Annual Report **2007**

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)

*for identification purpose only

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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, Solicitors
Suties 2201-03, 22nd Floor
Jardine House, 1 Connaught Place
Central, Hong Kong

Auditors

CCIF CPA Limited

Legal Advisors as to Hong Kong Laws

Loong & Yeung, Solicitors

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 2201-03, 22nd Floor
Jardine House
1Connaught Place
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 31 December 2007.

BUSINESS REVIEW

The Company continued to experience considerable growth in 2007 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 2007 amounted to 11.97 million sets and 11.41 million sets respectively, representing an increase of 37.74% and 33.45% as compared with 8.69 million sets and 8.55 million sets of the previous year.

Turnover for the year ended 31 December 2007 amounted to RMB140.39 million, representing approximately 24.0% increase year on year compared to RMB113.23 million in 2006. Net profit after tax amounted to RMB5.57 million, an increase of approximately 37.2% compared to RMB4.06 million in 2006.

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 TS16949 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
26 March 2008

Management Discussion and Analysis

BUSINESS OVERVIEW

The Company continued to experience considerable growth in 2007 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 2007 amounted to 11.97 million sets and 11.41 million sets respectively, representing an increase of 37.74% and 33.45% as compared with previous year of 8.69 million sets and 8.55 million sets.

Turnover for the year ended 31 December 2007 amounted to approximately RMB140.39 million, representing approximately 24.0% increase year on year compared to RMB113.23 million in 2006. Net profit after tax amounted to approximately RMB5.57 million, an increase of approximately 37.2% compared to that of 2006.

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 2007, the Company completed the development of new models and specifications of wing bearing universal joints and heavy-duty series of universal joints.

TURNOVER

Turnover amounted to approximately RMB140.39 million in 2007, representing approximately 24.0% increase year on year compared to approximately RMB113.23 million in 2006. The increase in turnover during the year was due to increase in export sales to approximately RMB58.27 million contributed by new overseas customers, sales of approximately RMB51.27 million to the import and export corporations, which then sold to various overseas market; and local sales of RMB30.85 million.

Management Discussion and Analysis

COST OF SALES AND GROSS PROFIT

Cost of sales increased to RMB118.99 million in 2007 from RMB92.92 million in 2006 or an increase of approximately 28.06%. This is more than the 24.00% increase in turnover for the same period. Gross margin of the Company's products decreases 2.69% to approximately 15.25% in 2007 from approximately 17.94% in 2006. This was mainly attributable to the decrease in sale price of motor vehicles spare parts and increase of raw material especially steel price during the year.

OTHER REVENUE

Other operating income in 2007 amounted to RMB3.64 million, or an increase of RMB1.94 million from RMB1.70 million in 2006. This was mainly due to increase in bank interest income and sales of scrap materials.

DISTRIBUTION COSTS AND ADMINISTRATIVE EXPENSES

The Company continued to expand its sales and marketing network. As a result, distribution expenses for 2007 totaled RMB4.83 million. This represents an increase of RMB1.40 million, or approximately 40.80% from that of RMB3.43 million 2006. The increase was mainly due to increase in staff costs and commission paid during the year.

In 2007, administrative expenses of the Company were approximately RMB 7.67million, representing increase of RMB0.45 million or 6.3% compared to that of RMB7.22 million in 2006. The administrative expenses including management salaries, professional fees and depreciation increased in line with the expansion of operation of the Company.

OTHER OPERATING EXPENSES AND FINANCE COSTS

Other operating expenses for the financial year of 2007 amounted to RMB0.24 million, as compared to RMB0.44 million in 2006. In the financial year of 2007, the net finance costs of approximately RMB4.48 million, comprised interest on bank advances and other borrowings, represented approximately 3.2% of turnover in 2007 compared to 3. 29% in 2006. This represented an increase of RMB0.75 million, or approximately 20.1%, as compared to approximately RMB3.73 million in 2006.

ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENT

As disclosed in the announcement and circular of the Company dated 10 September 2007 and 15 October 2007 respectively, on 9 September 2007, the Company entered into a share transfer agreement (the "Huasheng Share Transfer Agreement") with Creative Wave Holdings Limited ("Creative Wave") and Mr. Yang Steven Songxin for the acquisition of 45% equity interest in Shaoxing Huasheng Environmental Protection Science And Technology Company Limited 紹興華盛環保科技有限公司 ("Huasheng") at a cash consideration of RMB180 million from Creative Wave. On the same day, the Company entered into another share transfer agreement (the "Huaxin Share Transfer Agreement") with Zhejiang Tianhao Industrial Company Limited 浙江天昊實業有限公司 ("Tianhao"), Mr. Zhao Mao Xiang and Mr. Wang Guo Li for the acquisition of 100% equity interest in Shaoxing Huaxin Environmental Technology Company Limited 紹興華鑫環保科技有限公司 ("Huaxin") (which owns 30% equity interest in Huasheng) from Tianhao at a cash consideration of RMB120 million.

Huaxin is primarily engaged in the collection and treatment of medical wastes and dangerous industrial wastes. Huasheng is engaged in the treatment and recycling of industrial and chemical wastes.

At the extraordinary general meeting of the Company held on 30 November 2007, the shareholders of the Company had approved the Huasheng Share Transfer Agreement and the Huaxin Share Transfer Agreement. As at the date of this report, the aforesaid two agreements have not yet been completed.

As disclosed in the announcement of the Company dated 23 May 2007, the Company proposed to set up a wholly-owned subsidiary ("Subsidiary") in the PRC for the purpose of engaging in the sales of chemicals (excluding dangerous and easy-made drugs), purified terephthalic acid, polyster chips, polyster films, light textile raw material, textile, ironware products, automobile parts, steel products and electronics products with an expected registered capital of RMB20 million. During the year of 2007, the Subsidiary was incorporated but as it did not have any substantial operation, the Company had wound up the Subsidiary in the same year.

Save as disclosed above, the Company did not have any significant acquisitions, disposals and investment during the reporting period.

FUTURE PLANS FOR INVESTMENTS OR CAPITAL ASSETS AND SOURCES OF FUNDING

Further to the Company's announcement dated 20 July 2007 and the circular dated 10 August 2007, the Company convened an extraordinary general meeting and the respective class meetings of the holders of H shares and holders of domestic shares of the Company on 25 September 2007 for the grant of the proposed specific mandates by the independent shareholders to the Board to issue not more than 100,000,000 new H shares and not more than 40,000,000 new domestic shares respectively. Upon the grant of the proposed specific mandates, the Directors may proceed to place not more than 100,000,000 new H shares and not more than 40,000,000 new domestic shares pursuant to such specific mandates ("Possible Placing").

On 25 September 2007, at the said extraordinary general meeting and respective class meetings of the Company, the independent shareholders of the Company had approved the proposed specific mandates.

On 24 January 2008, China Securities Regulatory Commission had issued an approval notice to the Company allowing it to issue additional new H shares. Up to the date of this report, no new H shares or domestic shares of the Company has been issued pursuant to the aforesaid specific mandates.

The Directors intend to use the net proceeds from the Possible Placing (if materialized) to fund the acquisition of the equity interest in Huasheng and Huaxin (as set out in the paragraph headed "**Acquisitions, Disposals and Significant Investment**" above), and as general working capital.

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 2007.

Management Discussion and Analysis

SIGNIFICANT INVESTMENTS HELD

The Company has no significant investments held during the year of 2007.

On 9 September 2007, the Company entered into the Huasheng Share Transfer Agreement with Creative Wave and Mr. Yang Steven Songxin, for the acquisition of 45% equity interest in Huasheng at a cash consideration of RMB180 million. On the same day, the Company entered into the Huaxin Share Transfer Agreement with Tianhao, Mr. Zhao Mao Xiang and Mr. Wang Guo Li for the acquisition of 100% equity interest in Huaxin (which owns a 30% equity interest in Huasheng) at a cash consideration of RMB120 million. On 24 September 2007, the Company paid RMB30 million to Tianhao as deposit for the Huaxin Share Transfer Agreement. The balance of the acquisition consideration payable will be funded by the issue by the Company of 100,000,000 new H shares and 40,000,000 new domestic shares, if the Possible Placing is materialized. In the event that the Huaxin Share Transfer Agreement is terminated, the Company shall issue a written notice to Tianhao, and Tianhao shall, within the time specified by the Company, return to the Company the deposit of RMB30 million in cash without any interests accrued thereto.

FINANCIAL RESOURCES AND LIQUIDITY

The Company continues to be in a healthy financial position with shareholders' equity amounted to RMB114.30 million as at 31 December 2007 (2006: RMB108.73 million). Current assets amounted to RMB159.49 million as at 31 December 2007 (2006: RMB135.16 million), of which RMB35.52 million (2006: RMB45.63 million) were cash and cash equivalents. As at 31 December 2007, the Company had short-term bank loans of about RMB45.0 million (2006: RMB49.0 million) and long-term bank loans of RMB27.0 million (2006: RMB12.0 million) . The short term bank loans were repayable within one year, while the long-term bank loans are for a term of three years.

