial reporting system and internal control procedures**

- (f) to review financial controls, internal control and risk management systems;
- (g) to discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system;
- (h) to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;

- (i) where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of the internal audit function;
- (j) to review the Group's financial and accounting policies and practices;
- (k) to review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response;
- (l) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (m) to report to the Board on the matters set out in the code provisions for Audit Committee in the Code on Corporate Governance Practices of the GEM Listing Rules;
- (n) to consider other topics, as defined by the Board;

**Other duties**

- (o) to review arrangements by which employees may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters;
- (p) to act as the key representative body for overseeing the Company's relation with the external auditor; and
- (q) to report back to the Board on their decisions or recommendation.

The Committee is authorised by the Board to investigate any activity within its terms of reference; to seek any information it requires from any employee and all employees are directed to co-operate with any requests made by the Committee; to obtain outside legal or other independent professional advice; and to secure the attendance of outsiders with relevant experience and expertise if necessary.

**NOMINATION AND REMUNERATION COMMITTEE**

A Nomination and Remuneration Committee was set up in October 2005, constituted by three Independent Non-Executive Directors, namely Mr. Wang He Rong, Mr. Lu Guo Qing and Mr. Ma Hong Ming. Meeting will be held at least once a year to review human resource issues, including significant changes in salary structure and terms and conditions affecting Directors and senior management. The Committee held one meeting in 2005 to review, inter alia, the composition of existing Board members and the Directors' remuneration and the meeting was attended by all of the members of the committee. The average attendance rate was 100%.

## Corporate Governance

Duties of the Committee include the following:

- (a) to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes;
- (b) to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;
- (c) to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors in particular the Chairman and the Chief Executive Officer;
- (d) assess the independence of independent non-executive directors;
- (e) to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;
- (f) to have the delegated responsibility to determine the specific remuneration packages of all executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board on the remuneration of non-executive Directors. The Committee shall consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Company and desirability of performance-based remuneration;
- (g) to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;
- (h) to review and approve the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;
- (i) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;
- (j) to ensure that provisions regarding disclosure of remuneration, including pensions, as set out in the Companies Ordinance and GEM Listing Rules, are fulfilled;
- (k) to ensure that no Director or any of his associates is involved in deciding his own remuneration; and
- (l) to report back to the Board on their decisions or recommendation.

The remuneration package of Directors and senior management is based on the skill, knowledge and involvement in the Company's affairs of each Director or senior management and is also determined with reference to the performance and profitability of the Company. Computation of discretionary bonus to Directors and senior management are determined in accordance with their individual performances and achievement of business targets. The Committee will consult the Chairman and the Chief Executive Officer about their proposals relating to the remuneration of other executive Directors and have access to professional advice if considered necessary.

#### **COMPANY SECRETARY**

All Directors have access to the advice and services of the Company Secretary, Mr. Kwok Pui Ching, who is responsible to the Board for ensuring that procedures are followed and that all applicable laws and regulations are complied with. The Company Secretary is also a source of advice to the Chairman and to the Board on Corporate Governance and the implementation of the Code on Corporate Governance Practices. Draft and final versions of minutes of Board meetings and meetings of Board committees are sent to all Directors or committee members respectively for their comments and record. All minutes of Board meetings and meetings of Board committees are kept by her and are open for inspection by any Director.

#### **QUALIFIED ACCOUNTANT**

The Company has employed a qualified accountant, Ms. Kwok Pui Ching, on a full time-basis. Being fellow member of the Hong Kong Institute of Certified Public Accountants, she is responsible for the financial reporting procedures of the Company and compliance with the requirements under the GEM Listing Rules.

#### **SENIOR MANAGEMENT**

Senior management is responsible for the day-to-day operations and administration function of the Company under the leadership of the Managing Director. The Board has given clear directions to management as to the matters that must be approved by the Board before decisions are made on behalf of the Company. The types of decisions to be delegated by the Board to management include implementation of the strategy and direction determined by the Board, operation of the Group's businesses, preparation of financial statements and operating budgets, and compliance with applicable laws and regulations. Management has supplied the Board and its Committees with adequate information and explanation so as to enable them to make an informed assessment of the financial and other information put before the Board and its Committees for approval. The Board and each Director have separate and independent access to senior management. These arrangements will be reviewed periodically to ensure that they remain appropriate to the needs of the Company.

#### **ACCOUNTABILITY AND INTERNAL AUDIT**

The Company's accounts are prepared in accordance with the GEM Listing Rules, Companies Ordinance and also the accounting principles and practices generally accepted in Hong Kong. Appropriate accounting policies are selected and applied consistently; judgments and estimates made are prudent and reasonable. The Directors endeavour to ensure a balanced and understandable assessment of the Company's position and prospects in financial reporting.

## Corporate Governance

The Company maintains a comprehensive and effective internal control system on income and capital and revenue expenditures. It also makes sure that the Company's assets are well protected and there is no misappropriation of assets; that authorisation by appropriate level of management has been obtained and documented for every aspect of operations; that proper accounting records are maintained and financial information are reliable. Annual budgets are prepared and are subject to management's approval before being adopted. Results of operations against budgets are reported monthly to the Executive Directors, so as to maintain an effective internal control system.

### ACCOUNTABILITY AND AUDIT

#### Financial reporting

The Directors are responsible for overseeing the preparation of the annual accounts which give a true and fair view of the Group's state of affairs of the results and cash flow for the year. In preparing the accounts for the year ended 31st December, 2005, the Directors have:

- approved adoption of all HKFRSs which are generally adopted in Hong Kong;
- selected suitable accounting policies and applied them consistently; and
- made judgments and estimates that are prudent and reasonable; and ensured the accounts are prepared on the going concern basis.

The company recognises that high quality corporate reporting is important in reinforcing the trustworthy relationship with the Company's stakeholders and aims at presenting a balanced, clear and comprehensible assessment of the Company's performance, position and prospects in all corporate communications. The annual, interim and quarterly results of the Company are announced in a timely manner in compliance with the GEM Listing Rules.

A statement by the auditors about their reporting responsibilities is included in the Report of the Auditors on page 34.

