Annual Report **2009**

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

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (THE "GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate companies to which a high investment risk may be attached than other companies listed on the Stock Exchange. Prospective investor should be aware of the potential risk of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

Contents

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 Shui
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
Suites 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

08273

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 2009.

BUSINESS REVIEW

Due to global recession, the Company had a slight decrease in growth in 2009. The commitment and hard work devoted by the staff members under the leadership of the Board will continue to lay 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 2009 amounted to 8.26 million sets and 8.74 million sets respectively, representing a decrease of approximately 27.5% and 20% as compared with 11.39 million sets and 10.92 million sets of the previous year.

Turnover for the year ended 31 December 2009 amounted to approximately RMB88.16 million, representing an approximately 32.24% decrease year on year as compared to approximately RMB130.11 million in 2008. Net loss after tax amounted to approximately RMB9.90 million, a decrease of approximately 860.29% as compared to profits of approximately RMB1.30 million in 2008.

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.

Expand product types

In order to increase the competitiveness of the Company and to satisfy the demands of customers, the Company will further expand its product types, including develop different product models and specifications. The Company has begun introducing related technology in 2009.

Chairman's Statement

Strengthen product research and development

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

Expand PRC and international markets

The Directors believe that the expansion of the Company's domestic and overseas sales networks will enhance its product sales.

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

Continually improve product quality

The Company has obtained the 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
11 March 2010

Management Discussion and Analysis

BUSINESS OVERVIEW

Due to global recession, the Company had a slight decrease in growth in 2009. The commitment and hard work devoted by the staff members under the leadership of the Board will continue to lay 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 2009 amounted to 8.26 million sets and 8.74 million sets respectively, representing a decrease of approximately 27.5% and 20% as compared with previous year of 11.39 million sets and 10.92 million sets.

Turnover for the year ended 31 December 2009 amounted to approximately RMB88.16 million, representing a decrease of approximately 32.24% year on year as compared to RMB130.11 million in 2008. Net loss after tax amounted to approximately RMB9.90 million, a decrease of approximately 860.29% as compared to profits of approximately RMB1.30 million in 2008.

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 2009, 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 RMB88.16 million in 2009, representing a decrease of approximately 32.24% year on year as compared to approximately RMB130.11 million in 2008. Export sales of approximately RMB38.34 million were contributed by overseas customers, sales of approximately RMB21.06 million to the import and export corporations, which were then sold to various overseas market; and local sales of RMB28.76 million.

Management Discussion and Analysis

COST OF SALES AND GROSS PROFIT

Cost of sales decreased from RMB112.84 million in 2008 to RMB76.54 million in 2009 or a decrease of approximately 32.17% as compared to the previous year. Gross margin of the Company's products is approximately the same in 2009 as in 2008.

OTHER REVENUE

Other operating income in 2009 amounted to RMB0.55 million, representing a decrease of RMB1.56 million from RMB2.11 million in 2008. This was mainly due to decrease in bank interest income and sales of scrap materials.

DISTRIBUTION COSTS AND ADMINISTRATIVE EXPENSES

Distribution expenses for 2009 totaled RMB2.42 million. This represents a decrease of RMB0.56 million, or approximately 18.8% from that of RMB2.98 million 2008. The decrease was in line with decrease in turnover.

In 2009, administrative expenses of the Company were approximately RMB13.63 million, representing an increase of RMB5.66 million or 71.02% compared to that of RMB7.97 million in 2008. The administrative expenses including management salaries, professional fees and depreciation were in line with last year.

OTHER OPERATING EXPENSES AND FINANCE COSTS

Other operating expenses for the financial year of 2009 amounted to RMB0.12 million, as compared to RMB0.17 million in 2008.

In the financial year of 2009, the net finance costs of approximately RMB5.85 million, comprised interest on bank advances and other borrowings, compared to 6.46% in 2008. The decrease was due to the decrease in loan amounts during the year.

ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENT

The Company did not have any significant acquisitions, disposals and investment during the reporting period.