CONTINGENT LIABILITIES

As at 31 December 2007, the Directors were not aware of any material contingent liabilities.

CHARGES ON ASSETS

As at 31 December, 2007, the short-term bank loans of RMB45 million were secured by lease premium for land and buildings of the Company and guarantees provided by Mr. Tang Li Min, Zhejiang Prospect Industrial Group Limited, Guang Yu Group Co., Limited, Zhejiang Yongli Industry Group Co., Ltd., 浙江江龍紡織印染有限公司 and 浙江南宇輕紡有限公司, bearing interest at a range of 7.029% to 9.855% per annum and repayable within one year.

GEARING RATIO

The Company's gearing ratio, based on total liabilities to shareholders' equity, was 0.93 (2006: 0.80) as at 31 December 2007.

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 18 February 2004. Since the listing of the Company's H shares on the GEM of the Stock Exchange on 18 February 2004, there has been no change in the capital structure of the Company.

As at 31 December 2007, 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.

On 25 September 2007, the independent shareholders of the Company had approved at an extraordinary general meeting and class meetings of the Company for the grant of the proposed specific mandates to the Board to issue not more than 100,000,000 new H shares and not more than 40,000,000 new domestic shares, representing not more than 130.55% and 52.22% of the total issued share capital of the Company as at the date of the said extraordinary general meeting of the Company. On 24 January 2008, China Securities Regulatory Commission had issued an approval notice to the Company allowing it to issue additional new H shares. Up to the date of this report, no new H shares or domestic shares of the Company has been issued pursuant to the aforesaid specific mandates.

EMPLOYEE INFORMATION

During the year, the Company had an average number of employees of 675 (2006: 646). 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 a share option scheme.

OUTLOOK AND PROSPECT

The Company has three main product categories, comprising cardan universal joints, wing bearing universal joints and differential spiders. Due to the rapid development of the PRC economy and the country's rising living standard, both corporate and personal demands for automobiles have been increasing, which in turn would drive up demands for automotive parts and components.

The Company plans to expand its production capacity for all three categories by increasing investments in both equipment and other 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 21.98% of the total turnover in 2007, compared to 21. 25% of the total turnover in 2006. In addition, the Company sells its products to import and export corporations in the PRC, accounted for 36.52% and 42.80% of the total turnover in 2007 and 2006 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 2007, direct sales to overseas customers represented approximately 41.50% (2006: 35.95%) of the Company's total turnover.

Management Discussion and Analysis

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.

In September 2007, the Company entered into share transfer agreements to acquire the equity interests of two PRC-incorporated companies principally engaged in the environmental protection business to diversify its business. As at the date of this report, the said acquisitions have not yet been completed. For details of the said acquisitions, please refer to the paragraph headed "Acquisitions, disposals and significant investment" above.

Profiles of Directors, Supervisors and Senior Management

DIRECTORS

Executive Directors

Mr. Tang Li Min (唐利民先生), aged 45, 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 44, is the managing Director, executive Director and 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 (費國楊先生), aged 37, 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 30, 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 43, 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 42, 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 47, 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 43, is an independent non-executive Director. In 1986, he graduated from the Hangzhou University (杭州大學) with a bachelor's degree in law. He is an attorney of the PRC qualified to practise securities law in the PRC. From 1988 to 1998, he practised law at Zhejiang Guoda Law Firm* (浙江國大律師事務所) (formerly known as Zhejiang Shaoxing County Law Firm* (浙江紹興市律師事務所)) as its deputy head and later its head. He is currently a partner of Zhejiang Zhong Fa Da Law Firm* (浙江中法大律師事務所). He was appointed as an independent non-executive Director in March 2003.

* *For identification purpose only*

Mr. Ma Hong Ming (馬洪明先生), aged 45, 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* (紹興中興税務師事務所). 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 43, 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 49, 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 34, 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 40, 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.

* *For identification purpose only*

Profiles of Directors, Supervisors and Senior Management

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

SENIOR MANAGEMENT

Mr. Hong Jin Zhu (洪金柱先生), aged 40, 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 36, 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

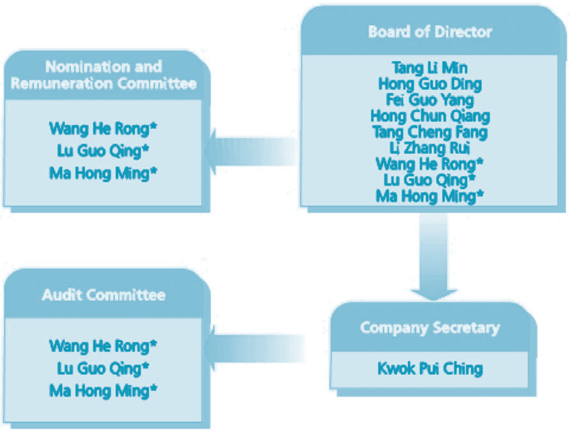
Ms. Kwok Pui Ching (郭佩貞女士), aged 42, is a qualified accountant with over 7 years of experience in accounting, auditing and financial management. She graduated with a degree of Bachelor of Social Sciences from The University of Hong Kong in 1986 and is an associate member of the Hong Kong Institute of 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 emphasizes 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 (Chairman), 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 seven meetings of the Board of Directors held in 2007 and were attended by all of the Directors and the average attendance rate was 100%.

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

Corporate Governance

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.

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 Company's internal controls. Separate meetings will also be held with external auditor (in the absence of management) as and when required. The Audit Committee held four meetings in 2007 to review, inter alia, the Company'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 auditor

(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 of 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 reports; 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 auditor; 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 auditor;

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 Company's financial and accounting policies and practices;

(k) to review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response;

(l) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

(m) to report to the Board on the matters set out in the code provisions for Audit Committee in the Code on Corporate Governance Practices of the GEM Listing Rules;

(n) to consider other topics, as defined by the Board;

Other duties

(o) to review arrangements by which employees may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters;

(p) to act as the key representative body for overseeing the Company's relation with the external auditor; and

(q) to report back to the Board on their decisions or recommendation.

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

NOMINATION AND REMUNERATION COMMITTEE

A Nomination and Remuneration Committee was set up in October 2005, constituted by three Independent Non-Executive Directors, namely Mr. Wang He Rong, Mr. Lu Guo Qing and Mr. Ma Hong Ming. Meeting will be held at least once a year to review human resource issues, including significant changes in salary structure and terms and conditions affecting Directors and senior management. The Committee held one meeting in 2007 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;

Corporate Governance

(e) to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

(f) to have the delegated responsibility to determine the specific remuneration packages of all executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board on the remuneration of non-executive Directors. The Committee shall consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Company and desirability of performance-based remuneration;

(g) to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

(h) to review and approve the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;

(i) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;

(j) to ensure that provisions regarding disclosure of remuneration, including pensions, as set out in the Companies Ordinance and GEM Listing Rules, are fulfilled;

(k) to ensure that no Director or any of his associates is involved in deciding his own remuneration; and

(l) to report back to the Board on their decisions or recommendation.

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

COMPANY SECRETARY

All Directors have access to the advice and services of the Company Secretary, 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.

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 Company'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 Company's state of affairs of the results and cash flow for the year. In preparing the accounts for the year ended 31 December 2007, 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.

Corporate Governance

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 Independent Auditor's Report on page 32.

INTERNAL CONTROL

Internal control systems have been designed to allow the Directors to monitor the Company'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 Company'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's 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, 2007; 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.

AUDITOR'S REMUNERATION

CCIF CPA Limited have been re-appointed as the Company's external auditor by shareholders at the 2006 AGM until the conclusion of the next AGM. They are primarily responsible for providing audit services in connection with the annual financial statements.

During the year, the total remuneration in respect of statutory audit services provided by the external auditor amounted to HK$0.48 million. No fees were paid to the external auditor 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 31 December 2007.

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES OF THE COMPANY

As at 31 December 2007, 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 *(Note)*	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: (1) 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.

(2) The Board has been granted conditional specific mandates to, inter alia, issue up to a maximum of 40,000,000 additional domestic shares to Mr. Tang Li Min. Mr. Tang Li Min has undertaken to the Company that he will subscribe the number of new domestic shares that the Company may issue to him. Taking into account the maximum of the 40,000,000 additional domestic shares that may be issued to Mr. Tang Li Min, Mr. Tang Li Min may be deemed, or taken to be interested in an aggregate of 81,093,333 domestic shares, representing approximately 151.29% and 105.87% of the total issued domestic shares and total issued shares of the Company, respectively.