### INTERNAL CONTROL

Internal control systems have been designed to allow the Directors to monitor the Group's overall financial position, safeguard its assets against loss and misappropriation, to provide reasonable assurance against fraud and errors, and to manage the risk in failing to achieve the Group's objectives.

There is a well defined specific limit of authority governing activities of the Directors and executives. Budgets are prepared and are subject to Directors' approval before being adopted. Directors monitor the business activities closely and review monthly financial results of operations against budgets. The Company from time to time updates and improves the internal controls.



The Directors acknowledge that it is their responsibility to maintain effective risk management and internal control systems and to review them on a regular basis. The Directors manage risks by strategic planning, appointment of appropriately qualified and experienced personnel at senior management position, monitor the Company performance regularly, maintaining effective control over capital expenditure and investments.

The Directors conducted a review covering all material controls, including financial, operational and compliance controls and risk management functions of the Company for the fiscal year ended 31st December, 2005; and were satisfied that an effective and adequate internal control system had been in operation. The Directors came to such conclusion based on their clearly set company policies and procedures, specific limits of authority, budgetary controls and regular monitoring of performance.

The Directors confirm that there have been no major changes in the nature and extent of significant risks faced by the Company from the previous financial year, and the Company has the ability to respond to any such changes in its business and the external environment. Furthermore, there were no significant internal control problems encountered during the year. The Directors closely monitor the Company's system of internal control, and receive further assurance from the Audit Committee that the internal audit function has been functioning effectively. The Company has complied with the code provisions set out in the Code on Corporate Governance Practices in respect of maintaining an effective internal control system.

#### **AUDITORS' REMUNERATION**

CCIF CPA Limited have been re-appointed as the Company's external auditor by shareholders at the 2004 AGM until the conclusion of the next AGM. They are primarily responsible for providing audit services in connection with the annual consolidated financial statements.

During the year, the total remuneration in respect of statutory audit services provided by the external auditors amounted to HK\$0.43 million. No fees were paid to the external auditors for non-audit services during the year.

#### **DIRECTORS' SECURITIES TRANSACTIONS**

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Specific enquiry has been made to all Directors who have confirmed that they have complied with the required standard regarding Directors' securities transactions throughout the year ended 31st December, 2005.

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

As at 31st December, 2005, 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

## Corporate Governance

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 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	4,466,667 domestic shares	8.33%	5.83%
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 who is 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 4,466,667 Shares owned by Mr. Tang Liu Jun.

Saved as disclosed above, as at 31st December, 2005, 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.

## OTHER PERSONS

So far as was known to any Director or Chief Executive of the Company, as at 31st December, 2005, 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

Names of Shareholders	Capacity	No. and class of securities	Approximate percentage of shareholding in the same class of securities	Approximate percentage of shareholding in the total registered share capital
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 31st December, 2005, 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.

## COMMUNICATION WITH SHAREHOLDERS

The Company recognizes the importance of shareholder feedback and the need for ongoing communication with its stakeholders, including the general public, investors, and the institutional and individual Shareholders. The Company has disclosed all necessary information to the shareholders and investors in compliance with the GEM Listing Rules and published annual, interim and quarterly reports which contained detailed information about the Company. Inquiries by shareholders are directed and dealt with by senior management of the Company.

# Report of the Board of Directors

The Directors submit their report together with the audited financial statements of one Company for the year ended 31st December, 2005.

## **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 15 to the financial statements.

The results and the state of affairs of the Company for the year ended 31st December, 2005 are set out on pages 34 to 66 of the annual report.

## **MAJOR CUSTOMERS AND SUPPLIERS**

The Company's sales to the five largest customers accounted for less than 53.0% of the Company's turnover during the financial year. The Company's sales to the largest customer accounted for 19.76% 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 58.66% of the total purchases. The Company's purchases attributable to the largest supplier accounted for 18.77% 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, 2005 and the state of the Company's affairs as at the date are set out in the financial statements on pages 35 to 39.

## **DIVIDENDS**

The Directors do not recommend the payment of any dividend 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 16 to the financial statements.

**SHARE CAPITAL**

Details of the share capital during the year are set out in note 27 the financial statement.

**FIXED ASSETS**

Details of the movements in fixed assets of the Company are set out in note 16 to the financial statements.

**RESERVES**

Details of movements in reserves of the Company during the year are set out in note 28 on the financial statements.

**DISTRIBUTABLE RESERVES**

At 31st December, 2005, the Company's reserves available for distribution as dividends, calculated in accordance with the relevant rules and regulations, amounted to RMB23.31 million.

**FIVE YEAR FINANCIAL SUMMARY**

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 66.

**DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS**

Save as disclosed in note 30 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.

## Report of the Board of Directors

### 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

#### 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

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.

All existing Directors (including executive, non-executive and independent non-executive Directors) are appointed for a term of three years, and are subject to election for appointment by shareholders at the general meeting by end of the three-year period.

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.

## BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Brief biographical details of directors, supervisors and senior management are set out on pages 11 to 14.

## DIRECTORS' AND SUPERVISORS' EMOLUMENTS

Details of such Directors and supervisors' emoluments for the year are set out in note 13 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 31st December, 2005 are disclosed in note 30 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 29th March, 2005, Zhejiang Prospect New Synthetic Fibre Company Limited\* (浙江展望新合織有限公司) would provide electricity to the Company from the effective date of agreement until 31st December, 2007. 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. 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, 2005 were RMB4.63 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\* (浙江利源化纖有限公司), whereas Zhejiang Liyuan Chemical Fibre Limited\* (浙江利源化纖有限公司) holds 70% of the equity interests of Zhejiang Prospect New Synthetic Fibre Company Limited\* (浙江展望新合織有限公司). 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. Feng Yun Lin, one of the Supervisors, promoters and management shareholders of the Company have a direct equity interest of 14.29%, 9.52% and 9.52% respectively in Zhejiang Liyuan Chemical Fibre Limited (浙江利源化纖有限公司). Accordingly, the agreement constitutes a continuing connected transaction under Chapter 20 of the GEM Listing Rules.

