



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)  
(Stock Code : 8273)

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*This report, for which the directors of Zhejiang Prospect Company Limited (“the Company”) 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 for the purpose of giving information with regard to the Company. The directors of the Company, 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

### 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

## Chairman s Statement

I am pleased to present to our shareholders the annual report of Zhejiang Prospect Company Limited (the “Company”) for the year ended 31st December, 2006.

### BUSINESS REVIEW

The Company continued to experience considerable growth in 2006 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 2006 amounted to 8.69 million sets and 8.55 million sets respectively, representing an increase of 31.87% and 31.94% as compared with previous year of 6.59 million sets and 6.48 million sets.

Turnover for the year ended 31st December, 2006 amounted to RMB113.23 million, representing approximately 19.50% increase year on year compared to RMB94.76 million in 2005. Net profit after tax amounted to RMB4.06 million, a decrease of approximately 46.55% compared to RMB7.60 million in 2005.

### 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 property, plant and equipment.

#### Strengthen product research and development

The Company will run a parallel system that encompasses both in-house research and development and collaborative arrangement with external partners for the development of products. It is intended that more experienced research and development personnel will be recruited and more rigorous training and learning opportunities will be provided to the research and development staff in order to establish a strong research and development team. In addition, the Company will increase its investment in research and development equipment in order to attain better research and development capability and to create a wider spectrum of products with richer specification offerings. In addition, the Company will seek strategic partners in order to upgrade its existing products and facilitate the development of new production technologies.

## Chairman s Statement

### 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, 2007

## 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, 2006 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, 2006

##### Expansion of production capacity

- Commence feasibility studies on the production of other components and parts

Completed

##### Research and development

- Develop new specifications and types of universal joint products according to market demands
- Continue to purchase computers and product development software and refine the means of product development

New specifications and types of universal joint products developed

Purchase of computers and software as planned

##### Expansion of PRC and overseas market

- Set up overseas offices
- Participate in exhibitions of automobiles and related parts
- Promote the corporate image by advertisement, etc

In progress

Participated in trade fairs held in India, Middle East, Las Vegas, Beijing and Turkey

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
- Provide training to existing staff

Recruit 3 technical staff for research and development, two for quality control, two for sales and marketing, 46 additional workers

Training provided on an ongoing basis

## Management Discussion and Analysis

### USE OF PROCEEDS

Up to 31st December, 2006, 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, 2006 as per Prospectus</b> <i>HK\$ million</i>	<b>Actual amount used up to 31st December, 2006</b> <i>RMB million</i>
Technical renovation project for universal joint production lines		
– purchase of equipment	13.69	15.12
– construction of factories	4.00	4.28
– installation and testing of equipment	0.63	0.67
Research and development		
– purchase of computer and product development software	0.25	0.26
– purchase of equipment	0.35	0.36
– construction of testing centre	0.10	0.11
– cooperative arrangements	0.05	0.00
Marketing and promotional activities	1.00	0.94
Staff recruitment and training	0.25	0.26
Expansion of sales and distribution network	1.00	0.94
General working capital	0.19	0.20
	<hr/>	<hr/>
<b>Total</b>	<b>21.51</b>	<b>23.14</b>



## Management Discussion and Analysis

### BUSINESS OVERVIEW

The Company continued to experience considerable growth in 2006 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 2006 amounted to 8.69 million sets and 8.55 million sets respectively, representing an increase of 31.87% and 31.94% as compared with previous year of 6.59 million sets and 6.48 million sets.

Turnover for the year ended 31st December, 2006 amounted to RMB113.23 million, representing approximately 19.50% increase year on year compared to RMB94.76 million in 2005. Net profit after tax amounted to RMB4.06 million, a decrease of approximately 46.55% compared to the same in 2005. This is mainly attributable to the decrease in gross profit margin of 4.03% during the year and increase of administrative expenses by 32.79% and distribution expenses by 42.26%.

### 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 2006, 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 RMB113.23 million in 2006, represents approximately 19.50% increase year on year compared to RMB94.76 million in 2005. The increase in turnover during the year was due to increase in export sales to approximately RMB40.70 million contributed by new overseas customers, sales of approximately RMB48.47 million to the largest import and export corporation, which then sold to various overseas market; and local sales of RMB24.07 million.

### COST OF SALES AND GROSS PROFIT

Cost of sales increased to RMB92.92 million in 2006 from RMB73.94 million in 2005 or an increase of approximately 25.67%. This is more than the 19.50% increases in turnover for the same period. Gross margin of the Company's products decreases 4.03% to approximately 17.94% in 2006 from approximately 21.97% in 2005. This was mainly attributable to the decrease in sale price of motor vehicles spare parts and increase of depreciation charge by about RMB1.3 million due to major acquisition of property, plant and equipment during the year.

### OTHER REVENUE

Other operating income in 2006 amounted to RMB1.70 million, or an decrease of RMB0.38 million from RMB2.08 million in 2005. This was mainly due to decrease in sales of raw materials.

### DISTRIBUTION COSTS AND ADMINISTRATIVE EXPENSES

The Company continued to expand its sales and marketing network. As a result, distribution expenses for 2006 totaled RMB3.43 million. This represents an increase of RMB1.02 million, or approximately 42.26% from that of RMB2.41 million 2005. The increase mainly due to increase in staff costs and commission paid during the year.

In 2006, administrative expenses of the Company were approximately RMB7.22 million, representing increase of RMB1.78 million or 32.79% compared to that of RMB5.44 million in 2005. The administrative expenses including management salaries, professional fees and depreciation increased in line with the expansion of operation of the Company and increase in provision of bad debts..

### OTHER OPERATING EXPENSES AND FINANCE COSTS

Other operating expenses for the financial year of 2006 amounted to RMB0.44 million, as compared to RMB0.25 million in 2005.