Corporate Governance

Saved as disclosed above, as at 31 December 2007, none of the Directors, chief executives and supervisors of the Company has any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 & 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors as referred to in Rule 5.46 of the GEM Listings Rules.

OTHER PERSONS

So far as was known to any Director or chief executive of the Company, as at 31 December 2007, 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 *(Note)*	Beneficial owner	4,466,667 domestic shares	8.33%	5.83%
Ms. Tang Jing Jing *(Note)*	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 31 December 2007, 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 31 December 2007.

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 joints, wing bearing universal joints and differential spiders.

An analysis of the Company's performance for the year by business and geographical segments is set out in note 13 to the financial statements.

The results and the state of affairs of the Company for the year ended 31 December 2007 are set out on pages 33 to 71 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 31 December 2007 and the state of the Company's affairs as at the date are set out in the financial statements on pages 33 to 36.

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 14 to the financial statements.

SHARE CAPITAL

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

Report of the Board of Directors

RESERVES

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

Distributable reserves

At 31 December 2007, the Company's reserves available for distribution as dividends, calculated in accordance with the relevant rules and regulations, amounted to RMB31.89 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 72.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

Save as disclosed in note 28 on the financial statements, no contract of significance to which the Company, its holding company or any of its fellow subsidiaries was a party and 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

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. Tang Li Min, Mr. Hong Guo Ding, Mr. Fei Guo Yang, Mr. Tang Cheng Fang, Mr. Li Zhang Rui, Mr. Wang He Rong and Mr. Lu Guo Qing 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. Feng Yun Lin, Mr. Chen Jin Long, Mr. Wong Zhong and Mr. Wang Ye Gang will retire from office and offer themselves for re-election as supervisors 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 11 to the financial statements.

CONNECTED TRANSACTIONS

Significant related party transactions entered into by the Company or previously entered into by the Company and subsisted during the year ended 31 December 2007 are disclosed in note 28 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 ("Zhejiang New Synthetic Fibre Company") dated 17 September 2007, Zhejiang New Synthetic Fibre Company would provide electricity to the Company from the effective date of agreement until 31 December 2009. 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 New Synthetic Fibre Company 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 New Synthetic Fibre Company is determined on an actual cost basis and is allocated on a fair and equitable basis. The expenses paid by the Company to Zhejiang New Synthetic Fibre Company in accordance with the above agreement for the financial year ended 31 December 2007 were RMB7.34 million.

Pursuant to the GEM Listing Rules, Zhejiang New Synthetic Fibre Company is a connected person of the Company as Mr. Tang Li Min, who is an executive Director, a promoter and a management shareholder of the Company, holds 70.48% of the equity interests in Zhejiang Prospect Holdings Group Limited* (浙江展望控股集團有限公司) ("Shaoxing Group") which, in turn, holds 57.14% equity interests in Zhejiang Liyuan Chemical Fibre Limited* (浙江利源化纖有限公司). Zhejiang Liyuan Chemical Fibre Limited* (浙江利源化纖有限公司) in turn holds 70% of the equity interests of Zhejiang New Synthetic Fibre Company. Mr. Hong Guo Ding, Mr. Tang Cheng Fang and Mr. Fei Guo Yang, three of the Directors, have an equity interest of 10.84%, 9.97% and 3.68% respectively in Shaoxing Group. Mr. Li Zhang Rui, a Director, is a director of Shaoxing Group and Mr. Hong Chun Qiang, a Director, is a supervisor of Shaoxing Group. Mr. Tang Cheng Fang and Mr. Hong Guo Ding, two of the Directors, have a direct equity interest of 14.29% 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.

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 auditor of the Company has 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 31 December 2007 as disclosed in the circular of the Company dated 5 October 2007.

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 23 November 2007.

* *For identification purpose only*

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 31 December 2007.

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 31 December 2007.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Confirmation of independence has been received from each of the independent non-executive Directors 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 14 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 2007. The Committee has reviewed the Company's annual report, including the Company's financial statements for the year ended 31 December 2007 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 31 December 2007 are set out in note 23 and 24 to the financial statements.

RETIREMENT SCHEME

Particulars of the retirement scheme of the Company are set out in note 10 to the financial statements.

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.

Report of the Board of Directors

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Company for the five years ended 31 December 2007 is set out on page 72.

CLOSURE OF SHARE REGISTER

The H Share register of members of the Company will be closed from 21 April 2008 to 19 May 2008 (both dates inclusive), during which no transfer of H Shares will be registered.

AUDITOR

The financial statements have been audited by CCIF CPA Limited who retire and being eligible, offer themselves for reappointment.

A resolution for the re-appointment of CCIF CPA Limited as the auditor of the Company respectively will be proposed at the forthcoming annual general meeting.

The Company has no change in auditor in the past three years.`

By order of the Board
Zhejiang Prospect Company Limited

Mr. Tang Li Min
Chairman

Zhejiang Province, the People's Republic of China
26 March 2008

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 2007 and has great confidence in the future of the Company.

By Order of the Supervisory Committee

Hong Jin Shui
Chairman

Zhejiang Province, the PRC
26 March 2008

Independent Auditor's Report

For the year ended 31 December 2007

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

(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 71, which comprise the balance sheet as at 31 December 2007, 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 31 December 2007 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
26 March 2008

Kwok Cheuk Yuen
Practising Certificate Number P02412

Income Statement

For the year ended 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
Turnover	3	**140,390**	113,233
Cost of sales		**(118,986)**	(92,924)
Gross profit		**21,404**	20,309
Other revenue	4	**3,640**	1,704
Distribution costs		**(4,828)**	(3,430)
Administrative expenses		**(7,670)**	(7,220)
Other operating expenses		**(244)**	(435)
Profit from operations	5	**12,302**	10,928
Finance costs	6	**(4,480)**	(3,730)
Profit before taxation		**7,822**	7,198
Taxation	7(a)	**(2,253)**	(3,137)
Profit for the year attributable to equity holders of the company		**5,569**	4,061
Dividends	8	**–**	–
Earnings per share			
Basic	9	**RMB0.073**	RMB0.053

The notes on pages 37 to 71 form part of these financial statements.

Balance Sheet

As At 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
Non-current assets			
Property, plant and equipment	14	**54,991**	54,290
Lease premium for land	15	**6,161**	6,300
Construction-in-progress	16	**–**	–
		61,152	60,590
Current assets			
Inventories	17	**34,615**	29,575
Lease premium for land	15	**139**	139
Trade and other receivables	18	**59,215**	59,812
Deposit paid for proposed acquisition of a subsidiary	19	**30,000**	–
Cash and cash equivalents	20	**35,521**	45,629
		159,490	135,155
Current liabilities			
Trade and other payables	21	**32,732**	24,498
Amount due to a related company	22	**1,060**	310
Short-term bank loans – secured	23	**45,000**	49,000
Income tax payable	7(b)	**548**	1,204
		79,340	75,012
Net current assets		**80,150**	60,143
Total assets less current liabilities		**141,302**	120,733
Non-current liabilities			
Long-term bank loans – secured	24	**(27,000)**	(12,000)
Net assets		**114,302**	108,733
Capital and reserves			
Share capital	25	**76,600**	76,600
Reserves	26	**37,702**	32,133
Total equity		**114,302**	108,733

Approved and authorised for issue by the board of directors on 26 March 2008.

On behalf of the board

Director *Director*

The notes on pages 37 to 71 form part of these financial statements.

Statement Of Changes In Equity

For the year ended 31 December 2007

	Share capital *RMB'000*	Share premium *RMB'000*	Statutory surplus reserve *RMB'000*	Statutory public welfare fund *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*
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
At 1 January 2007	**76,600**	**246**	**5,044**	**–**	**26,843**	**108,733**
Net profit for the year	**–**	**–**	**–**	**–**	**5,569**	**5,569**
Transfer	**–**	**–**	**520**	**–**	**(520)**	**–**
At 31 December 2007	**76,600**	**246**	**5,564**	**–**	**31,892**	**31,892**

The notes on pages 37 to 71 form part of these financial statements.