\* for identification purpose only

## Report of the Board of Directors

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 six months ended 30th June, 2005 as disclosed in the prospectus of the Company dated 9th February, 2004, and the relevant cap for the year ended 31st December, 2005 as disclosed in the announcement of the Company dated 29th March, 2005.

The agreement had been disclosed as a continuing connected transaction in compliance with Chapter 20 of the GEM Listing Rules, and had been approved at the extraordinary general meeting held on 17th May, 2005.

### **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, 2005.

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

The Company has not purchased, sold or redeemed any of its listed securities during the financial year ended 31st December, 2005.

### **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 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 2005. The Committee has reviewed the Company's annual report, including the Company's financial statements for the year ended 31st December, 2005 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, 2005 are set out in note 26 to the financial statements.

**RETIREMENT SCHEME**

Particulars of the retirement scheme of the Company are set out in note 12 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, 2005. 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, 2005.

**CODE ON CORPORATE GOVERNANCE PRACTICES**

The Directors consider that the Company has complied with the Code on Corporate Governance Practices as set out in Appendix 15 to the GEM Listing Rules throughout the reporting period.

**POST BALANCE SHEET EVENTS**

Details of the significant post balance sheet events of the Company are set out in note 31 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 66.

**CLOSURE OF SHARE REGISTER**

The H Share register of members of the Company will be closed from 18th April, 2006 to 17th May, 2006 (both dates inclusive), during which no transfer of H Shares will be registered.

## Report of the Board of Directors

### AUDITORS

The financial statements have been audited by CCIF CPA Limited who 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

# 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 2005 and has great confidence in the future of the Company.

By Order of the Supervisory Committee

**Hong Jin Shiu**

*Chairman*

Zhejiang Province, the PRC

# Auditors' Report

**CCIF****CCIF CPA LIMITED**37/F Hennessy Centre  
500 Hennessy Road  
Causeway Bay Hong Kong**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 35 to 65 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 Hong Kong Standards on Auditing 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 judgements 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, 2005 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, 28th March, 2006**Kwok Cheuk Yuen***Practising Certificate Number P02412*

## Income Statement

Year ended 31st December, 2005

	Note	<b>2005</b> <b>RMB'000</b>	2004 <i>RMB'000</i> <i>(restated)</i>
<b>Turnover</b>	5	<b>94,759</b>	79,071
<b>Cost of sales</b>		<b>(73,942)</b>	(57,991)
<b>Gross profit</b>		<b>20,817</b>	21,080
<b>Other revenue</b>	6	<b>2,077</b>	1,966
<b>Distribution costs</b>		<b>(2,411)</b>	(1,564)
<b>Administrative expenses</b>		<b>(5,437)</b>	(4,873)
<b>Other operating expenses</b>		<b>(251)</b>	(208)
<b>Profit from operations</b>	7	<b>14,795</b>	16,401
<b>Finance costs</b>	8	<b>(2,974)</b>	(2,274)
<b>Profit before taxation</b>		<b>11,821</b>	14,127
<b>Taxation</b>	9(a)	<b>(4,223)</b>	(4,994)
<b>Profit for the year</b>		<b>7,598</b>	9,133
<b>Dividends</b>	10	—	—
<b>Earnings per share</b>			
Basic	11	<b>RMB0.10</b>	RMB0.12

The notes on pages 40 to 65 form an integral part of these financial statements

# Balance Sheet

As at 31st December, 2005

	Note	2005 RMB'000	2004 RMB'000 (restated)
<b>Non-current assets</b>			
Property, plant and equipment	16	50,372	29,945
Land use rights	17	6,578	6,718
Construction-in-progress	18	2,505	7,834
		<b>59,455</b>	44,497
<b>Current assets</b>			
Inventories	19	29,656	22,612
Trade receivables	20	28,559	23,836
Prepayments, deposits and other receivables	21	6,104	4,759
Amount due from a director	22	—	55
Cash at banks and on hand	23	54,807	55,513
		<b>119,126</b>	106,775
<b>Current liabilities</b>			
Trade and other payables	24	23,795	16,262
Amount due to a related company	25	—	253
Short-term bank loans	26	49,000	35,400
Income tax payable	9(b)	1,114	2,283
		<b>73,909</b>	54,198
<b>Net current assets</b>		<b>45,217</b>	52,577
<b>Net assets</b>		<b>104,672</b>	97,074
<b>Capital and reserves</b>			
Share capital	27	76,600	76,600
Reserves	28	28,072	20,474
		<b>104,672</b>	97,074

Approved and authorised for issue by the board of directors on 28th March, 2006.

On behalf of the board

**Mr. Tang Li Min**  
Director

**Mr. Hong Guo Ding**  
Director

The notes on pages 40 to 65 form an integral part of these financial statements

## Statement of Changes in Equity

Year ended 31st December, 2005

	Share Capital	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	RMB'000
<b>1st January, 2004</b>							
As previously reported	53,600	—	1,201	600	3,729	9,294	68,424
Prior year adjustments arising from changes in accounting policies in respect of:							
— Decrease in revaluation reserve	—	—	—	—	(3,729)	—	(3,729)
As restated	53,600	—	1,201	600	—	9,294	64,695
Net profit for the year (as restated)	—	—	—	—	—	9,133	9,133
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 (as restated)	76,600	246	2,188	1,161	—	16,879	97,074
<b>At 1st January, 2005</b>							
As previously reported	76,600	246	2,188	1,161	3,729	16,710	100,634
Prior year adjustments arising from changes in accounting policies in respect of:							
— Decrease in revaluation reserve	—	—	—	—	(3,729)	—	(3,729)
— Decrease in depreciation	—	—	—	—	—	165	165
— Decrease in amortisation	—	—	—	—	—	4	4
At restated	76,600	246	2,188	1,161	—	16,879	97,074
Net profit for the year	—	—	—	—	—	7,598	7,598
Transfer	—	—	389	779	—	(1,168)	—
At 31st December, 2005	76,600	246	2,577	1,904	—	23,309	104,672