In the financial year of 2006, the net finance costs of approximately RMB3.73 million, comprised interest on bank advances and other borrowings, represented approximately 3.29% of turnover in 2006 compared to 3.14% in 2005. This represented an increase of RMB0.76 million, or approximately 25.42%, as compared to approximately RMB2.97 million in 2005.

### 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.

## Management Discussion and Analysis

### 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 2006.

### SIGNIFICANT INVESTMENTS HELD

The Company has no significant investments held during the year of 2006.

### FINANCIAL RESOURCES AND LIQUIDITY

The Company continues to be in a healthy financial position with shareholders' equity amounted to RMB108.73 million as at 31st December, 2006 (2005: RMB104.67 million). Current assets amounted to RMB135.02 million as at 31st December, 2006 (2005: RMB119.13 million), of which RMB45.63 million (2005: RMB54.81 million) were cash and bank balances. As at 31st December, 2006, the Company had a short-term bank loans of about RMB49.0 million (2005: RMB49.0 million) and long term bank loan of RMB12million (2005: Nil). The short term bank loans were repayable within one year, while the long term bank loan is for a term of three years (2005: Nil).

### CONTINGENT LIABILITIES

As at 31st December, 2006, the Directors were not aware of any material contingent liabilities.

### CHARGES ON ASSETS

As at 31st December, 2006, 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(c) to the financial statements, interest bearing at a range of 6.435% to 6.732% per annum and repayable within one year.

### GEARING RATIO

The Company's gearing ratio, based on total liabilities to shareholders' equity, was 0.80 (2005: 0.71) as at 31st December, 2006.

### 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.

As at 31st December, 2006, 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's cash and cash equivalents in interest bearing deposits.

### EMPLOYEE INFORMATION

During the year, the Company had an average number of employees of 646 (2005: 600). 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.

## Management Discussion and Analysis

### 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 property, plant and equipment.

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 21.25% of the total turnover in 2006, compared to 27.35% of the total turnover in 2005. In addition, the Company sells its products to import and export corporations in the PRC, accounted for 42.80% and 41.33% of the total turnover in 2006 and 2005 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 2006, direct sales to overseas customers represented approximately 35.95% (2005: 31.32%) 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 44, 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 43, 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\* (紹興縣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 36, 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 29, 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 42, 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 41, 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 46, a senior accountant, is an independent non-executive Director. From April 1994 to January 2000, he worked for Shaoxing Hongtai Certified Public Accountants\* (紹興宏泰會計師事務所). From February 2000 onwards, he has been the chief accountant of Shaoxing Hongtai Certified Public Accountants\* (紹興宏泰會計師事務所). He completed his tertiary education in economics and management at Zhejiang China's Communist Party School Distance Learning College\* (中共浙江省委黨校函授學院). He was appointed as an independent non-executive Director in March 2003.

Mr. Lu Guo Qing (陸國慶先生), aged 42, is an independent non-executive Director. In 1986, he graduated from the Hangzhou University (杭州大學) with a bachelor's degree in law. He is an attorney of the PRC qualified to practise securities law in the PRC. From 1988 to 1998, he practised law at Zhejiang Guoda Law Firm\* (浙江國大律師事務所) (formerly known as Zhejiang Shaoxing County Law Firm\* (浙江紹興市律師事務所)) as its deputy head and later its head. He is currently a partner of Zhejiang Zhong Fa Da Law Firm\* (浙江中法大律師事務所). He was appointed as an independent non-executive Director in March 2003.

\* For identification purpose only

## Profiles of Directors, Supervisors and Senior Management

Mr. Ma Hong Ming (馬洪明先生), aged 44, 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 Shui (洪金水), aged 42, 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 48, 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 33, is a Supervisor. He joined the Company in January 1998 as head of precision workshop. From July 1992 to April 1995, he worked for Shaoxing Dongjiangqiao Agricultural Machinery Factory\* (紹興東江橋農機廠); and from June 1995 to December 1997, he worked for Shaoxing Keqiao Hardware Factory\* (紹興柯橋五金廠) as a production line supervisor. He was appointed as a supervisor of the Company in February 2000.

### INDEPENDENT SUPERVISORS

Mr. Wang Zhong (王眾先生), aged 39, 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 38, 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.

\* For identification purpose only

## Profiles of Directors, Supervisors and Senior Management

### SENIOR MANAGEMENT

Mr. Hong Jin Zhu (洪金柱先生), aged 39, 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 35, 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 41, 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.

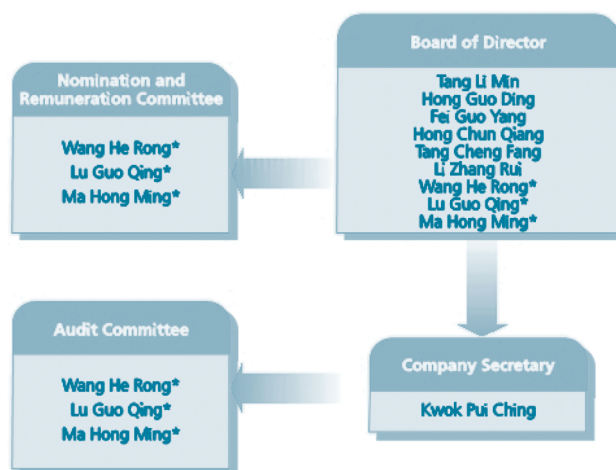
\* For identification purpose only



## Corporate Governance

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 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”) of 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.

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 2006 and were attended by all of the Directors and the average attendance rate was 100%.

## Corporate Governance

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 causal 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 to 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.

## Corporate Governance

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 2006 to review, inter alia, the Group's quarterly, half-yearly and annual 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;
- (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;

## Corporate Governance

### 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;

## Corporate Governance

- (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 2006 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%.

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;

## Corporate Governance

- (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, Ms. 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.

## Corporate Governance

### 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.

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, 2006, the Directors have:

- (a) approved adoption of all HKFRSs which are generally adopted in Hong Kong;
- (b) selected suitable accounting policies and applied them consistently; and
- (c) 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 32.