Cash Flow Statement

For the year ended 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
Cash flows from operating activities			
Profit before taxation		**7,822**	7,198
Adjustments for:			
Depreciation of property, plant and equipment		**4,554**	3,987
Amortisation of lease premium for land		**139**	139
Interest income		**(1,886)**	(912)
Finance costs		**4,480**	3,730
(Gain)/loss on disposal of property, plant and equipment		**(4)**	43
Impairment loss of trade receivables		**525**	1,284
(Reversal of impairment)/impairment loss of other receivables		**(78)**	9
Operating profit before changes in working capital		**15,552**	15,478
(Increase)/decrease in inventories		**(5,040)**	81
Decrease/(increase) in trade and other receivables		**150**	(26,442)
Increase in trade and other payables		**8,234**	703
Cash generated from/(used in) operations		**18,896**	(10,180)
PRC enterprise income tax paid		**(2,909)**	(3,047)
Net cash inflow/(outflow) from operating activities		**15,987**	(13,227)
Cash flows from investing activities			
Payment for temporary investment		**(20,000)**	–
Proceeds from disposal of temporary investment		**20,000**	–
Payment for acquisition of a subsidiary		**(30,000)**	–
Purchase of property, plant and equipment		**(4,610)**	(4,371)
Additions of construction-in-progress		**(1,028)**	(1,738)
Proceeds from disposal of property, plant and equipment		**387**	666
Interest received		**1,886**	912
Net cash outflow from investing activities		**(33,365)**	(4,531)
Cash flows from financing activities			
Increase in amount due to a related company		**750**	310
Proceeds from new short-term bank loans		**87,500**	74,000
Repayment of short-term bank loans		**(91,500)**	(74,000)
Proceeds from new long-term bank loans		**15,000**	12,000
Interest paid		**(4,480)**	(3,730)
Net cash inflow from financing activities		**7,270**	8,580
Decrease in cash and cash equivalents		**(10,108)**	(9,178)
Cash and cash equivalents at beginning of year		**45,629**	54,807
Cash and cash equivalents at end of year	20	**35,521**	45,629

The notes on pages 37 to 71 form part of these financial statements.

Notes To The Financial Statements

For the year ended 31 December 2007

1. 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. Its 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 in Hong Kong is Suites 2201-03, 22nd Floor, Jardine House, 1 Connaught Place, 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) STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which include 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") and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market 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.

b) BASIS OF PREPARATION

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 value, if applicable. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except where otherwise indicated.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The HKICPA has issued a number of new and revised HKFRSs and interpretations that are first effective or available for early adoption for the current accounting period of the company.

Notes To The Financial Statements

For the year ended 31 December 2007

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

b) BASIS OF PREPARATION *(Continued)*

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7, Financial instruments: Disclosures and the amendment to HKAS 1, Presentation of financial statements: Capital disclosures, there have been some additional disclosures provided as follows:

As a result of the adoption of HKFRS 7, the financial statements include expanded disclosure about the significance of the company's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, Financial instruments: Disclosures and presentation. These disclosures are provided throughout these financial statements, in particular in note 31.

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the company's objectives, policies and processes for managing capital.

These new disclosures are set out in note 31(e).

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification recognition and measurement of the amounts recognised in the financial instruments.

The company has not applied any new standard or interpretation that is not yet effective for the current accounting period.

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 2007 and which have not been adopted in these financial statements.

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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

b) BASIS OF PREPARATION *(Continued)*

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

	Effective for annual periods beginning on or after
HKAS 1 (Revised), Presentation of Financial Statements	1 January 2009
HKAS 23 (Revised), Borrowing Costs	1 January 2009
HKFRS 8, Operating Segments	1 January 2009
HK(IFRIC) – INT 11, HKFRS 2 – Group and Treasury Share Transactions	1 March 2007
HK(IFRIC) – INT 12, Service Concession Arrangements	1 January 2008
HK(IFRIC) – INT 13, Customer Loyalty Programmes	1 July 2008
HK(IFRIC) – INT 14, HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2008

c) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

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.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net proceeds on disposal and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

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

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

Notes To The Financial Statements

For the year ended 31 December 2007

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

c) PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Where parts of an item of property, plant and equipment have different useful lives, the cost 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.

d) LEASE PREMIUM FOR LAND

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

e) IMPAIRMENT OF ASSETS

i) Impairment of investments in equity securities and other receivables

Investments in equity securities (other than investments in subsidiaries, associates and jointly controlled entities: see note 2(e)(ii) and other current and non-current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale equity securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the company about one or more of the following loss events:

– significant financial difficulty of the debtor;
– a breach of contract, such as a default or delinquency in interest or principal payments;
– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For unlisted equity securities carried at cost, 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 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. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the company.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

e) IMPAIRMENT OF ASSETS *(Continued)*

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

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 equity securities, when a decline in the fair value has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity shall be removed from equity and recognised in profit or loss event though the financial asset has not been derecognised. 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 of such assets is recognised directly in equity.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the company is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

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 recognsied no longer exists or may have decreased:

– property, plant and equipment (other than properties carried at revalued amounts);
– intangible assets;
– investments in subsidiaries and associates (except for those classified as being held for sale); and goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

Notes To The Financial Statements

For the year ended 31 December 2007

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

e) IMPAIRMENT OF ASSETS *(Continued)*

ii) Impairment of other assets (Continued)

– **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 profit or loss 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 goodwills 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 profit or loss in the year in which the reversals are recognised.

iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the company is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the company applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2e (i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill and available-for-sale equity securities carried at cost are not reversed in a subsequent period. This is the case event if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

f) 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.

g) INVENTORIES

Inventories comprising 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.

h) 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.

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.

Notes To The Financial Statements

For the year ended 31 December 2007

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

h) INCOME TAX *(Continued)*

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 differences 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 company 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.

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 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 intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously: or

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

h) INCOME TAX *(Continued)*

- 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.

i) 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.

j) 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.

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.

k) BORROWING COSTS

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

Notes To The Financial Statements

For the year ended 31 December 2007

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

l) 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. Revenue from 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-apportionment basis by reference to the principal outstanding and the interest rate applicable.

m) 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.

n) RETIREMENT BENEFIT COSTS

The company was 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 to assume the retirement benefit obligations of the company's employees. 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.

o) TRADE, PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Trade, prepayments, deposits 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(e)), 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 not 2(e)).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

p) 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.

q) 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 readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. 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 consolidated cash flow statement.

r) RELATED PARTIES

For the purpose of these financial statements, parties are considered to be related to the company if:

i) the party has the ability, directly or indirectly through one or more intermediaries, to control the company or exercise significant influence over the company in making financial and operating policy decisions, or has joint control over the company;

ii) the company and the party are subject to common control;

iii) the party is an associate of the company or a joint venture in which the company is a venturer;

iv) the party is a member of key management personnel of the company or the company's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals; or

v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

vi) the party is a post-employment benefit plan which is for the benefit of employees of the company or of any entity that is a related party of the company.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

s) 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.

Notes To The Financial Statements

For the year ended 31 December 2007

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

s) SEGMENT REPORTING *(Continued)*

In accordance with the company's internal financial reporting, the company has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purpose of these financial statements.

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.

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. TURNOVER

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

4. OTHER REVENUE

	2007	2006
	RMB'000	*RMB'000*
Bank interest income	**1,886**	912
Total interest income on financial assets not at fair value through profit or loss	**1,886**	912
Sales of scrap materials	**1,085**	660
Gain on disposal of property, plant and equipment	**4**	–
Reversal of impairment of other receivables	**78**	–
Sundry income	**587**	132
	3,640	1,704

5 PROFIT FROM OPERATIONS

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

	2007 **RMB'000**	2006 RMB'000
Cost of inventories#	**118,986**	92,924
Staff costs		
– Salaries, wages and other benefits (including directors' remuneration – *note 11*)	**11,206**	8,753
– Contributions to defined contribution retirement plans	**1,569**	1,206
Research and development costs	**238**	185
Depreciation of property, plant and equipment	**4,554**	3,987
Amortisation of lease premium for land	**139**	139
Auditors' remuneration	**526**	518
(Reversal of impairment)/impairment losses		
– trade receivables	**525**	1,284
– other receivables	**(78)**	9
(Gain)/loss on disposal of property, plant and equipment	**(4)**	43
Exchange loss	**973**	428

Cost of inventories includes RMB14,644,000 (2006: RMB12,317,000) relating to staff costs, depreciation and amortisation expenses, which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses.

6. FINANCE COSTS

	2007 **RMB'000**	2006 RMB'000
Interest expense on bank loans, repayable within five years	**4,480**	3,730
Total interest expense on financial liabilities not at fair value through profit or loss	**4,480**	3,730

Notes To The Financial Statements

For the year ended 31 December 2007

7. TAXATION

a) Taxation in the income statement represents:

	2007	2006
	RMB'000	*RMB'000*
Current tax		
PRC enterprise income tax	**2,606**	3,137
(Over)-provision in respect of prior years		
PRC enterprise income tax	**(353)**	–
	2,253	3,137

The provision for PRC enterprise income tax is calculated at the standard rate of 33% on the estimated assessable income for the years ended 31 December 2006 and 2007 as determined in accordance with the relevant income tax rules and regulations of the PRC.