The notes on pages 40 to 65 form an integral part of these financial statements

# Cash Flow Statement

Year ended 31st December, 2004

	2005 <i>RMB'000</i>	2004 <i>RMB'000</i> (restated)
<b>Cash flows from operating activities</b>		
Profit from ordinary activities before taxation	11,821	14,127
Adjustments for:		
Depreciation of property, plant and equipment	2,933	1,860
Amortisation of land use rights	140	139
Interest income	(924)	(420)
Finance costs	2,974	2,274
Loss on disposal of property, plant and equipment	85	40
Impairment of trade and other receivables	189	468
<b>Operating profit before changes in working capital</b>	<b>17,218</b>	18,488
Increase in inventories	(7,044)	(7,478)
Increase in trade and other receivables	(6,257)	(9)
Increase in trade and other payables	7,533	3,678
<b>Cash generated from operations</b>	<b>11,450</b>	14,679
PRC enterprise income tax paid	(5,392)	(4,621)
<b>Net cash inflow from operating activities</b>	<b>6,058</b>	10,058
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(5,203)	(3,663)
Purchase of construction-in-progress	(13,085)	(15,302)
Proceeds from disposal of property, plant and equipment	172	209
Interest received	924	420
<b>Net cash outflow from investing activities</b>	<b>(17,192)</b>	(18,336)
<b>Cash flows from financing activities</b>		
Proceeds from injection of capital	—	23,246
Decrease in amount due from a director	55	(55)
(Decrease)/increase in amounts due to a related company	(253)	29
Proceeds from new short-term bank loans	93,000	60,400
Repayment of short-term bank loans	(79,400)	(60,400)
Interest paid	(2,974)	(2,274)



## Cash Flow Statement

Year ended 31st December, 2004

	<b>2005</b> <b>RMB'000</b>	2004 <i>RMB'000</i> <i>(restated)</i>
<b>Net cash inflow from financing activities</b>	<b>10,428</b>	20,946
<b>(Decrease)/increase in cash and cash equivalents</b>	<b>(706)</b>	12,668
<b>Cash and cash equivalents at beginning of year</b>	<b>55,513</b>	42,845
<b>Cash and cash equivalents at end of year</b>	<b>54,807</b>	55,513
<b>Analysis of cash and cash equivalents</b>		
Cash at banks and on hand	<b>54,807</b>	55,513

The notes on pages 40 to 65 form an integral part of these financial statements

# Notes to the Financial Statements

31st December, 2005

## 1. CORPORATE INFORMATION

### (a) General

The Company was domiciled and incorporated in the People's Republic of China ("the PRC") on 7th June 1995 as a limited liability company. Its shares have been listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited since 18th February 2004.

### (b) Principal Activities

The Company is principally engaged in the manufacture and sale of universal joints for automobiles in the PRC.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of preparation

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") which includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants and accounting principles generally accepted in Hong Kong. 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 and the disclosure requirements of the Hong Kong Companies Ordinance. A summary of the significant accounting policies adopted by the Company is set out below.

The consolidated financial statements of the company have been prepared in accordance with HKFRS.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (a) Basis of preparation (continued)

The adoption of new/revised HKFRS:

In 2005, the company adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of financial statements
HKAS 2	Inventories
HKAS 7	Cash flow statements
HKAS 8	Accounting policies, changes in accounting estimates and errors
HKAS 10	Events after the balance sheet date
HKAS 12	Income taxes
HKAS 14	Segment reporting
HKAS 16	Property, plant and equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee benefits
HKAS 21	The effects of changes in foreign exchange rates
HKAS 24	Related party disclosures
HKAS 32	Financial instruments: Disclosure and presentation
HKAS 33	Earnings per share
HKAS 36	Impairment of assets
HKAS 37	Provisions, contingent liabilities and contingent assets
HKAS 39	Financial instruments: Recognition and measurement

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 24, 33, 36 and 37 did not result in substantial changes to the company accounting policies. In summary:

- HKASs 1, 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 33, 36 and 37 had no material effect on the company policies
- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of HKAS 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities.

## Notes to the Financial Statements

31st December, 2005

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)****(a) Basis of preparation (continued)**

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards, wherever applicable. All standards adopted by the company require retrospective application other than:

- HKAS 16 — the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted for at fair value prospectively only to future transactions.
- HKAS 21 — prospective accounting for goodwill and fair value adjustments as part of foreign operations.

The adoption of revised HKAS 17 resulted in:

	<b>Property revaluation reserve</b>	<b>Retained profits</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<hr/>			
Effect on periods prior to 2004			
Decrease in revaluation reserve	(3,729)	—	(3,729)
<hr/>			
Decrease in reserves	(3,729)	—	(3,729)
<hr/>			
Effect on 2004			
Decrease in depreciation	—	165	165
Decrease in amortisation	—	4	4
<hr/>			
Increase in reserves for the year ended			
31st December, 2004	—	169	169
<hr/>			
(Decrease)/increase as at 31st December, 2004	(3,729)	169	(3,560)
<hr/>			

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (a) Basis of preparation (continued)

The following new Standards or Interpretations have been issued but not yet effective for the current accounting periods. The company has already commenced an assessment of the impact of these new HKFRS but is still not in a position to state whether these new HKFRS would have a significant impact on its results of operations and financial position.

		<b>Effective for accounting period beginning on or after</b>
HKAS 1 (Amendment)	Capital disclosure	1st January, 2007
HKAS 19 (Amendment)	Actuarial gains or losses, group plans and disclosures	1st January, 2006
HKAS 21 (Amendment)	New investment in a foreign operation	1st January, 2006
HKAS 39 (Amendment)	The fair value option	1st January, 2006
HKFRS 7	Financial instruments: disclosures	1st January, 2007
HK (IFRIC)-INT 4	Determining whether an arrangement contains a lease	1st January, 2006

### (b) Property, plant and equipment

Property, plant and equipment other than other properties are stated at historical cost less accumulated depreciation and impairment losses.

Other properties are interests in buildings. The buildings component of owner-occupied properties are stated in the balance sheet at historical cost.

Subsequent expenditure relating to an asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Property, plant and equipment are depreciated at rates sufficient to write off their cost less their estimated residual value, if any, over their estimated useful lives on a straight-line basis. The estimated useful lives are as follows:

Buildings	20–30 years
Machinery and equipment	12 years
Office equipment and furniture	2–5 years
Motor vehicles	5 years

## Notes to the Financial Statements

31st December, 2005

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (c) Land use rights

Land use rights are stated at cost less amortisation and any identified impairment loss. The cost of land use rights is amortised over the period of the rights using the straight line method.