## Corporate Governance

### 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, 2006; 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 2005 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, 2006.



## Corporate Governance

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

As at 31st December, 2006, the interests and short positions of the Directors, chief executives and supervisors of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 & 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors as referred to in Rules 5.46 of the GEM Listing Rules, were as follows:

### Long position in shares

The Company Director/Supervisor	Capacity	No. and class of securities	Approximate percentage of domestic shares	Approximate percentage of total registered share capital
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, 2006, 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.

## Corporate Governance

### OTHER PERSONS

So far as was known to any Director or Chief Executive of the Company, as at 31st December, 2006, 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 ( <i>Note</i> )	Beneficial owner	4,466,667 domestic shares	8.33%	5.83%
Ms. Tang Jing Jing ( <i>Note</i> )	Beneficial owner	4,466,667 domestic shares	8.33%	5.83%
Greater China I Private Placement Fund	Investment Manager	1,360,000 H shares	5.91%	1.77%

*Note:* Mr. Tang Liu Jun is the son of Mr. Tang Li Min. Ms. Tang Jing Jing is the daughter of Mr. Tang Li Min.

Saved as disclosed above, as at 31st December, 2006, 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 the Company for the year ended 31st December, 2006.

### 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, 2006 are set out on pages 33 to 61 of the annual report.

### MAJOR CUSTOMERS AND SUPPLIERS

The Company's sales to the five largest customers accounted for less than 47.08% of the Company's turnover during the financial year. The Company's sales to the largest customer accounted for 18.10% 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 54.39% of the total purchases. The Company's purchases attributable to the largest supplier accounted for 15.32% 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, 2006 and the state of the Company's affairs as at the date are set out in the financial statements on pages 33 to 61.

### 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.

# Report of the Board of Directors

## 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, 2006, the Company's reserves available for distribution as dividends, calculated in accordance with the relevant rules and regulations, amounted to RMB26.84 million.

## FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Company for the last five financial years is set out on page 62.

## 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.

## 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

## Report of the Board of Directors

### Supervisors

Mr. Hong Jin Shui  
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. Mr. Hong Chun Qiang and Mr. Ma Hong Ming will retire from office and offer themselves for re-election as Directors at the forthcoming annual general meeting.

In accordance with articles 119 and 120 of the Company's articles of association, supervisors representing the shareholders shall be elected at the shareholders' general meeting and the supervisor representing the staff members of the Company shall be elected by the staff members of the Company. The term for supervisors are three years and a supervisor may serve consecutive terms if re-elected upon the expiration of the term. Mr. Hong Jin Shui will retire from office and offer himself for re-election as a supervisor at the forthcoming annual general meeting.

## 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, 2006 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:

## Report of the Board of Directors

Pursuant to an electricity tariff agency agreement between the Company and Zhejiang Prospect New Synthetic Fibre Company Limited\* (浙江展望新合纖有限公司) dated 29th March, 2005, Zhejiang Prospect New Synthetic Fibre Company Limited\* (浙江展望新合纖有限公司) 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\* (浙江展望新合纖有限公司) to Keqiao Power Supply Division of the Shaoxing Power Supply Bureau\* (紹興電力局柯橋供電分局). The fee payable by the Company to Zhejiang Prospect New Synthetic Fibre Company Limited\* (浙江展望新合纖有限公司) is determined on an actual cost basis and is allocated on a fair and equitable basis. The expenses paid by the Company to Zhejiang Prospect New Synthetic Fibre Company Limited (浙江展望新合纖有限公司) in accordance with the above agreement for the financial year ended 31st December, 2006 were RMB5.99 million.

Pursuant to the GEM Listing Rules, Zhejiang Prospect New Synthetic Fibre Company Limited\* (浙江展望新合纖有限公司) is a connected person of the Company as Mr. Tang Li Min, who is one of the promoters of the Company, an executive Director and 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\* (浙江展望新合纖有限公司). Four promoters of the Company, namely Mr. Hong Guo Ding, Mr. Tang Cheng Fang, Mr. Fei Guo Yang and Mr. Feng Yun Lin, have the following interests in Zhejiang Prospect Industrial Group Limited\* (浙江展望實業集團有限公司): 10.84%, 9.97%, 3.68% and 5.03% respectively. Mr. Tang Cheng Fang and Mr. Hong Guo Ding, two of the Directors, promoters and management shareholders of the Company, and Mr. Feng Yun Lin, one of the Supervisors and promoters 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

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 financial year ended 31st December, 2006 as disclosed in the announcement of the Company dated 29th March, 2005.

## Report of the Board of Directors

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, 2006.

### 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, 2006.

### 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 2006. The Committee has reviewed the Company's annual report, including the Company's financial statements for the year ended 31st December, 2006 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, the GEM Listing Rules, and that adequate disclosures have been made.

### BANK LOANS

Particulars of bank loans as at 31st December, 2006 are set out in note 25 and 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.

## Report of the Board of Directors

### 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 then effective GEM Listing Rules) had any interests in the share capital of the Company as at 31st December, 2006. Pursuant to the agreement dated 9th February, 2004 entered into between the Company and the Sponsor, the Sponsor would 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, 2006.

### CODE ON CORPORATE GOVERNANCE PRACTICES

The Directors consider that the Company has complied with the code provisions of 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

There was no significant post balance sheet events of the Company.

### FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Company is set out on page 62.

### CLOSURE OF SHARE REGISTER

The H Share register of members of the Company will be closed from 19th April, 2007 to 18th May, 2007 (both dates inclusive), during which no transfer of H Shares will be registered.

### AUDITORS

The financial statements have been audited by CCIF CPA Limited who retire and being eligible, offer themselves for re-appointment. A resolution for the re-appointment of CCIF CPA Limited as the 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  
28th March, 2007



## 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, the 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 persons 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 2006 and has great confidence in the future of the Company.