Reconciliation between tax expense and accounting profit at applicable tax rate:

	2007	2006
	RMB'000	*RMB'000*
Profit before taxation	**7,822**	7,198
Calculated at the taxation rate of 33%	**2,581**	2,375
Over-provision in respect of prior years	**(353)**	–
Expenses not deductible for taxation purposes	**25**	762
Actual tax expense	**2,253**	3,137

b) Taxation in the balance sheet represents:

	2007	2006
	RMB'000	*RMB'000*
Balance of PRC enterprise income tax brought forward	**1,204**	1,114
Provision for PRC enterprise income tax for the year	**2,606**	3,137
Over-provision in respect of prior years	**(353)**	–
Payment of PRC enterprise income tax	**(2,909)**	(3,047)
Balance of PRC enterprise income tax carried forward	**548**	1,204

c) There was no material unprovided deferred taxation for the years ended 31 December 2006 and 2007.

7. TAXATION *(Continued)*

d) On 16 March 2007, the People's Republic of China promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China . On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate from 33% to 25% for the company from 1 January 2008.

8. DIVIDENDS

The directors resolved not to declare any dividend in respect of the year ended 31 December 2007 (2006: Nil).

9. EARNINGS PER SHARE

The basic earnings per share is calculated based on the profit attributable to shareholders of RMB5,569,000 (2006: RMB4,061,000) and the weighted average number of 76,600,000 shares in issue during the two years ended 31 December 2006 and 2007.

No diluted earnings per share have been presented as the company did not have any dilutive potential shares for the two years ended 31 December 2006 and 2007.

10. RETIREMENT BENEFIT COSTS

The company contributes on a monthly basis to the defined contribution retirement benefit plan organised by the relevant municipal government in the PRC. The contribution is calculated based on 7.5% on the employees' salary or the relevant rates charged by the municipal government. The municipal governments undertake to assume the retirement benefit obligations of all existing and future retiring 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 2006 and 31 December 2007 were approximately RMB483,000 and RMB760,000 respectively.

Notes To The Financial Statements

For the year ended 31 December 2007

11. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The details of emoluments of every Director and Supervisor are shown below:

Year ended 31 December 2007

	Fees *RMB'000*	Basic salaries, allowances and other benefits *RMB'000*	Pension Scheme contributions *RMB'000*	Total *RMB'000*
Executive directors				
Tang Li Min *(Chairman)*	–	–	–	–
Hong Guo Ding	–	–	–	–
Fei Guo Yang	–	49	2	51
Hong Chun Qiang	–	48	1	49
Non-executive directors				
Tang Cheng Fang	–	–	–	–
Li Zhang Rui	–	49	–	49
Independent non-executive directors				
Wang He Rong	–	30	–	30
Lu Guo Qing	–	30	–	30
Ma Hong Ming	–	–	–	–
Supervisors				
Hong Jin Shiu	–	48	2	50
Feng Yun Lin	–	–	–	–
Chen Jin Long	–	42	1	43
Independent supervisors				
Wang Zhong	–	30	–	30
Wang Ye Gang	–	30	–	30
	–	356	6	362

11. DIRECTORS' AND SUPERVISORS' EMOLUMENTS *(Continued)*

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*
Executive directors				
Tang Li Min *(Chairman)*	–	–	–	–
Hong Guo Ding	–	–	–	–
Fei Guo Yang	–	50	1	51
Hong Chun Qiang	–	49	1	50
Non-executive directors				
Tang Cheng Fang	–	–	–	–
Li Zhang Rui	–	49	–	49
Independent non-executive directors				
Wang He Rong	–	30	–	30
Lu Guo Qing	–	30	–	30
Ma Hong Ming	–	–	–	–
Supervisors				
Hong Jin Shiu	–	48	1	49
Feng Yun Lin	–	–	–	–
Chen Jin Long	–	30	1	31
Independent supervisors				
Wang Zhong	–	30	–	30
Wang Ye Gang	–	30	–	30
	–	346	4	350

Notes To The Financial Statements

For the year ended 31 December 2007

12. INDIVIDUALS WITH HIGHEST EMOLUMENTS

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

	2007 RMB'000	2006 RMB'000
Salaries and other emoluments	**252**	244
Pension scheme contributions	**5**	5
	257	249
Number of directors	**3**	3
Number of employees	**2**	2
	5	5

Their emoluments were all within the band RMB0-RMB1,000,000.

During the years ended 31 December 2006 and 2007, no directors and supervisors of the company waived any emoluments and no emoluments were paid by the company to any of the directors, supervisors and the five highest paid individuals of the company as an inducement to join or upon joining the company or as compensation for loss of office.

13. SEGMENT INFORMATION

Segment 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, that is, manufacturing and sale of universal joints and automotive components for automobiles including cardan universal joints, wing bearing universal joints and differential spiders.

13. SEGMENT 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.

	2007	2006
	RMB'000	*RMB'000*
Revenue from external customers		
– PRC		
Domestic sales	**30,854**	24,067
Import and export corporations	**51,269**	48,465
– Overseas		
Europe	**38,315**	23,748
Asia	**15,968**	15,950
Others	**3,984**	1,003
Total revenue from external customers	**140,390**	113,233

At 31 December 2006 and 31 December 2007, all the company's assets and capital expenditure were located in the PRC.

Notes To The Financial Statements

For the year ended 31 December 2007

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings held for own use carried at cost	Machinery and equipment	Office equipment and furniture	Motor vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost					
At 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 and 1 January 2007	26,726	38,681	1,388	1,067	67,862
Additions	446	3,543	45	576	4,610
Transfer from construction-in-progress	–	1,028	–	–	1,028
Disposals	–	(581)	(88)	(276)	(945)
At 31 December 2007	27,172	42,671	1,345	1,367	72,555
Accumulated depreciation and impairment losses					
At 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 disposals	–	(268)	–	(246)	(514)
At 31 December 2006 and 1 January 2007	3,413	9,153	765	241	13,572
Charge for the year	923	3,194	299	138	4,554
Written back on disposals	–	(391)	(83)	(88)	(562)
At 31 December 2007	4,336	11,956	981	291	17,564
Net book value					
At 31 December 2006	23,313	29,528	623	826	54,290
At 31 December 2007	22,836	30,715	364	1,076	54,991

At 31 December 2007, the company's buildings with an aggregate net book value of approximately RMB22,836,000 (2006: RMB23,313,000) were pledged to secure general banking facilities granted to the company (note 23).

15. LEASE PREMIUM FOR LAND

	2007	2006
	RMB'000	*RMB'000*
Cost		
At 1 January and 31 December	**6,961**	6,961
Accumulated amortisation		
At 1 January	**522**	383
Amortisation for the year	**139**	139
At 31 December	**661**	522
Net carrying amount		
At 31 December	**6,300**	6,439
Outside Hong Kong, held on:		
Medium-term lease (leases of between 10 to 50 years)	**6,300**	6,439
Analysed for reporting purposes as:		
Current asset	**139**	139
Non-current asset	**6,161**	6,300
	6,300	6,439

As at the balance sheet date, the lease premium for land was pledged to secure general banking facilities granted to the company (note 23).

16. CONSTRUCTION-IN-PROGRESS

	2007	2006
	RMB'000	*RMB'000*
At 1 January	**–**	2,505
Additions	**1,028**	1,738
Transfer to property, plant and equipment	**(1,028)**	(4,243)
At 31 December	**–**	–

Notes To The Financial Statements

For the year ended 31 December 2007

17. INVENTORIES

	2007	2006
	RMB'000	*RMB'000*
Raw materials	**7,321**	6,725
Work-in-progress	**17,193**	14,401
Finished goods	**10,101**	8,449
	34,615	29,575

18. TRADE AND OTHER RECEIVABLES

	2007	2006
	RMB'000	*RMB'000*
Trade receivables	**43,709**	37,699
Bills receivables	**9,258**	2,790
	52,967	40,489
Prepayments, deposits and other receivables	**3,097**	15,662
Trade deposits paid to suppliers	**3,151**	3,661
	59,215	59,812

a) The aging analysis of the trade and bills receivables is as follows:

	2007	2006
	RMB'000	*RMB'000*
Within 30 days	**19,284**	15,107
31–60 days	**12,218**	9,253
61–90 days	**8,008**	8,044
91–180 days	**12,348**	6,098
More than 180 days	**6,550**	6,903
	58,408	45,405
Less: Impairment loss on trade receivables	**(5,441)**	(4,916)
	52,967	40,489

18. TRADE AND OTHER RECEIVABLES *(Continued)*

b) The normal credit period granted to the customers of the company is 30 to 120 days (2006: 30 to 120 days). Impairment loss on trade receivables was made and thereafter written off when collection of full amount was no longer probable. Bad debts are written off as incurred.

c) Included in trade and bills receivables in the balance sheet are mainly the following amounts denominated in a currency other than the functional currency of the company to which they relate:

	2007	2006
	’000	*’000*
United States Dollars (“US$”)	**2,287**	1,278

d) The movement of impairment loss on trade receivables is as follows:

	2007	2006
	RMB’000	*RMB’000*
At 1 January	**4,916**	3,632
Impairment loss on trade receivables recognised during the year	**525**	1,284
At 31 December	**5,441**	4,916

e) Trade debtors and bills receivables that are not impairment

The aging analysis of trade debtors and bills receivables that are neither individually nor collectively considered to be impaired are as follows:

	2007	2006
	RMB’000	*RMB’000*
Neither past due nor impaired	**46,940**	37,713
Less than 2 months past due	**4,050**	229
2 months to 1 year past due	**1,460**	1,488
Over 1 year past due	**517**	1,059
	6,027	2,776
	52,967	40,489

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the company. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The company does not hold any collateral over these balances.