#### (d) Impairment of assets

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

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

##### (i) *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest company of assets that generates cash inflows independently (i.e. a cash-generating unit).

##### (ii) *Reversals of impairment losses*

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

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

#### (e) Construction-in-progress

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

#### (f) Inventories

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (f) Inventories (continued)

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

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

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

### (g) Deferred taxation

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

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

### (h) Provisions and contingent liabilities

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

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

## Notes to the Financial Statements

31st December, 2005

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (i) Research and development costs

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

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

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

#### (j) Borrowing costs

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

#### (k) Revenue recognition

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

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

#### (l) Translation of foreign currencies

##### *Functional and presentation currency*

Items included in the financial statements are measured using the currency of the primary economic environment in which the company operates ("the functional currency"). The financial statements are presented in Renminbi, which is the company's functional and presentation currency.



## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (l) Translation of foreign currencies (continued)

#### *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation difference on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

### (m) Retirement benefit costs

The Company incorporated in the PRC and participates in defined contribution retirement plans managed by the local municipal government in the locations in which they operate. The relevant authorities of the local municipal government in the PRC undertake the retirement obligations of the Company's employee. The Company has no obligation for payment of retirement benefits beyond the annual contribution. The contribution payable is charged as an expense to the income statement as and when incurred.

### (n) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 2(d)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 2(d)).

### (o) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

### (p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on 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.

## Notes to the Financial Statements

31st December, 2005

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (q) 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.

#### (r) 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.

### 3. FINANCIAL RISK MANAGEMENT

#### Financial risk factors

The Company's activities expose it to a variety of financial risks: foreign exchange risk, credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the company's financial performance.

#### (a) Foreign currency risk

The Company is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily Renminbi and United State Dollars.

#### (b) Credit risk

The Company's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

### 3. FINANCIAL RISK MANAGEMENT (continued)

#### Financial risk factors (continued)

(b) *Credit risk (continued)*

In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are due within 120 days from the date of billing. Debtors with overdue balances, which will be reviewed on a case-by-case basis, are requested to settle all outstanding balances before any further credit is granted. Normally, the Company does not obtain collateral from customers.

(c) *Liquidity risk*

Individual operating entities within the Company are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the board of directors when the borrowings exceed certain predetermined levels of authority. The Company's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realizable marketable securities and adequate committed lines of funding from major financial institutions, if any, to meet its liquidity requirements in the short and longer term.

### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) **Useful lives of property, plant and equipment**

The Company's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

## Notes to the Financial Statements

31st December, 2005

**4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)****(b) Estimated provision for impairment of trade and other receivables**

The Company makes provision for doubtful debts based on an assessment of the recoverability of trade and other receivables. Provision are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of receivables and doubtful debt expenses in the period in which such estimate has been changed.

**(c) Estimated net realisable value of inventories**

The Company makes provision for slow moving or obsolete inventories based on an assessment of the net realisable value of the inventories. Provision are applied to the inventories where events or changes in circumstances indicates that the net realisable value is less than cost. The determination of net realisable value requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of the inventories and provision for inventory expenses in the period in which such estimate has been changed.

**5. 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.

**6. OTHER REVENUE**

	<b>2005</b>	2004
	<b>RMB'000</b>	RMB'000
Sales of work-in-progress and scrap materials	<b>679</b>	1,390
Bank interest income	<b>924</b>	420
Sundry income	<b>474</b>	156
	<b>2,077</b>	1,966

31st December, 2005

**7. PROFIT FROM OPERATIONS**

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

	<b>2005</b>	2004
	<b>RMB'000</b>	<i>RMB'000</i>
		<i>(restated)</i>
Cost of inventories sold	<b>73,942</b>	57,991
Staff costs	<b>7,160</b>	5,969
Staff welfare costs	<b>1,032</b>	909
Directors' emoluments	<b>210</b>	210
Research and development costs	<b>191</b>	174
Depreciation of property, plant and equipment	<b>2,933</b>	1,860
Amortisation of land use rights	<b>140</b>	139
Auditors' remuneration	<b>547</b>	671
Impairment of trade and other receivables		
— Trade receivables	<b>(109)</b>	378
— Other receivables	<b>298</b>	90
Loss on disposal of property, plant and equipment	<b>85</b>	40

**8. FINANCE COSTS**

	<b>2005</b>	2004
	<b>RMB'000</b>	<i>RMB'000</i>
Interest expense on bank loans, repayable within one year	<b>2,974</b>	2,274

**9. TAXATION**

(a) Taxation in the income statements represents:

	<b>2005</b>	2004
	<b>RMB'000</b>	<i>RMB'000</i>
Provision for PRC enterprise income tax	<b>4,223</b>	4,994

The provision for PRC enterprise income tax is calculated at a standard rate of 33% of the estimated assessable income for the year ended 31st December, 2005 as determined in accordance with the relevant income tax rules and regulations of the PRC.

## Notes to the Financial Statements

31st December, 2005

**9. TAXATION (continued)**

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

	<b>2005</b>	2004
	<b>RMB'000</b>	<i>RMB'000</i>
		<i>(restated)</i>
Profit before taxation	<b>11,821</b>	14,127
Calculated at a taxation rate of 33%	<b>3,901</b>	4,662
Expenses not deductible for taxation purposes	<b>322</b>	332
Taxation charge	<b>4,223</b>	4,994

(b) Taxation in the balance sheets represents:

	<b>2005</b>	2004
	<b>RMB'000</b>	<i>RMB'000</i>
Provision for PRC enterprise income tax	<b>4,223</b>	4,994
Balance of PRC enterprise income tax provision relating to prior years	<b>2,283</b>	1,910
Payment of PRC enterprise income tax	<b>(5,392)</b>	(4,621)
	<b>1,114</b>	2,283

(c) There were no material unprovided deferred taxation for the years ended 31st December, 2004 and 2005.