By Order of the Supervisory Committee

**Hong Jin Shui**

*Chairman*

Zhejiang Province, the PRC

28th March, 2007

## Independent Auditor s Report

**CCIF****CCIF CPA LIMITED**20/F Sunning Plaza  
10 Hysan Avenue  
Causeway Bay Hong Kong

### **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ZHEJIANG PROSPECT COMPANY LIMITED**

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

We have audited the financial statements of Zhejiang Prospect Company Limited set out on pages 33 to 61, which comprise the balance sheet as at 31st December, 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### **Directors' responsibility for the financial statements**

The directors are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements give a true and fair view of the state of the company's affairs as at 31st December, 2006 and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards 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, 2007

#### **Kwok Cheuk Yuen**

*Practising Certificate Number P02412*

## Income Statement

For the year ended 31 December 2006

	Note	2006 RMB'000	2005 RMB'000
<b>Turnover</b>	5	<b>113,233</b>	94,759
Cost of sales		<b>(92,924)</b>	(73,942)
<b>Gross profit</b>		<b>20,309</b>	20,817
Other revenue	6	<b>1,704</b>	2,077
Distribution costs		<b>(3,430)</b>	(2,411)
Administrative expenses		<b>(7,220)</b>	(5,437)
Other operating expenses		<b>(435)</b>	(251)
<b>Profit from operations</b>	7	<b>10,928</b>	14,795
Finance costs	8	<b>(3,730)</b>	(2,974)
<b>Profit before taxation</b>		<b>7,198</b>	11,821
Taxation	9(a)	<b>(3,137)</b>	(4,223)
<b>Profit for the year attributable to equity holders of the company</b>		<b>4,061</b>	7,598
<b>Dividends</b>	10	<b>–</b>	–
<b>Earnings per share</b>			
Basic	11	<b>RMB0.053</b>	RMB0.099

The notes on pages 37 to 61 form an integral part of these financial statements.

## Balance Sheet

As at 31 December 2006

	Note	2006 RMB'000	2005 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	16	54,290	50,372
Land use rights	17	6,439	6,578
Construction-in-progress	18	–	2,505
		<b>60,729</b>	59,455
<b>Current assets</b>			
Inventories	19	29,575	29,656
Trade receivables	20	37,699	28,559
Prepayments, deposits and other receivables	21	22,113	6,104
Cash and cash equivalents	22	45,629	54,807
		<b>135,016</b>	119,126
<b>Current liabilities</b>			
Trade and other payables	23	24,498	23,795
Amount due to a related company	24	310	–
Short-term bank loans – secured	25	49,000	49,000
Income tax payable	9(b)	1,204	1,114
		<b>75,012</b>	73,909
<b>Net current assets</b>		<b>60,004</b>	45,217
<b>Total assets less current liabilities</b>		<b>120,733</b>	104,672
<b>Non-current liabilities</b>			
Long term bank loan – secured	26	(12,000)	–
<b>Net assets</b>		<b>108,733</b>	104,672
<b>Capital and reserves</b>			
Share capital	27	76,600	76,600
Reserves	28	32,133	28,072
<b>Total equity</b>		<b>108,733</b>	104,672

Approved and authorised for issue by the board of directors on 28 March 2007.

On behalf of the board

Director

Director

The notes on pages 37 to 61 form an integral part of these financial statements.

## Statement of Changes in Equity

For the year ended 31 December 2006

	Share capital RMB'000	Share premium RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Revaluation reserve RMB'000	Retained profit RMB'000	Total RMB'000
At 1 January 2005							
– 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
– As 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 31 December 2005	76,600	246	2,577	1,940	–	23,309	104,672
At 1 January 2006	76,600	246	2,577	1,940	–	23,309	104,672
Net profit for the year	–	–	–	–	–	4,061	4,061
Transfer	–	–	2,467	(1,940)	–	(527)	–
At 31 December 2006	76,600	246	5,044	–	–	26,843	108,733

The notes on pages 37 to 61 form an integral part of these financial statements.

## Cash Flow Statement

For the year ended 31 December 2006

Note	2006 RMB'000	2005 RMB'000
<b>Cash flows from operating activities</b>		
Profit before taxation	7,198	11,821
Adjustments for:		
Depreciation of property, plant and equipment	3,987	2,933
Amortisation of land use rights	139	140
Interest income	(912)	(924)
Finance costs	3,730	2,974
Loss on disposal of property, plant and equipment	43	85
Impairment losses of trade and other receivables	1,293	189
<b>Operating profit before changes in working capital</b>	<b>15,478</b>	<b>17,218</b>
Decrease/(increase) in inventories	81	(7,044)
Increase in trade and other receivables	(26,442)	(6,257)
Increase in trade and other payables	703	7,533
<b>Cash (used in)/generated from operations</b>	<b>(10,180)</b>	<b>11,450</b>
PRC enterprise income tax paid	(3,047)	(5,392)
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(13,227)</b>	<b>6,058</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(4,371)	(5,203)
Purchase of construction-in-progress	(1,738)	(13,085)
Proceeds from disposal of property, plant and equipment	666	172
Interest received	912	924
<b>Net cash outflow from investing activities</b>	<b>(4,531)</b>	<b>(17,192)</b>
<b>Cash flows from financing activities</b>		
Decrease in amount due from a director	-	55
Increase/(decrease) in amount due to a related company	310	(253)
Proceeds from new short-term bank loans	74,000	93,000
Repayment of short-term bank loans	(74,000)	(79,400)
Proceeds from new long-term bank loan	12,000	-
Interest paid	(3,730)	(2,974)
<b>Net cash inflow from financing activities</b>	<b>8,580</b>	<b>10,428</b>
<b>Decrease in cash and cash equivalents</b>	<b>(9,178)</b>	<b>(706)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>54,807</b>	<b>55,513</b>
<b>Cash and cash equivalents at end of year</b>	<b>45,629</b>	<b>54,807</b>

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The notes on pages 37 to 61 form an integral part of these financial statements.