Notes To The Financial Statements

For the year ended 31 December 2007

19. DEPOSIT PAID FOR THE PROPOSED ACQUISITION OF A SUBSIDIARY

	2007	2006
	RMB'000	*RMB'000*
Zhejiang Tianhao Industrial Company Limited (浙江天昊實業有限公司)	**30,000**	–

On 9 September 2007, the company entered into a share transfer agreement (the "Huasheng Share Transfer Agreement") with certain independent third parties, Creative Wave Holdings Limited and Mr. Yang Steven Songxin, for the acquisition of 45% equity interest in Shaoxing Huasheng Environment Protection Science And Technology Company Limited at a cash consideration RMB180 million. On the same day, the company entered into another share transfer agreement (the "Huaxin Share Transfer Agreement") with certain other independent third parties, Zhejiang Tianhao Industrial Company Limited ("Tianhao"), Mr. Zhao Mao Xiang and Mr. Wang Guo Li, for the acquisition of 100% equity interest in Shaoxing Huaxin Environmental Technology Company Limited which owns a 30% equity interest in Huasheng at a cash consideration of RMB120 million. On 24 September 2007, the company paid RMB30 million to Tianhao as deposit for the Huaxin Share Transfer Agreement. The balance of the acquisition consideration payable will be funded by the issue by the company of 100,000,000 new H shares and 40,000,000 new domestic shares, after approval to issue is obtained from the China Securities Regulatory Commission. In the event that the Huaxin Share Transfer Agreement is terminated, the company shall issue a written notice to Tianhao, and Tianhao shall, within the time specified by the company, return to the company the deposit of RMB30 million in cash without any interests accrued thereto. Also refer to note 25 (Note 2) and note 30.

20. CASH AND CASH EQUIVALENTS

	2007	2006
	RMB'000	*RMB'000*
Short-term time deposits	**–**	40,200
Cash at bank and in hand	**35,521**	5,429
	35,521	45,629

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 their fair value.

Notes To The Financial Statements

For the year ended 31 December 2007

20. 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 company to which they relate:

	2007	2006
	'000	*'000*
Hong Kong Dollars ("HKD")	**HK$42**	HK$33
United States Dollars ("USD")	**USD33**	USD22

21. TRADE AND OTHER PAYABLES

	2007	2006
	RMB'000	*RMB'000*
Trade payables	**20,614**	14,492
Other payables	**10,396**	8,405
Value added tax, business tax and other taxes payable	**8**	349
Accruals	**661**	825
Trade deposits received from customers	**1,053**	427
	32,732	24,498

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

	2007	2006
	RMB'000	*RMB'000*
Due within 3 months	**20,034**	13,413
Due after 3 months but within 6 months	**488**	593
Due after 6 months but within 12 months	**8**	318
Due after 12 months	**84**	168
	20,614	14,492

22. AMOUNT DUE TO A RELATED COMPANY

The amount due to a related company is unsecured, interest-free and is repayable on demand.

Notes To The Financial Statements

For the year ended 31 December 2007

23. SHORT-TERM BANK LOANS

The short-term bank loans are secured by the lease premium for land and buildings of the company and the guarantees provided by the parties set out in note 28(c) (2006: the short-term bank loans were secured by the lease premium for land and buildings of the company), bearing interest at a range of 7.029% to 9.855% per annum and are repayable within one year. The carrying amount of the lease premium for land and buildings pledged as at 31 December 2007 were RMB6,300,000 (2006: RMB6,439,000) and RMB22,836,000 (2006: RMB23,313,000) respectively.

24. LONG-TERM BANK LOANS

The bank loans are for financing the purchase of property, plant and equipment. One of the bank loans amounting to RMB12,000,000 is secured by the corporate guarantee of a third party, 浙江江龍紡織印染有限公司, as set out in note 28(c). The bank loan bears interest at 4.98% per annum and is wholly repayable in February 2009.

Another bank loan amounting to RMB15,000,000 is secured by the corporate guarantee of a third party, 浙江南宇輕紡有限公司, as set out in note 28(c). The bank loan bears interest at 4.98% per annum and is wholly repayable in January 2010.

All of the non-current interest-bearing borrowings are carried at amortised cost. None of the non-current interest-bearing borrowings is expected to be settled within one year.

25. SHARE CAPITAL

	2007 and 2006	
	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 1)*	53,600,000	53,600
H Shares of RMB 1 each	23,000,000	23,000
	76,600,000	76,600

Note:

1) On 9 August 2002, the company was transformed into a joint stock limited company and obtained the enterprise legal person business licence issued by the Administration Bureau of Industry and Commerce of the Zhejiang Province. The registered paid-in capital, retained profits, 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.

2) In relation to the proposed acquisition of subsidiaries as described in note 19, the proposed number of 100,000,000 new H shares ("New H Shares") and 40,000,000 new domestic shares ("New Domestic Shares") will be issued for funding the proposed acquisition of Huasheng and Huaxin respectively at a placing price ranging from HK$2.32 to HK$3.5 and yielding aggregate proceeds of issue of between HK$324,800,000 and HK$490,000,000. Also refer to note 30.

26. RESERVES

	Share premium *RMB'000*	Statutory surplus reserve *RMB'000*	Statutory public welfare fund *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*
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	246	5,044	–	26,843	32,133
At 1 January 2007	**246**	**5,044**	**–**	**26,843**	**32,133**
Net profit for the year	**–**	**–**	**–**	**5,569**	**5,569**
Transfer	**–**	**520**	**–**	**(520)**	**–**
At 31 December 2007	**246**	**5,564**	**–**	**31,892**	**37,702**

(a) Share premium

Share premium represents cash contributed from the shareholders in excess of the registered paid-in capital of the company.

(b) 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 capital in proportion to their existing shareholdings, provided that the balance after such conversion is not less than 25% of the registered capital.

(c) 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.

Notes To The Financial Statements

For the year ended 31 December 2007

26. RESERVES *(Continued)*

(d) 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 is deemed to be the lesser of (i) the net profit determined in accordance with the PRC accounting rules and regulations; and (ii) the net profit determined in accordance with the accounting principles generally accepted in Hong Kong.

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

(i) making up cumulative prior years' losses, if any;

(ii) allocations of 10% of net profit after tax, as determined in accordance with the PRC accounting rules and regulations, to the company's statutory surplus reserve. When the balance of the statutory surplus reserve reaches 50% of the company's registered capital, any further appropriation is optional;

(iii) allocations of 5% to 10% of net profit after tax, as determined in accordance with the PRC accounting rules and regulations, to the company's statutory public welfare fund; and

(iv) allocations to the discretionary surplus reserve, if approved by the shareholders.

The distributable reserves of the company as at 31 December 2006 and 31 December 2007 amounted to approximately RMB26,843,000 and RMB31,892,000 respectively.

27. CAPITAL COMMITMENTS

The company's capital commitments outstanding at 31 December 2006 and 31 December 2007 and not provided for in the financial statements are as follows:

	2007	2006
	RMB'000	*RMB'000*
Contracted for but not provided for	**748**	6,703

28. 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:

	2007 RMB'000	2006 RMB'000
Zhejiang Prospect New Synthetic Fribre Company Limited ("New Synthetic") *		
Electricity fee paid to a related company	**7,343**	5,986

During the two years ended 31 December 2007 and 31 December 2006, electricity fees were paid to the related company was charged in the normal course of business as the company has to share the electricity expense with the related company and prices were calculated based on actual electricity consumed by the company at the average unit rate charged by the power company.

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

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

	2007 RMB'000	2006 RMB'000
Payables to New Synthetic *(Note 22)*	**1,060**	310

(c) Mr. Tang, Zhejiang Prospect Industrial Group Limited ("Zhejiang Industrial"), Guang Yu Group Co., Limited ("Guang Yu"), Zhejiang Yongli Industry Group Co., Ltd. ("Zhejiang Yongli"), 浙江江龍紡織印染有限公司 ("江龍紡織") and 浙江南宇輕紡有限公司 ("南宇輕紡"), have given several guarantees in favour of banks to secure bank loans of the company amounting to RMB47,000,000.