Management Discussion and Analysis

EXPOSURE IN EXCHANGE RATE FLUCTUATIONS

Most of the Company's sales and raw materials purchases are settled in RMB. In such circumstances, the Directors considered that the exchange rate fluctuations were limited for the year of 2009. No instruments had been employed by the Company for any hedging purpose during the period.

SIGNIFICANT INVESTMENTS HELD

The Company has no significant investments held during the year of 2009.

FINANCIAL RESOURCES AND LIQUIDITY

The Company continued to be in a healthy financial position with shareholders' equity amounted to RMB105.71 million as at 31 December 2009 (2008: RMB115.60 million). Current assets amounted to RMB116.04 million as at 31 December 2009 (2008: RMB171.78 million), of which RMB37.06 million (2008: RMB40.85 million) were cash and cash equivalents. As at 31 December 2009, the Company had short-term bank loans of about RMB57.0 million (2008: RMB77.0 million) and no long-term bank loans (2008: RMB15.0 million). The short term bank loans were repayable within one year.

CONTINGENT LIABILITIES

As at 31 December 2009, the Directors were not aware of any material contingent liabilities.

CHARGES ON ASSETS

As at 31 December 2009, the short-term bank loans of RMB57 million were secured by the Company's land use rights and buildings, and conditional floating charge on machineries and inventories thereon, and guarantees provided by Mr. Tang Li Min, Miss Chen Yan Jing, Zhejiang Prospect New Synthetic Fribre Company Limited, 浙江嘉利蛋白纖維有限公司 and 浙江南宇輕紡有限公司, bearing interest at a range of 4.98% to 6.37% per annum and repayable within one year.

GEARING RATIO

The Company's gearing ratio, based on total liabilities to shareholders' equity, amounted to 0.77 (2008: 0.99) as at 31 December 2009.

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 2009, 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.

Management Discussion and Analysis

EMPLOYEE INFORMATION

During the year, the Company had an average number of employees of 403 (2008: 629). They were remunerated in accordance with their performance and market condition. Other benefits available to eligible employees include 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 32.62% of the total turnover in 2009, as compared to 20.83% of the total turnover in 2008. In addition, the Company sells its products to import and export corporations in the PRC, which accounted for 23.89% and 35.24% of the total turnover in 2009 and 2008 respectively. The Company has been selling its products directly to overseas customers in countries and regions including the United Kingdom, Taiwan, United States, India, Iran, Italy and Japan.

For 2009, direct sales to overseas customers represented approximately 43.49% (2008: 43.93%) of the Company's total turnover.

The management will continue to expand the Company's domestic and overseas sales networks. For the PRC market, the Company intends to increase its market share by expanding its sales and marketing team as well as establishing sales networks in certain regions of the PRC. For the overseas market, the Company intends to further expand its own export networks by boosting its direct export sales. It will strengthen its brand name promotion by means of advertisement, promotional campaigns and participating in automobile exhibitions to enhance the publicity of the Company.

Profiles of Directors, Supervisors and Senior Management

DIRECTORS

Executive Directors

Mr. Tang Li Min (唐利民先生), aged 47, 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 46, 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 39, 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 33, 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 in May 2004.

Non-executive Directors

Mr. Tang Cheng Fang (唐成芳先生), aged 45, 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 to May 2008, he was 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 44, 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 to December 2008, 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 49, 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 45, 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 PRC qualified attorney 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 is currently as independent non-executive director of Zhejiang Yonglong Enterprise Co., Ltd. (浙江永隆實業股份有限公司), whose shares are listed on GEM Board of the Stock Exchange. He was appointed as an independent non-executive Director in March 2003.

Profiles of Directors, Supervisors and Senior Management

Mr. Ma Hong Ming (馬洪明先生), aged 47, 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 was an independent director of Zhejiang Jing Gong Technology Company Limited* (浙江精工科技股份有限公司), a company whose shares are listed on the Shenzhen Stock Exchange. He has been appointed as an independent non-executive Director in May 2004.

SUPERVISORS

Mr. Hong Jin Shui (洪金水先生), aged 46, 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.