# Notes for the Financial Statements

For the year ended 31 December 2006

## I. Corporate Information

### (a) General

The company was domiciled and incorporated in the People's Republic of China ("the PRC") on 7 June 1995 as a limited liability company. The company was transformed as a joint stock limited company in the PRC on 9 August 2002 pursuant to the Company Law of the PRC. Its H shares have been listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited since 18 February 2004.

The address of its registered office is Zhanwang Village, Yangxunqiao Town, Shaoxing County, Zhejiang Province, PRC. The address of its principal place of business is Suites 2911-2912, 29/F, Two Exchange Square Centre, 8 Finance Street, Central, Hong Kong.

### (b) Principal Activity

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 ("HKFRSs"), which includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), 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 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 financial statements of the company have been prepared in accordance with HKFRSs and under the historical cost convention except for certain financial assets and liabilities which are measured at fair values, if applicable. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

The company has adopted the following new/revised standards that have been issued and effective for the periods beginning on or after 1 January 2006. The adoption of such standards did not have material effect on these financial statements.

HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures
HKAS 21 (Amendment)	Net investment in a foreign operation
HKAS 39 (Amendment)	The fair value option
HKFRS – Int 4	Determining whether an arrangement contains a lease

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2006 and which have not been adopted in these financial statements.

## Notes for the Financial Statements

For the year ended 31 December 2006

### 2. Significant Accounting Policies (Continued)

#### (a) Basis of Preparation (Continued)

The company is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the company's results of operations and financial position.

In addition, the following developments may result in new or amended disclosures in the financial statements:

	<b>Effective for annual periods beginning on or after</b>
HKFRS 7, Financial instruments: disclosures	1 January 2007
Amendment to HKAS 1, Presentation of financial statements: capital disclosures	1 January 2007

#### (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

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.



## Notes for the Financial Statements

For the year ended 31 December 2006

### 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

##### (i) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.
- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

- For available-for-sale securities, the cumulative loss that has been recognised directly in equity is removed from equity and is recognised in profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

## Notes for the Financial Statements

For the year ended 31 December 2006

### 2. Significant Accounting Policies (Continued)

#### (d) Impairment of Assets (Continued)

##### (ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment; and
- investments in subsidiaries

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

##### – 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 group of assets that generates cash inflows independently (i.e. a cash-generating unit).

##### – Recognition of impairment losses

An impairment loss is recognised in the income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

##### – Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss 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.

## Notes for the Financial Statements

For the year ended 31 December 2006

### 2. Significant Accounting Policies *(Continued)*

#### (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 property, plant and equipment and depreciation commences when construction is completed and the asset is put into use.

#### (f) Inventories

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

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

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

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

#### (g) Income Tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

## Notes for the Financial Statements

For the year ended 31 December 2006

### 2. Significant Accounting Policies (Continued)

#### (g) Income Tax (Continued)

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

## Notes for the Financial Statements

For the year ended 31 December 2006

### 2. Significant Accounting Policies (Continued)

#### (g) Income Tax (Continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the company or the group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the company or the group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

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 property, plant and equipment, revaluations of certain non-current assets and of investments, provisions for pensions and other post retirement benefits and tax losses carried forward; and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

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

#### (h) Provisions and Contingent Liabilities

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

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

#### (i) Research and Development Costs

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

## Notes for the Financial Statements

For the year ended 31 December 2006

### 2. Significant Accounting Policies *(Continued)*

#### (i) Research and Development Costs *(Continued)*

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

Amortisation 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.

##### *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.

## Notes for the Financial Statements

For the year ended 31 December 2006

### 2. Significant Accounting Policies *(Continued)*

#### (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.

#### (q) Related Parties

For the purposes of these 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 (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the company where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the company or of any entity that is a related party of the company.

#### (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 property, plant and equipment.

## Notes for the Financial Statements

For the year ended 31 December 2006

### 2. Significant Accounting Policies *(Continued)*

#### (r) Segment Reporting *(Continued)*

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. 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 Hong Kong Dollars 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.

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 realisable 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.

#### (d) Fair value estimation

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2006.



## Notes for the Financial Statements

*For the year ended 31 December 2006*

### 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.

#### (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. Provisions 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. Provisions are applied to the inventories where events or changes in circumstances indicate 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 of 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.

## Notes for the Financial Statements

For the year ended 31 December 2006

### 6. Other Revenue

	2006 RMB'000	2005 RMB'000
Sales of work-in-progress and scrap materials	660	679
Bank interest income	912	924
Sundry income	132	474
	<b>1,704</b>	<b>2,077</b>

### 7. Profit from Operations

Profit from operations is stated after (crediting)/charging the followings:

	2006 RMB'000	2005 RMB'000
Cost of inventories sold	92,924	73,942
Staff costs (including directors' emoluments – note 13)	8,753	7,160
Staff welfare costs	1,206	1,032
Directors' emoluments	210	210
Research and development costs	185	191
Depreciation of property, plant and equipment	3,987	2,933
Amortisation of land use rights	139	140
Auditors' remuneration	518	547
Impairment losses/(reversal of impairment)		
– trade receivables	1,284	(109)
– other receivables	9	298
Loss on disposal of property, plant and equipment	43	85
Exchange loss	428	725

### 8. Finance Costs

	2006 RMB'000	2005 RMB'000
Interest expense on bank loans, repayable within five years	<b>3,730</b>	<b>2,974</b>

## Notes for the Financial Statements

For the year ended 31 December 2006

**9. Taxation**

(a) Taxation in the income statements represents:

	<b>2006</b> <b>RMB'000</b>	2005 RMB'000
Provision for PRC enterprise income tax	<b>3,137</b>	4,223

The provision for PRC enterprise income tax is calculated at a standard rate of 33% of the estimated assessable income for the year ended 31 December 2006 as determined in accordance with the relevant income tax rules and regulations of the PRC.