**10. DIVIDENDS**

The Company resolved not to declare any dividend in respect of the year ended 31st December, 2005 (2004: Nil).

**11. EARNINGS PER SHARE**

The basic earnings per share is calculated based on the profit attributable to shareholders of RMB7,598,000 (2004 (restated): RMB9,133,000) and the 76,600,000 shares issued (2004: the weighted average number of 73,583,607 shares issued during the relevant 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, 2004 and 2005.

31st December, 2005

**12. RETIREMENT BENEFIT COSTS**

The Company contributes on a monthly basis to defined contribution retirement benefit plan organised by relevant municipal government in the PRC. The municipal government undertakes to assume the retirement benefit obligations of all existing and future retired employees payable under the plan. Contributions to the plan are expensed as incurred. The assets of the plan are held separately from those of the Company in independently administered funds managed by the PRC government. The Company's contributions for each of the two years ended 31st December, 2004 and 31st December, 2005 were approximately RMB278,000 and RMB353,000 respectively.

**13. DIRECTORS' AND SUPERVISORS' EMOLUMENTS**

The details of emoluments (excluding share option benefit) of every Director and Supervisor are shown below:

**Year ended 31st December, 2005**

	Fees <i>RMB'000</i>	Basic salaries allowances and other benefits <i>RMB'000</i>	Pension Scheme contribution <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Executive directors</b>				
Tang Li Min	—	—	—	—
Hong Guo Ding	—	—	—	—
Fei Guo Yang	—	50	1	51
Hong Chun Qiang	—	49	1	50
<b>Non-executive directors</b>				
Tang Cheng Fang	—	—	—	—
Li Zhang Rui	—	49	—	49
<b>Independent non-executive directors</b>				
Wang He Rong	—	30	—	30
Lu Guo Qing	—	30	—	30
<b>Supervisors</b>				
Hong Jin Shiu	—	48	1	49
Feng Yun Lin	—	—	—	—
Chen Jin Long	—	30	1	31
<b>Independent supervisors</b>				
Wang Zhong	—	30	—	30
Wang Ye Gang	—	30	—	30
	—	346	4	350

## Notes to the Financial Statements

31st December, 2005

**13. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)**

Year ended 31st December, 2004

	Fees <i>RMB'000</i>	Basic salaries allowances and other benefits <i>RMB'000</i>	Pension Scheme contribution <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Executive directors</b>				
Tang Li Min	—	—	—	—
Hong Guo Ding	—	—	—	—
Fei Guo Yang	—	50	1	51
Hong Chun Qiang ( <i>Note 1</i> )	—	49	1	50
<b>Non-executive directors</b>				
Tang Cheng Fang	—	—	—	—
Li Zhang Rui	—	49	—	49
<b>Independent non-executive directors</b>				
Wang He Rong	—	30	—	30
Lu Guo Qing	—	30	—	30
<b>Supervisors</b>				
Hong Jin Shiu ( <i>Note 2</i> )	—	7	1	8
Feng Yun Lin	—	—	—	—
Chen Jin Long	—	30	1	31
<b>Independent supervisors</b>				
Wang Zhong	—	30	—	30
Wang Ye Gang	—	30	—	30
	—	305	4	309

Note:

1. Mr. Hong Chung Qiang has been re-designated from supervisors to executive director of the company on 20th May, 2004.
2. Appointed on 20th May, 2004.



31st December, 2005

**14. INDIVIDUALS WITH HIGHEST EMOLUMENTS**

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

	<b>2005</b> <i>RMB'000</i>	2004 <i>RMB'000</i>
Salaries and other emoluments	<b>244</b>	212
Pension scheme contributions	<b>5</b>	3
	<b>249</b>	215
Number of directors	<b>3</b>	3
Number of employees	<b>2</b>	2
	<b>5</b>	5

During the year ended 31st December, 2005, 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.

**15. 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>2005</b> <i>RMB'000</i>	2004 <i>RMB'000</i>
<b>Revenue from external customers</b>		
— PRC		
Domestic sales	<b>25,916</b>	23,537
Import and export corporations	<b>39,168</b>	34,590
— Overseas	<b>29,675</b>	20,944
<b>Total revenue from external customers</b>	<b>94,759</b>	79,071

At 31st December, 2004 and 31st December, 2005, all the Company's assets were located in the PRC.

## Notes to the Financial Statements

31st December, 2005

## 16. PROPERTY, PLANT AND EQUIPMENT

	Buildings <i>RMB'000</i>	Machinery and equipment <i>RMB'000</i>	Office equipment and furniture <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Cost or valuation</b>					
At 1st January, 2004 (restated)	13,971	11,234	542	435	26,182
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 (as restated)	16,175	19,642	725	579	37,121
<b>Accumulated depreciation and impairment losses</b>					
At 1st January, 2004 (as restated)	1,305	3,720	194	118	5,337
Charge for the year	470	1,136	134	120	1,860
Written back on disposal	—	(2)	—	(19)	(21)
At 31st December, 2004 (as restated)	1,775	4,854	328	219	7,176
<b>Net book value</b>					
At 31st December, 2004 (as restated)	14,400	14,788	397	360	29,945
<b>Cost or valuation</b>					
At 1st January, 2005 (restated)	16,175	19,642	725	579	37,121
Additions	375	3,621	386	821	5,203
Transfer from construction-in-progress	9,041	9,373	—	—	18,414
Disposals	—	(34)	—	(233)	(267)
At 31st December, 2005	25,591	32,602	1,111	1,167	60,471
<b>Accumulated depreciation and impairment losses</b>					
At 1st January, 2005 (as restated)	1,775	4,854	328	219	7,176
Charge for the year	532	2,100	175	126	2,933
Written back on disposal	—	(9)	—	(1)	(10)
At 31st December, 2005	2,307	6,945	503	344	10,099
<b>Net book value</b>					
At 31st December, 2005	23,284	25,657	608	823	50,372

At 31st December, 2005, the Company's buildings with net value of approximately RMB12,051,000 (2004: RMB14,400,000) were pledged to secure general banking facilities granted to the Company (note 26).