Mr. Feng Yun Lin (馮雲林先生), aged 52, 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 36, 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 42, is an independent Supervisor. He is responsible for supervising the Board, managers and other senior officers of the Company and reporting directly to the shareholders in general meeting of the Company. He is a practising attorney in the PRC. He is currently a deputy head (operations) of the Shanghai Branch of Beijing Jingdu Law Firm* (北京市京都律師事務所). Mr. Wang Zhong is a member of the law society in the PRC. In 2002, he attended training sessions for independent directors of listed companies held by China Securities Regulatory Commission and Fudan University. He was appointed as an independent supervisor in March 2003.

Mr. Wang Ye Gang (王葉剛先生), aged 41, 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 Zhejiang Botong Venture Capital Company Limited* (浙江博通創業投資有限公司). He was appointed as an independent supervisor in March 2003.

Profiles of Directors, Supervisors and Senior Management

SENIOR MANAGEMENT

Mr. Hong Jin Zhu (洪金柱先生), aged 42, 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 38, 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 44, 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.

Corporate Governance

The Company is committed to maintaining a high standard of corporate governance. The principles of good corporate governance emphasize transparency and accountability to shareholders, an effective Board for leadership and control of the Company, and high standards of business ethics and 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 to 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").

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 expertise 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 eight meetings of the Board held in 2009 and the average attendance rate was 70%.

All the Directors have access to timely information in relation to the Company's business and are free to 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 financial systems and internal controls and conduct of business in conformity with applicable laws and regulations. They acknowledge their responsibility for preparing the financial statements on a going concern basis, with supporting assumptions or qualifications as necessary. The Board is also responsible for presenting a balanced, clear and understandable assessment of annual, interim and quarterly reports, price-sensitive announcements and other disclosures required under the GEM Listing Rules and other statutory requirements.

Every newly appointed Director will meet with other fellow Directors and members of senior management, and will receive a comprehensive and tailored introduction 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 statutes 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 the end of the three-year period.

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

Corporate Governance

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 the Directors receive adequate information, which must be complete and reliable, in a timely manner and all Directors are properly briefed on the issues arising at the Board Meetings. He also ensures that:

– the Board works effectively and discharges its 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 financial systems 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 2009 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. The average attendance rate was 66%.

Corporate Governance

The duties of the Audit 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 to address 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;

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;

Corporate Governance

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.

Corporate Governance

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 2009 to review, inter alia, the composition of existing Board members and the Directors' remuneration and the meeting was attended by all of the members of the committee. The average attendance rate was 100%.

Duties of the Committee include the following:

(a) to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes;

(b) to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

(c) to make recommendations to the Board on relevant matters relating to the appointment or re- appointment of Directors and succession planning for Directors in particular the Chairman and the Chief Executive Officer;

(d) assess the independence of independent non-executive Directors;

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

(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;

Corporate Governance

(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.

Corporate Governance

ACCOUNTABILITY AND INTERNAL AUDIT

The Company's accounts are prepared in accordance with the GEM Listing Rules, the 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 authorization 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 2009, the Directors had:

(a) approved the 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 were prudent and reasonable; and ensured the accounts were prepared on the going concern basis.

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

A statement by the auditors about their reporting responsibilities is included in the Independent Auditor's Report on page 31.

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.

Corporate Governance

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 its 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 31 December 2009; 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 had been no major changes in the nature and extent of significant risks faced by the Company during the 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 had complied with the code provisions set out in the Code on Corporate Governance Practices as stated in Appendix 15 to the GEM Listing Rules in respect of maintaining an effective internal control system.

AUDITOR'S REMUNERATION

CCIF CPA Limited had been re-appointed as the Company's external auditor by the shareholders at the 2008 annual general meeting until the conclusion of the forthcoming annual general meeting. They are primarily responsible for providing audit services in connection with the annual financial statements.

During the year, the total remuneration in respect of audit services provided by the external auditor amounted to HK$0.44 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 had been made to all Directors who had confirmed that they had complied with the required standard regarding Directors' securities transactions throughout the year ended 31 December 2009.