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

	<b>2006</b> <b>RMB'000</b>	2005 RMB'000
Profit before taxation	<b>7,198</b>	11,821
Calculated at a taxation rate of 33%	<b>2,375</b>	3,901
Expenses not deductible for taxation purposes	<b>762</b>	322
Taxation charge	<b>3,137</b>	4,223

(b) Taxation in the balance sheets represents:

	<b>2006</b> <b>RMB'000</b>	2005 RMB'000
Provision for PRC enterprise income tax	<b>3,137</b>	4,223
Balance of PRC enterprise income tax provision relating to prior years	<b>1,114</b>	2,283
Payment of PRC enterprise income tax	<b>(3,047)</b>	(5,392)
	<b>1,204</b>	1,114

(c) There were no material unprovided deferred taxation for the years ended 31 December 2005 and 2006.

**10. Dividends**

The company resolved not to declare any dividend in respect of the year ended 31 December 2006 (2005: Nil).

**11. Earnings Per Share**

The basic earnings per share is calculated based on the profit attributable to shareholders of RMB4,061,000 (2005: RMB7,598,000) and the 76,600,000 shares in issue during the years ended 31 December 2005 and 2006.

No diluted earnings per share have been presented as the company did not have any dilutive potential shares for the years ended 31 December 2005 and 2006.

## Notes for the Financial Statements

For the year ended 31 December 2006

### 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 31 December 2005 and 31 December 2006 were approximately RMB353,000 and RMB483,000 respectively.

### 13. Directors' and Supervisors' Emoluments

The details of emoluments of every director and supervisor are shown below:

#### Year ended 31 December 2006

	Fees RMB'000	Basic salaries, allowances and other benefits RMB'000	Pension scheme contribution RMB'000	Total RMB'000
<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
Ma Hong Ming	-	-	-	-
<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 for the Financial Statements

For the year ended 31 December 2006

**13. Directors' and Supervisors' Emoluments** (Continued)

Year ended 31 December 2005

	Fees RMB'000	Basic salaries, allowances and other benefits RMB'000	Pension scheme contribution RMB'000	Total RMB'000
<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
Ma Hong Ming	–	–	–	–
<b>Supervisors</b>				
Hong Jin Shiu (Note 2)	–	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 for the Financial Statements

For the year ended 31 December 2006

### 14. Individuals with Highest Emoluments

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

	<b>2006</b> <b>RMB'000</b>	2005 RMB'000
Salaries and other emoluments	<b>244</b>	244
Pension scheme contributions	<b>5</b>	5
	<b>249</b>	249
Number of directors	<b>3</b>	3
Number of employees	<b>2</b>	2
	<b>5</b>	5

No directors and supervisors of the company waived any emoluments and no emoluments were paid by the company to any of the directors and supervisors of the company 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.

## Notes for the Financial Statements

For the year ended 31 December 2006

**15. Segmental Information** (Continued)

## 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>2006</b> <b>RMB'000</b>	2005 RMB'000
<b>Revenue from external customers</b>		
– PRC		
Domestic sales	<b>24,067</b>	25,916
Import and export corporations	<b>48,465</b>	39,168
– Overseas	<b>40,701</b>	29,675
<b>Total revenue from external customers</b>	<b>113,233</b>	94,759
	<b>2006</b> <b>RMB'000</b>	2005 RMB'000
<b>Cost of goods sold</b>		
– PRC		
Domestic sales	<b>19,575</b>	19,960
Import and export corporations	<b>41,195</b>	31,726
– Overseas	<b>32,154</b>	22,256
<b>Total cost of goods sold</b>	<b>92,924</b>	73,942
	<b>2006</b> <b>RMB'000</b>	2005 RMB'000
<b>Gross profits</b>		
– PRC		
Domestic sales	<b>4,492</b>	5,956
Import and export corporations	<b>7,270</b>	7,442
– Overseas	<b>8,547</b>	7,419
<b>Total gross profits</b>	<b>20,309</b>	20,817
<b>G.P. percentage</b>		
– PRC		
Domestic sales	<b>19%</b>	23%
Import and export corporations	<b>15%</b>	19%
– Overseas	<b>21%</b>	25%

At 31 December 2005 and 31 December 2006, all the company's assets and capital expenditure were located in the PRC.

## Notes for the Financial Statements

For the year ended 31 December 2006

### 16. Property, Plant and Equipment

	<b>Buildings</b> RMB'000	<b>Machinery and equipment</b> RMB'000	<b>Office equipment and furniture</b> RMB'000	<b>Motor vehicles</b> RMB'000	<b>Total</b> RMB'000
<b>Cost</b>					
At 1 January 2005	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 31 December 2005 and 1 January 2006	25,591	32,602	1,111	1,167	60,471
Additions	773	3,065	220	313	4,371
Transfer from construction-in-progress	362	3,414	57	410	4,243
Disposals	–	(400)	–	(823)	(1,223)
At 31 December 2006	26,726	38,681	1,388	1,067	67,862
<b>Accumulated depreciation and impairment losses</b>					
At 1 January 2005	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 31 December 2005 and 1 January 2006	2,307	6,945	503	344	10,099
Charge for the year	1,106	2,476	262	143	3,987
Written back on disposal	–	(268)	–	(246)	(514)
At 31 December 2006	3,413	9,153	765	241	13,572
<b>Net book value</b>					
At 31 December 2005	23,284	25,657	608	823	50,372
At 31 December 2006	23,313	29,528	623	826	54,290

At 31 December 2006, the company's buildings with net book value of approximately RMB23,313,000 (2005: RMB23,284,000) were pledged to secure general banking facilities granted to the company (note 25).