31st December, 2005

**17. LAND USE RIGHTS**

	<b>2005</b>	2004
	<b>RMB'000</b>	<i>RMB'000</i>
		<i>(restated)</i>
<b>Cost</b>		
At 1st January, and 31st December,	<b>6,961</b>	6,961
<b>Accumulated amortisation</b>		
At 1st January,	<b>243</b>	104
Amortisation for the year	<b>140</b>	139
At 31st December,	<b>383</b>	243
<b>Net carrying amount</b>		
At 31st December,	<b>6,578</b>	6,718
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	<b>6,578</b>	6,718

**18. CONSTRUCTION-IN-PROGRESS**

	<b>2005</b>	2004
	<b>RMB'000</b>	<i>RMB'000</i>
At 1st January,	<b>7,834</b>	78
Additions	<b>13,085</b>	15,302
Transfer to fixed assets	<b>(18,414)</b>	(7,546)
At 31st December,	<b>2,505</b>	7,834

**19. INVENTORIES**

	<b>2005</b>	2004
	<b>RMB'000</b>	<i>RMB'000</i>
Raw materials	<b>7,069</b>	6,578
Work-in-progress	<b>15,325</b>	10,210
Finished goods	<b>7,262</b>	5,824
	<b>29,656</b>	22,612

At 31st December, 2004 and 31st December, 2005, no inventories were carried at net realisable value.

## Notes to the Financial Statements

31st December, 2005

**20. TRADE RECEIVABLES**

The aging analysis of trade receivables is as follows:

	<b>2005</b>	2004
	<b>RMB'000</b>	<i>RMB'000</i>
1–30 days	<b>9,824</b>	7,632
31–60 days	<b>6,223</b>	6,110
61–90 days	<b>4,891</b>	4,789
91–180 days	<b>4,165</b>	2,769
More than 180 days	<b>6,847</b>	6,036
	<b>31,950</b>	27,336
Less: Impairment losses	<b>(3,391)</b>	(3,500)
	<b>28,559</b>	23,836

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.

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

	<b>2005</b>	2004
	<b>RMB'000</b>	<i>RMB'000</i>
Bill receivables	<b>2,558</b>	2,138
Prepayments and other receivables	<b>1,069</b>	2,220
Trade deposits paid to suppliers	<b>2,477</b>	401
	<b>6,104</b>	4,759

**22. AMOUNT DUE FROM A DIRECTOR**

			<b>Maximum outstanding balances during the year</b>	
	<b>2005</b>	2004	<b>2005</b>	2004
	<b>RMB'000</b>	<i>RMB'000</i>	<b>RMB'000</b>	<i>RMB'000</i>
Fei Guo Yang	—	55	—	55

The amount due is unsecured, non-interest bearing and has no fixed terms of repayment. At 31st December, 2004 and 31st December, 2005, there were no outstanding overdue interests and no provision has been made for the amount due.

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**23. CASH AT BANKS AND ON HAND**

	<b>2005</b>	2004
	<b>RMB'000</b>	<i>RMB'000</i>
Cash at banks	<b>53,523</b>	54,355
Cash on hand	<b>1,284</b>	1,158
	<b>54,807</b>	55,513

**24. TRADE AND OTHER PAYABLES**

	<b>2005</b>	2004
	<b>RMB'000</b>	<i>RMB'000</i>
Trade payables	<b>14,206</b>	8,869
Bills payable	—	1,200
Other payables	<b>8,364</b>	5,391
Value added tax, business tax and other taxes payable	<b>268</b>	178
Dividend payable	<b>37</b>	37
Accruals	<b>617</b>	524
Trade deposits received from customers	<b>303</b>	63
	<b>23,795</b>	16,262

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>2005</b>	2004
	<b>RMB'000</b>	<i>RMB'000</i>
Due within 3 months	<b>12,315</b>	8,359
Due after 3 months but within 6 months	<b>1,684</b>	376
Due after 6 months but within 12 months	<b>160</b>	43
Due after 12 months	<b>47</b>	91
	<b>14,206</b>	8,869

## Notes to the Financial Statements

31st December, 2005

**25. AMOUNT DUE TO A RELATED COMPANY**

The amount is unsecured, interest free, repayable on demand and has been fully settled on 27th January, 2005.

**26. SHORT-TERM BANK LOANS**

The short-term bank loans are secured by the land use rights and buildings of the Company and the guarantees provided by the parties set out in note 30(c) (2004: the short-term bank loans were secured by the land use rights and buildings of the Company), interest bearing at a range of 5.580% to 7.366% per annum and repayable within one year.

**27. SHARE CAPITAL**

	2005		2004	
	No. of shares	RMB'000	No. of shares	RMB'000
Issued and fully paid:				
At 1st January, (note a)	<b>76,600,000</b>	<b>76,600</b>	53,600,000	53,600
Issue of shares upon listing (note b)	—	—	23,000,000	23,000
At 31st December,	<b>76,600,000</b>	<b>76,600</b>	76,600,000	76,600

- (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.

31st December, 2005

**28. RESERVES**

	Share premium <i>RMB'000</i>	Statutory surplus <i>RMB'000</i>	Statutory public welfare fund <i>RMB'000</i>	Revaluation reserve <i>RMB'000</i>	Retained profit <i>RMB'000</i>	Total <i>RMB'000</i>
<b>1st January, 2004</b>						
As previously reported	—	1,201	600	3,729	9,294	14,824
Prior year adjustments arising from changes in accounting policies in respect of:						
— Decrease in revaluation reserve	—	—	—	(3,729)	—	(3,729)
As restated	—	1,201	600	—	9,294	11,095
Net profit for the year (as restated)	—	—	—	—	9,133	9,133
Transfer	—	987	561	—	(1,548)	—
Issue of shares upon listing	9,520	—	—	—	—	9,520
Issuing expenses	(9,274)	—	—	—	—	(9,274)
At 31st December, 2004 (as restated)	246	2,188	1,161	—	16,879	20,474
<b>At 1st January, 2005</b>						
As previously reported	246	2,188	1,161	3,729	16,710	24,034
Prior year adjustments arising from changes in accounting policies in respect of:						
— Decrease in revaluation reserve	—	—	—	(3,729)	—	(3,729)
— Decrease in depreciation	—	—	—	—	165	165
— Decrease in amortisation	—	—	—	—	4	4
At restated	246	2,188	1,161	—	16,879	20,474
Net profit for the year	—	—	—	—	7,598	7,598
Transfer	—	389	779	—	(1,168)	—
At 31st December, 2005	246	2,577	1,940	—	23,309	28,072

**(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.

## Notes to the Financial Statements

31st December, 2005

### 28. RESERVES (continued)

#### (b) Statutory public welfare fund

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

#### (c) Distributable reserves

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

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

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

The distributable reserves of the Company as at 31st December, 2004 and 31st December, 2005 approximately amounted to RMB16,879,000 (restated) and RMB23,309,000 respectively.