Corporate Governance

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES OF THE COMPANY

As at 31 December 2009, 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

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: As Mr. Tang Li Min is the father of Mr. Tang Liu Jun who is under the age of 18, Mr. Tang Li Min shall, apart from the 36,626,666 shares beneficially owned by him, be deemed under the provisions of the SFO to be interested in the 4,466,667 shares owned by Mr. Tang Liu Jun.

Saved as disclosed above, as at 31 December 2009, none of the Directors, chief executives and supervisors of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 & 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors as referred to in Rule 5.46 of the GEM Listings Rules.

Corporate Governance

OTHER PERSONS

So far as was known to any Director or chief executive of the Company, as at 31 December 2009, 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 2009, 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 the 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 2009.

PRINCIPAL ACTIVITIES AND SEGMENT INFORMATION 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.

Segment information of operation of the Company for the year is set out in note 14 to the financial statements.

The results and the state of affairs of the Company for the year ended 31 December 2009 are set out on pages 32 to 71 of the annual report.

MAJOR CUSTOMERS AND SUPPLIERS

The Company's sales to the five largest customers accounted for less than 50% of the Company's turnover during the financial year. The Company's sales to the largest customer accounted for 11% 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 72.88% of the total purchases. The Company's purchases attributable to the largest supplier accounted for 45.7% of the Company's total purchases during the financial year. At no time during the year had the Directors, their respective associates or any shareholders of the Company (who, to the knowledge of the Directors, owned 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 2009 and the state of the Company's affairs as at the date are set out in the financial statements on pages 32 to 35.

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 15 to the financial statements.

SHARE CAPITAL

Details of the share capital during the year are set out in note 26 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 27 on the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2009, the Company's reserves available for distribution as dividends, calculated in accordance with the relevant rules and regulations, amounted to RMB23.15 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 29 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 at the shareholder's meetings. Save as disclosed above, no Director and supervisor has an unexpired service contract which is not determinable by the Company within one year without payment of compensation, other than normal statutory obligations.

DIRECTORS AND SUPERVISORS

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

Executive Directors

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

Non-executive Directors

Mr. Tang Cheng Fang
Mr. Li Zhang Rui

Independent non-executive Directors

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

Report of the Board of Directors

Supervisors

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

Independent supervisors

Mr. Wang Zhong
Mr. Wang Ye Gang

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

All existing Directors (including executive, non-executive and independent non-executive Directors) are appointed for a term of three years, and are subject to election for appointment by shareholders at the general meeting by end of the three-year period. Mr. Hong Chun Qiang and Mr. Ma Hong Ming are required to retire from office and offer themselves for re-election as Directors at the forthcoming annual general meeting.

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

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Brief biographical details of directors, supervisors and senior management are set out on pages 9 to 12.

DIRECTORS' AND SUPERVISORS' EMOLUMENTS

Details of Directors and supervisors' emoluments for the year are set out in note 12 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 2009 are disclosed in note 29 to the financial statements. Save as disclosed below, all the other related party transactions did not fall under the scope of "Connected Transactions" or "Continuing Connected Transactions" under Chapter 20 of the GEM Listing Rules which are required to comply with any of the reporting, announcement or independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules:

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 2010. 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 annual cap of the fee payable by the Company to Zhejiang New Synthetic Fibre Company for the financial year ended 31 December 2009 was RMB10,000,000, as disclosed in the circular of the Company dated 5 October 2007. 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 2009 were RMB4.98 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 2009 as disclosed in the circular of the Company dated 5 October 2007.

* *For identification purpose only*

Report of the Board of Directors

COMPETING INTERESTS

None of the Directors, supervisors and management shareholders of the Company and their respective associates had any interest in any businesses which directly or indirectly compete with the business of the Company for the year ended 31 December 2009.

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

The Company had not purchased, sold or redeemed any of its listed securities during the financial year ended 31 December 2009.