## Notes for the Financial Statements

For the year ended 31 December 2006

**17. Land Use Rights**

	<b>2006</b>	2005
	<b>RMB'000</b>	RMB'000
<b>Cost</b>		
At 1 January and 31 December	<b>6,961</b>	6,961
<b>Accumulated amortisation</b>		
At 1 January	<b>383</b>	243
Amortisation for the year	<b>139</b>	140
At 31 December	<b>522</b>	383
<b>Net carrying amount</b>		
At 31 December	<b>6,439</b>	6,578
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	<b>6,439</b>	6,578

**18. Construction-in-progress**

	<b>2006</b>	2005
	<b>RMB'000</b>	RMB'000
At 1 January	<b>2,505</b>	7,834
Additions	<b>1,738</b>	13,085
Transfer to property, plant and equipment	<b>(4,243)</b>	(18,414)
At 31 December	<b>–</b>	2,505

**19. Inventories**

	<b>2006</b>	2005
	<b>RMB'000</b>	RMB'000
Raw materials	<b>6,725</b>	7,069
Work-in-progress	<b>14,401</b>	15,325
Finished goods	<b>8,449</b>	7,262
	<b>29,575</b>	29,656

At 31 December 2005 and 31 December 2006, no inventories were carried at net realisable value.

## Notes for the Financial Statements

For the year ended 31 December 2006

### 20. Trade Receivables

The aging analysis of trade receivables is as follows:

	2006 RMB'000	2005 RMB'000
1-30 days	14,127	9,824
31-60 days	8,293	6,223
61-90 days	7,693	4,891
91-180 days	5,039	3,749
More than 180 days	2,547	3,872
	<b>37,699</b>	<b>28,559</b>

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, longer credit period may be granted.

### 21. Prepayments, Deposits and Other Receivables

	2006 RMB'000	2005 RMB'000
Bills receivables	2,790	2,558
Prepayments, deposits and other receivables	15,662	1,069
Trade deposits paid to suppliers	3,661	2,477
	<b>22,113</b>	<b>6,104</b>

### 22. Cash and Cash Equivalents

	2006 RMB'000	2005 RMB'000
Short term time deposits	40,200	20,100
Cash at bank and in hand	5,429	34,707
	<b>45,629</b>	<b>54,807</b>

Cash and cash equivalents include short-term bank deposits carrying interest at prevailing market rates. The directors consider the carrying value of the amount at the balance sheet date approximates to the fair value.

## Notes for the Financial Statements

For the year ended 31 December 2006

**22. Cash and Cash Equivalents** (Continued)

Included in the bank balances and cash are the following amounts denominated in currencies other than functional currency of the entity to which they relate:

	2006 '000	2005 '000
Hong Kong Dollars ("HKD")	<b>HKD33</b>	HKD33
United States Dollars ("USD")	<b>USD22</b>	USD12

**23. Trade and Other Payables**

	2006 RMB'000	2005 RMB'000
Trade payables	<b>14,492</b>	14,206
Other payables	<b>8,368</b>	8,364
Value added tax, business tax and other taxes payable	<b>349</b>	268
Dividend payable	<b>37</b>	37
Accruals	<b>825</b>	617
Trade deposits received from customers	<b>427</b>	303
	<b>24,498</b>	23,795

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:

	2006 RMB'000	2005 RMB'000
Due within 3 months	<b>13,413</b>	12,315
Due over 3 months but within 6 months	<b>593</b>	1,684
Due over 6 months but within 12 months	<b>318</b>	160
Due over 12 months	<b>168</b>	47
	<b>14,492</b>	14,206

**24. Amount due to a Related Company**

The amount due to a related company is unsecured, interest-free and is repayable on demand. The amount has been fully settled on 27 January 2007.

**25. Short-term Bank Loans – Secured**

At 31 December 2005 and 2006, 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), interest bearing at a range of 6.435% to 6.732% per annum and are repayable within one year.

## Notes for the Financial Statements

For the year ended 31 December 2006

### 26. Long Term Bank Loan – Secured

The bank loan of RMB12,000,000 is for financing the purchase of property, plant and equipment. It is secured by the corporate guarantee of a third party, 浙江江龍紡織印染有限公司. The bank loan bear interest at 4.98% per annum and is wholly repayable in February 2009.

### 27. Share Capital

	2006 and 2005	
	No. of shares	RMB'000
Registered, issued and fully paid:		
At 1 January and 31 December		
State owned equity interest shares of RMB 1 each (note)	53,600,000	53,600
H Shares of RMB 1 each	23,000,000	23,000
	<u>76,600,000</u>	<u>76,600</u>

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

### 28. Reserves

	Share premium RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Revaluation reserve RMB'000	Retained profit RMB'000	Total RMB'000
At 1 January 2005						
– 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
– As 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 31 December 2005	<u>246</u>	<u>2,577</u>	<u>1,940</u>	<u>–</u>	<u>23,309</u>	<u>28,072</u>
At 1 January 2006	246	2,577	1,940	–	23,309	28,072
Net profit for the year	–	–	–	–	4,061	4,061
Transfer	–	2,467	(1,940)	–	(527)	–
At 31 December 2006	<u>246</u>	<u>5,044</u>	<u>–</u>	<u>–</u>	<u>26,843</u>	<u>32,133</u>

## Notes for the Financial Statements

For the year ended 31 December 2006

### 28. Reserves (Continued)

#### (a) Statutory surplus reserve

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

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

#### (b) Statutory public welfare fund

According to the company's articles of association, the company is required to transfer 5% to 10% of its net profit after tax, as determined in accordance with the PRC accounting rules and regulations, to the statutory public welfare fund. This fund can only be 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. However, according to the announcement number 67 of the Ministry of Finance of the PRC on 15 March 2006, pursuant to the Company Law of PRC Sec 167, the reserves previously allocated to statutory public welfare fund will be transferred to the statutory surplus reserve on 1 January 2006. Upon the announcements, no subsequent profit distribution to the statutory public welfare fund was needed.

#### (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 to the discretionary surplus reserve, if approved by the shareholders.

The distributable reserves of the company as at 31 December 2005 and 31 December 2006 approximately amounted to RMB23,309,000 and RMB26,843,000 respectively.