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

Guang Yu, Zhejiang Yongli, 江龍紡織 and 浙江南宇 are companies incorporated in the PRC. Zhejiang Industrial has given several guarantees to Guang Yu, Zhejiang Yongli, 江龍紡織 and 南宇輕紡 for obtaining their own bank loans. In return, Guang Yu, Zhejiang Yongli, 江龍紡織 and 南宇輕紡 provide guarantees to the company.

Notes To The Financial Statements

For the year ended 31 December 2007

28. RELATED PARTY TRANSACTIONS *(Continued)*

(d) Compensation of key management personnel of the company

	2007	2006
	RMB'000	*RMB'000*
Salaries, wages and other benefits	**49**	50
Post-employment benefits	**1**	1
	50	51

Note: Further details of post-employment benefits and directors' emoluments are included in notes 10 and 11 to the financial statements.

29. ULTIMATE CONTROLLING PARTY

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

30. SUBSEQUENT EVENTS

On 24 February 2008, China Securities Regulatory Commission had issued an approval notice to the company approving its application to issue additional New H Shares for funding the proposed acquisition of two environmental-protection companies as detailed in notes 19 and 25. Up to the date of approval of these financial statements, the issue of the New H Shares and the New Domestic Shares are still not yet made.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The company's major financial instruments include equity investments, borrowings, trade receivables and trade payables. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include credit risk, liquidity risk, currency risk, interest rate risk and other price risk. The policies on how to mitigate these risk are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

a) Credit risk

i) As at 31 December 2007, the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance.

ii) In respect of trade and other receivables, in order to minimize risk, the management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Credit evaluations of its customers' financial position and condition is performed on each and every major customer periodically. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The company does not require collateral in respect of its financial assets. Debts are usually due within 120 days from the date of billing.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

a) Credit risk *(Continued)*

iii) In respect of trade receivables, the company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk. At the balance sheet date, the company has a certain concentration of credit risk as 21% (2006: 21%) and 39% (2006: 41%) of the total trade and other receivables was due from the company's largest customer and the five largest customers respectively.

iv) The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Further quantitative disclosures in respect of the company's exposure to credit risk arising from trade and other receivables are set out in note 18.

b) Liquidity risk

The company is responsible for its own cash management, including the short-term investment of cash surpluses and the raising of loans to cover expected cash demand, subject to board approval. 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 amount of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. The company relies on bank borrowings as a significant source of liquidity.

The following liquidity and interest risk tables set out the remaining contractual maturities at the balance sheet date of the company's financial liabilities based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the company required to pay:

	2007					2006				
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total contractual undiscounted cash flow	Carrying amount	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total contractual undiscounted cash flow	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Secured bank loans	48,340	12,996	15,075	76,411	72,000	51,032	598	12,100	63,730	61,000
Trade and other payables	32,732	-	-	32,732	32,732	24,498	–	–	24,498	24,498
	81,072	12,996	15,075	109,143	104,732	75,530	598	12,100	88,228	85,498

Notes To The Financial Statements

For the year ended 31 December 2007

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

c) Interest rate risk

The company's interest-rate risk mainly arises form long-term bank borrowings. The company's long-term bank borrowings were issued at fixed rates, which expose the company to fair value interest-rate risk.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for long-term bank borrowings at the balance sheet date.

A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. The analysis is performed on the same basis for 2006.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the company's profit for the year ended 31 December 2007 would decrease/increase by approximately RMB181,000 (2006: decrease/increase by approximately RMB80,000).

d) Currency risk

Presently, there is no hedging policy with respect to the foreign exchange exposure. The company's transactional currencies are RMB and USD as substantially all the turnover is denominated in RMB and USD.

With the natural hedging of the revenue and costs being denominated in RMB and USD, the company is subject to transactional foreign exchange exposure. RMB is not a freely convertible currency in the international market. The exchange rate of RMB is determined by the government of the PRC and remittance of these funds out of the PRC is subject to exchange restriction imposed by the government of the PRC.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

d) Currency risk *(Continued)*

i) *Exposure to currency risk*

The following table details the company's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	2007		2006	
The Company	***USD'000***	***HKD'000***	*USD'000*	*HKD'000*
Cash and cash equivalents	**33**	**42**	22	33
Overall exposure arising from recognised assets and liabilities	**2,287**	**–**	1,278	–

ii) *Sensitivity analysis*

The following table indicates the approximate change in the company's profit after tax (and retained profits) in response to reasonably possible changes in the foreign exchange rates to which the company has significant exposure at the balance sheet date.

	2007		2006	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits *RMB'000***	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits *RMB'000*
USD	**3%**	**342**	3%	204
	(3)%	**(342)**	(3)%	(204)
HKD	**10%**	**2**	10%	2
	(10)%	**(2)**	(10)%	(2)

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to the company's exposure to currency risk for both derivative and non derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the company entities profit after tax measured in the respective functional currencies, translated into Renminbi at the exchange rate ruling at the balance sheet date for presentation purposes. The analysis is performed on the same basis for 2006.

Notes To The Financial Statements

For the year ended 31 December 2007

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

e) Capital management

The primary objective of the company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives or policies during the year.

The company monitors capital on the basis of the debt-to-adjusted capital ratio, which is calculated as net debt divided by adjusted capital. Net debt is calculated as interest-bearing bank loans less cash and cash equivalents. Adjusted capital represents equity attributable to the equity holders of the company and includes the amount due to a related company. The debt-to-adjusted capital ratios at 31 December 2006 and 31 December 2007 are as follows:

	2007	2006
	RMB'000	*RMB'000*
Interest-bearing bank loans	**72,000**	61,000
Less: Cash and cash equivalents	**(35,521)**	(45,629)
Net debt	**36,479**	15,371
Equity	**114,302**	108,733
Add: Amount due to a related company	**1,060**	310
Adjusted capital	**115,362**	109,043
Debt-to-adjusted capital ratio	**32%**	14%

f) Fair values

The fair values of cash and cash equivalents, bank deposits, debtors, other receivables, trade and other payables are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments. The fair value of financial assets traded on active liquid markets are determined with reference to listed market prices. The carrying amounts of bank loans approximates their fair values.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

g) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of the following financial instruments.

i) Securities

Fair value is based on listed market price at the balance sheet date without any deduction for transaction costs.

ii) Interest-bearing loans and borrowings

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

iii) Financial guarantees

The fair value of financial guarantees issued is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made.

Financial Summary

Results

	For the year ended 31 December				
	2007	2006	2005	2004	2003
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Restated)	(Restated)
Turnover	**140,390**	113,233	94,759	79,071	66,089
Profit for the year	**5,569**	4,061	7,598	9,133	9,180

Assets and liabilities

	As at 31 December				
	2007	2006	2005	2004	2003
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Restated)	(Restated)
Total assets	**220,642**	195,745	178,581	151,272	114,813
Total liabilities	**(106,340)**	(87,012)	(73,909)	(54,198)	(50,118)
Total equity	**114,302**	108,733	104,672	97,074	64,695

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 2007 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 19 May 2008 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 31 December 2007;

2. To consider and approve the audited financial statements and the report of the auditors of the Company for the year ended 31 December 2007;

3. To consider and approve the report of the supervisory committee of the Company for the year ended 31 December 2007;

4. To consider and approve remuneration proposals for directors and supervisors of the Company for the financial year ended 31 December 2008;

5. To re-elect the retiring directors and supervisors of the Company and approve their remuneration proposals and the term of service contracts with the relevant directors and supervisors;

6. To consider the re-appointment of CCIF CPA Limited as the Company's auditors and to authorize the board of directors of the Company to fix their remuneration;

7. To consider and approve the appointment of Shu Lun Pan Certified Public Accountants Co., Ltd Hang Zhou Branch (上海立信長江會計師事務所有限公司杭州分所) as the Company's PRC auditors and to authorize the board of directors of the Company to fix their remuneration;

8. To consider and approve any proposal put forward by any shareholder holding 5% or more of the shares with voting rights at such meeting; and

9. To transact any other ordinary business of the Company.

By Order of the Board

Zhejiang Prospect Company Limited*
Mr. Tang Li Min
Chairman

Zhejiang Province, the People's Republic of China
31 March 2008

* *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 Monday, 21 April, 2008 to Monday, 19 May 2008 (both dates inclusive), during which no transfer of shares will be registered.

5. Holders of domestic shares and H shares whose names stand on the register of members of the Company at the close of business on Friday, 18 April 2008 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 Tuesday, 29 April 2008. The receipt can be delivered in person or by mail.