31st December, 2005

**29. CAPITAL COMMITMENTS**

The Company's capital commitments outstanding at 31st December, 2004 and 31st December, 2005 and not provided for in the financial statements are as follows:

	<b>2005</b>	2004
	<b>RMB'000</b>	RMB'000
Contracted but not provided for	<b>6,544</b>	6,329

**30. RELATED PARTY TRANSACTIONS**

During the year, the Company had the following significant transactions with related parties:

(a) Related party transactions included in the income statement:

	<b>2005</b>	2004
	<b>RMB'000</b>	RMB'000
Zhejiang Prospect New Synthetic Fibre Company Limited ("New Synthetic")*		
Electricity fee paid to related company	<b>4,631</b>	3,414

During the two years ended 31st December, 2005, electricity fee paid to related company was conducted in the normal course of business as the Company has to share the electricity meter with related company and prices were charged by the related company based on actual electricity consumed by the Company at the average unit rate charged by the power company. The outstanding amount as at the year ended 31st December, 2004 was settled at the succeeding month.

\* Mr. Tang Li Min ("Mr. Tang"), a director, has majority interest in New Synthetic.

(b) Related party transactions included in the balance sheet:

	<b>2005</b>	2004
	<b>RMB'000</b>	RMB'000
Payables to New Synthetic (Note 25)	—	253

## Notes to the Financial Statements

31st December, 2005

**30. RELATED PARTY TRANSACTIONS (continued)**

- (c) Mr. Tang, Zhejiang Prospect Industrial Group Limited ("Zhejiang Industrial"), Guang Yu Group Co, Limited ("Guang Yu") and Zhejiang Yongli Industry Group Co., Ltd. ("Zhejiang Yongli") have given guarantee in favour of banks to secure bank loans of the Company amounting to RMB25,000,000.

Zhejiang Industrial is a company incorporated in the PRC in which Mr. Tang is the majority shareholder.

Guang Yu and Zhejiang Yongli are the companies incorporated in China. Zhejiang Industrial has given guarantee to Guang Yu and Zhejiang Yongli for obtaining their own bank loans. In return, Guang Yu and Zhejiang Yongli provide guarantees to the Company.

- (d) Compensation of key management personnel of the Company

	<b>2005</b>	2004
	<i>RMB'000</i>	<i>RMB'000</i>
Short-term employee benefits	<b>50</b>	50
Post-employment benefits	<b>1</b>	1
	<b>51</b>	51

Note: Further details of post-employment benefit and director's emoluments are included in note 13 to the financial statements.

**31. SIGNIFICANT SUBSEQUENT EVENTS**

The following significant events took place subsequent to 31st December, 2005:

On 10th and 13th March, 2006, the Company entered into agreements with Zhejiang Shaoxing County Rural Cooperate Bank, Yangxunqiao Branch and Industrial Bank Co., Ltd., Hangzhou Branch for short term loans amounted to RMB5,000,000 and RMB10,000,000 respectively. The RMB5,000,000 loan was secured by the Company's land use rights and buildings. The RMB10,000,000 loan was secured by the guarantees provided by Mr. Tang, Guang Yu and Zhejiang Industrial. Such loans were interest bearing at 7.3% and 5.58% per annum respectively and repayable within one year.

**32. ULTIMATE CONTROLLING PARTY**

The directors regard Mr. Tang and his family as the ultimate controlling party, through their direct shareholding in the Company.

31st December, 2005

**33. COMPARATIVE FIGURES**

Certain items in the financial statements were reclassified as a result of the changes in accounting policies. Accordingly, certain comparative figures have been reclassified to conform with the current year's presentation.

# Financial Summary

## RESULTS

	For the year ended 31st December,				
	2005 <i>RMB'000</i>	2004 <i>RMB'000</i> <i>(restated)</i>	2003 <i>RMB'000</i> <i>(restated)</i>	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Turnover	<b>94,759</b>	79,071	66,089	42,355	21,336
Profit for the year	<b>7,598</b>	9,133	9,180	3,136	1,149

## ASSETS AND LIABILITIES

	As at 31st December,				
	2005 <i>RMB'000</i>	2004 <i>RMB'000</i> <i>(restated)</i>	2003 <i>RMB'000</i> <i>(restated)</i>	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Total assets	<b>178,581</b>	151,272	114,813	94,863	38,895
Total liabilities	<b>(73,909)</b>	(54,198)	(50,118)	(39,348)	(35,139)
Balance of shareholders funds	<b>104,672</b>	97,074	64,695	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 2005 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 17th May, 2006 at 10:00 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, 2005;
2. To consider and approve the audited financial statements and the report of the auditors of the Company for the year ended 31st December, 2005;
3. To consider and approve the report of the supervisory committee of the Company for the year ended 31st December, 2005;
4. To consider and approve remuneration proposals for directors and supervisors of the Company for the financial year ended 31 December 2006;
5. 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;
6. 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
7. To transact any other ordinary business of the Company.

By Order of the Board

**Zhejiang Prospect Company Limited\***  
**Mr. Tang Li Min**  
*Chairman*

Zhejiang Province, the People's Republic of China  
30th March, 2006

\* 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

## Notice of Annual General Meeting

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

3. Shareholders or their proxies shall produce their identity documents when attending the meeting.
4. The register of members of the Company will be closed from Tuesday, 18th April, 2006 to Wednesday, 17th May, 2006 (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 Thursday, 13th April, 2006 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 Thursday, 27th April, 2006. 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. 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."