## Notes for the Financial Statements

For the year ended 31 December 2006

### 29. Capital Commitments

The Company's capital commitments outstanding at 31 December 2005 and 31 December 2006 and not provided for in the financial statements are as follows:

	2006 RMB'000	2005 RMB'000
Contracted but not provided for	<b>6,703</b>	6,544

### 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:

	2006 RMB'000	2005 RMB'000
Zhejiang Prospect New Synthetic Fibre Company Limited ("New Synthetic")* Electricity fee paid to related company	<b>5,986</b>	4,631

During the two years ended 31 December 2006, 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 amounts as at the year ended 31 December 2005 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:

	2006 RMB'000	2005 RMB'000
Payables to New Synthetic (Note 24)	<b>310</b>	-

- (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 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.

## Notes for the Financial Statements

For the year ended 31 December 2006

**30. Related Party Transactions** (Continued)

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

	<b>2006</b> <b>RMB'000</b>	2005 RMB'000
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. Ultimate Controlling Party**

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

## Financial Summary

### Results

	For the year ended 31 December				
	2006 RMB'000	2005 RMB'000	2004 RMB'000 (Restated)	2003 RMB'000 (Restated)	2002 RMB'000
Turnover	<b>113,233</b>	94,759	79,071	66,089	42,355
Profit for the year	<b>4,061</b>	7,598	9,133	9,180	3,136

### Assets and Liabilities

	As at 31 December				
	2006 RMB'000	2005 RMB'000	2004 RMB'000 (Restated)	2003 RMB'000 (Restated)	2002 RMB'000
Total assets	<b>195,745</b>	178,581	151,272	114,813	94,863
Total liabilities	<b>(87,012)</b>	(73,909)	(54,198)	(50,118)	(39,348)
Total equity	<b>108,733</b>	104,672	97,074	64,695	55,515



## Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN** that the 2006 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 18th May, 2007 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, 2006;
2. To consider and approve the audited financial statements and the report of the auditors of the Company for the year ended 31st December, 2006;
3. To consider and approve the report of the supervisory committee of the Company for the year ended 31st December, 2006;
4. To consider and approve remuneration proposals for directors and supervisors of the Company for the financial year ended 31st December, 2007;
5. To re-elect the retiring directors and supervisor of the Company and approve their remuneration proposals and the term of service contracts with the relevant directors and supervisor;
6. To consider the re-appointment of CCIF CPA Limited as the Company’s auditors and to authorize the board of directors of the Company to fix their remuneration;
7. To consider and approve any proposal put forward by any shareholder holding 5% or more of the shares with voting rights at such meeting; and
8. To transact any other ordinary business of the Company.

By Order of the Board

**Zhejiang Prospect Company Limited\***

**Mr. Tang Li Min**

*Chairman*

Zhejiang Province, the People’s Republic of China  
30th March, 2007

\* For identification purpose only

## Notice of Annual General Meeting

### Notes:

1. Any member of the Company entitled to attend and vote at the aforesaid meeting is entitled to appoint one or more proxies to attend and vote on his behalf at the meeting in accordance with the article of association of the Company. A proxy needs not be a member of the Company.
2. In order to be valid, the proxy form, under which it is signed, must be deposited by hand or post, for holders of H Shares of the Company at the H shares registrar of the Company at Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong and, for holders of domestic shares, to the legal address of the Company (Zhanwang Village, Yangxunqiao Town, Shaoxing County, Zhejiang Province, the PRC) not less than 24 hours before the time for holding the AGM or not less than 24 hours before the time appointed for taking the poll. If the proxy form is signed by a power of attorney or other authority, a notarially certified copy of that power of attorney or authority shall be deposited at the same time.
3. Shareholders or their proxies shall produce their identity documents when attending the meeting.
4. The register of members of the Company will be closed from Thursday, 19th April, 2007 to Friday, 18th May, 2007 (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 Wednesday, 18th April, 2007 are entitled to attend and vote at the meeting.
6. The shareholders who intend to attend the meeting should complete and lodge the reply slip at the Company's legal address (Zhanwang Village, Yangxunqiao Town, Shaoxing County, Zhejiang Province, the PRC) on or before Friday, 27th April, 2007. 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.

## Notice of Annual General Meeting

8. At the annual general meeting, ordinary resolutions will be proposed to re-elect Mr. Hong Chun Qiang (as executive Director), Mr. Ma Hong Ming (as independent non-executive Directors) as Directors of the Company for a term of 3 years, and to re-elect Mr. Hong Jin Shui as supervisor of the Company for a term of 3 years. To enable shareholders of the Company to make an informed decision on the re-election of these retiring Directors and Supervisor, the biographical details of the retiring Directors and Supervisor, as requested under Chapter 17 of the GEM Listing Rules, are set out as follows:

1. Mr. Hong Chun Qiang (洪春強先生), Executive Director

Mr. Hong Chun Qiang (洪春強先生), aged 29, 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.

2. Mr. Ma Hong Ming (馬洪明先生), Independent Non-executive Director

Mr. Ma Hong Ming (馬洪明先生), aged 44, 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.

(3) Mr. Hong Jin Shui (洪金水), Supervisor

Mr. Hong Jin Shui (洪金水), aged 42, 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.

\* For identification purposes only

## Notice of Annual General Meeting

Save as disclosed above, the above persons have no relationship with any directors, supervisors, senior management or management shareholders or substantial shareholders or controlling shareholders of the Company. Besides, all of the above persons have no interest in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

Save as disclosed above, the above persons do not have any other directorship held in listed public companies in the last three years.

Save as disclosed above, the Company considers that in relation to the re-election of the above persons as directors or supervisor of the Company, there is no information which is discloseable nor are/were they involved in any of the matters required to be disclosed pursuant to any of the requirements of the provisions under Rules 17.50(2)(h) to 17.50(2)(v) of the GEM Listing Rules, and there is no other matter which needs to be brought to the attention of the shareholders of the Company.

### 9. Poll

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

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

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

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

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