7. The annual general meeting is expected not to last for more than half a day. Attendants shall bear their own traveling and accommodation expenses.

8. At the annual general meeting, ordinary resolutions will be proposed to re-elect Mr. Tang Li Min, Mr. Hong Guo Ding, Mr. Fei Guo Yang (as executive directors), Mr. Tang Cheng Fang, Mr. Li Zhang Rui (as non-executive directors), Mr. Wang He Rong and Mr. Lu Guo Qing (as independent non-executive directors) as Directors of the Company, and to re-elect Mr. Feng Yun Lin, Mr. Chen Jin Long, Mr. Wang Zhong and Mr. Wang Ye Gang as Supervisors of the Company. To enable shareholders of the Company to make an informed decision on the re-election of these retiring Directors and Supervisors, the biographical details of the retiring Directors and Supervisors, as requested under Chapter 17 of the GEM Listing Rules, are set out as follows:

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

   Mr. Tang Li Min (唐利民先生), aged 45, 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.

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If Mr. Tang is re-elected, he will enter into a service contract with the Company for a term of three years, subject to early termination clause contained therein. Mr. Tang does not receive any emoluments for his directorship of the Company. As at the date of this notice, Mr. Tang personally owned 36,626,666 domestic shares of the Company, and as Mr. Tang is the father of Mr. Tang Liu Jun who is under the age of 18, Mr. Tang shall be deemed under the provisions of the Securities and Futures Ordinance to be interested in the 4,466,667 domestic shares of the Company owned by Mr. Tang Liu Jun. The Board has been granted conditional specific mandates to, inter alia, issue up to a maximum of 40,000,000 additional domestic shares to Mr. Tang. Mr. Tang has undertaken to the Company that he will subscribe the number of new domestic shares that the Company may issue to him. Save as aforesaid, Mr. Tang is not connected with any directors, supervisors, senior management or management or substantial or controlling shareholders of the Company.

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

Mr. Hong Guo Ding (洪國定先生), aged 44, is the managing Director, executive Director and 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* (紹興縣展望計織廠); from January 1993 to January 1995, he was the deputy general manager of Shaoxing Prospect Industrial Company Limited* (紹興縣展望實業有限公司) and factory head of Shaoxing Huqiao Garment Factory (紹興縣滬橋製衣廠); and from February 1995 to August 1999, he was the deputy general manager of Zhejiang Prospect Industrial Group Limited* (浙江展望實業集團有限公司). From September 2000 onwards, he has been the general manager of Zhejiang Prospect Industrial Group Limited* (浙江展望實業集團有限公司). He completed his tertiary education in administration and management at Hangzhou University (杭州大學) in 1996. He was accredited as "Economist" by the Personnel Bureau of Shaoxing County (紹興縣人事局) in July 1998. He has over 10 years of experience in corporate administrative management. He joined Shaoxing Prospect Universal Joint Company Limited* (紹興展望萬向節有限公司), the predecessor of the Company, at the time of its establishment in 1995 as a supervisor.

If Mr. Hong is re-elected, he will enter into a service contract with the Company for a term of three years, subject to early termination clause contained therein. Mr. Hong does not receive any emoluments for his directorship of the Company. As at the date of this notice, Mr. Hong personally owned 3,216,000 domestic shares of the Company. Mr. Hong is not connected with any directors, supervisors senior management or management or substantial or controlling shareholders of the Company.

3. Mr. Fei Guo Yang (費國楊先生), Executive Director

Mr. Fei Guo Yang (費國楊先生), aged 37, 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.

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If Mr. Fei is re-elected, he will enter into a service contract with the Company for a term of three years, subject to early termination clause contained therein. Pursuant to his current service contract, Mr. Fei is entitled to an annual remuneration of RMB51,000. His emoluments are determined with reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions. As at the date of this notice, Mr. Fei personally owned 1,072,000 domestic shares of the Company. Mr. Fei is not connected with any directors, supervisors, senior management or management or substantial or controlling shareholders of the Company.

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

Mr. Tang Cheng Fang (唐成芳先生), aged 43, 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.

If Mr. Tang is re-elected, he will enter into a service contract with the Company for a term of three years, subject to early termination clause contained therein. Mr. Tang does not receive any emoluments for his directorship of the Company. As at the date of this notice, Mr. Tang personally owned 2,680,000 domestic shares of the Company. Mr. Tang is not connected with any directors, supervisors, senior management or management or substantial or controlling shareholders of the Company.

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

Mr. Li Zhang Rui (李張瑞先生), aged 42, 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.

If Mr. Li is re-elected, he will enter into a service contract with the Company for a term of three years, subject to early termination clause contained therein. Pursuant to his current service contract, Mr. Li is entitled to an annual remuneration of RMB49,000. His emoluments are determined with reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions. Mr. Li does not have any interest in any shares or underlying shares of the Company within the meaning of the Securities and Futures Ordinance. Mr. Li is not connected with any directors, supervisors, senior management or management or substantial or controlling shareholders of the Company.

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

Mr. Wang He Rong (王和榮先生), aged 47, a senior accountant, is an independent non-executive Director. From April 1994 to January 2000, he worked for Shaoxing Hongtai Certified Public Accountants* (紹興宏泰會計師事務所). From February 2000 onwards, he has been the chief accountant of Shaoxing Hongtai Certified Public Accountants* (紹興宏泰會計師事務所). He completed his tertiary education in economics and management at Zhejiang China's Communist Party School Distance Learning College* (中共浙江省委黨校函授學院). He was appointed as an independent non-executive Director in March 2003.

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If Mr. Wang is re-elected, he will enter into a service contract with the Company for a term of three years, subject to early termination clause contained therein. Pursuant to his service contract, Mr. Wang is entitled to an annual salary of RMB30,000. His emoluments are determined with reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions. Mr. Wang does not have any interest in any shares or underlying shares of the Company within the meaning of the Securities and Futures Ordinance. Mr. Wang is not connected with any directors, supervisors, senior management or management or substantial or controlling shareholders of the Company.

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

Mr. Lu Guo Qing (陸國慶先生), aged 43, 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.

If Mr. Lu is re-elected, he will enter into a service contract with the Company for a term of three years, subject to early termination clause contained therein. Pursuant to his current service contract, Mr. Lu is entitled to an annual salary of RMB30,000. His emoluments are determined with reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions. Mr. Lu does not have any interest in any shares or underlying shares of the Company within the meaning of the Securities and Futures Ordinance. Mr. Lu is not connected with any directors, supervisors, senior management or management or substantial or controlling shareholders of the Company.

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

Mr. Feng Yun Lin (馮雲林先生), aged 49, 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.

If Mr. Feng is re-elected, he will enter into a service contract with the Company for a term of three years, subject to early termination clause contained therein. Mr. Feng does not receive any emoluments for his services as a supervisor of the Company. As at the date of this notice, Mr. Feng personally owned 1,072,000 domestic shares of the Company. Mr. Feng is not connected with any directors, supervisors, senior management or management or substantial or controlling shareholders of the Company.

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

Mr. Chen Jin Long (陳金龍先生), aged 34, 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. If Mr. Chen is re-elected, he will enter into a service contract with the Company for a term of three years, subject to early termination clause contained therein. Pursuant to his current service contract, Mr. Chen is entitled to an annual remuneration of RMB43,000. His emoluments are determined with reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions. Mr. Chen does not have any interest in any shares or underlying shares of the Company within the meaning of the Securities and Futures Ordinance. Mr. Chen is not connected with any directors, supervisors, senior management or management or substantial or controlling shareholders of the Company.

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

Mr. Wang Zhong (王眾先生), aged 40, 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.

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If Mr. Wang is re-elected, he will enter into a service contract with the Company for a term of three years, subject to early termination clause contained therein. Pursuant to his current service contract, Mr. Wang is entitled to an annual salary of RMB30,000. His emoluments are determined with reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions. Mr. Wang does not have any interest in any shares or underlying shares of the Company within the meaning of the Securities and Futures Ordinance. Mr. Wang is not connected with any directors, supervisors, senior management or management or substantial or controlling shareholders of the Company.

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

Mr. Wang Ye Gang (王葉剛先生), aged 39, 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.

If Mr. Wang is re-elected, he will enter into a service contract with the Company for a term of three years, subject to early termination clause contained therein. Pursuant to his current service contract, Mr. Wang is entitled to an annual salary of RMB30,000. His emoluments are determined with reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions. Mr. Wang does not have any interest in any shares or underlying shares of the Company within the meaning of the Securities and Futures Ordinance. Mr. Wang is not connected with any directors, supervisors, senior management or management or substantial or controlling shareholders of the Company.

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 supervisors 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."

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