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, namely Mr. Wang He Rong, Mr. Lu Guo Qing and Mr. Ma Hong Ming. The Committee had reviewed the Company's annual report, including the Company's financial statements for the year ended 31 December 2009 and had provided advice and comments thereon to the Board. The Committee was of the opinion that the annual report and the results announcement complied with the applicable accounting standards and the applicable laws and regulations including the GEM Listing Rules, and that adequate disclosures had been made.

BANK LOANS

Particulars of bank loans as at 31 December 2009 are set out in note 24 and 25 to the financial statements.

RETIREMENT SCHEME

Particulars of the retirement scheme of the Company are set out in note 11 to the financial statements.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Directors consider that the Company had 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.

Report of the Board of Directors

POST BALANCE SHEET EVENTS

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

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Company for the five years ended 31 December 2009 is set out on page 72.

PUBLIC FLOAT

From information publicly available to the Company and with in the knowledge of the Directors, at least 25% of the Company's total issued share capital are held by the public at all times from 1 January 2009 up to the date of this report.

CLOSURE OF SHARE REGISTER

The H Share register of members of the Company will be closed from Monday, 19 April 2010 to Tuesday, 18 May 2010 (both dates inclusive), during which no transfer of H shares will be registered. In order to qualify for attending the annual general meeting of the Company to be held on 18 May 2010, unregistered holders of H shares of the Company should ensure that all transfers of H shares of the Company accompanied by the relevant share certificates and the appropriate transfer forms must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Friday, 16 April 2010.

AUDITOR

The financial statements have been audited by CCIF CPA Limited who will retire and being eligible, offer themselves for reappointment at the forthcoming annual general meeting.

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
11 March 2010

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 2009 and has great confidence in the future of the Company.

By Order of the Supervisory Committee

Hong Jin Shui
Chairman

Zhejiang Province, the PRC
11 March 2010

Independent Auditor's Report

For the year ended 31 December 2009

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 (the "company") set out on pages 32 to 71, which comprise the statement of financial position as at 31 December 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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.

Independent Auditor's Report

For the year ended 31 December 2009

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 2009 and of its result 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
11 March 2010

Kwok Cheuk Yuen
Practising Certificate Number P02412

Statement of Comprehensive Income

For the year ended 31 December 2009

	Note	2009 RMB'000	2008 RMB'000
Turnover	4	**88,162**	130,113
Cost of sales		**(76,539)**	(112,843)
Gross profit		**11,623**	17,270
Other revenue	5	**546**	2,110
Distribution costs		**(2,418)**	(2,977)
Administrative expenses		**(13,625)**	(7,966)
Other operating expenses		**(121)**	(173)
(Loss)/profit from operations	6	**(3,995)**	8,264
Finance costs	7	**(5,848)**	(6,462)
(Loss)/profit before taxation		**(9,843)**	1,802
Income tax	8(a)	**(56)**	(500)
(Loss)/profit and total comprehensive (loss)/income for the year		**(9,899)**	1,302
(Loss)/earnings per share			
Basic and diluted	10	**(RMB0.129)**	RMB0.017

The notes on pages 36 to 71 form part of these financial statements.

Statement of Financial Position

As at 31 December 2009

	Note	2009 RMB'000	2008 RMB'000
Non-current assets			
Property, plant and equipment	15	**47,456**	53,001
Prepaid lease payments	16	**5,883**	6,022
Deposit paid for proposed acquisition of patent rights	17	**18,000**	–
		71,339	59,023
Current assets			
Inventories	18	**26,000**	33,497
Trade and other receivables	19	**52,842**	64,465
Prepaid lease payments	16	**139**	139
Amount due from a related company	20	**–**	830
Deposit paid for proposed acquisition of land use rights	21	**–**	32,000
Cash and cash equivalents	22	**37,057**	40,848
		116,038	171,779
Current liabilities			
Trade and other payables	23	**24,672**	23,198
Short-term bank loans – secured	24	**57,000**	77,000
		81,672	100,198
Net current assets		**34,366**	71,581
Total assets less current liabilities		**105,705**	130,604
Non-current liabilities			
Long-term bank loans – secured	25	**–**	15,000
NET ASSETS		**105,705**	115,604
CAPITAL AND RESERVES			
Share capital	26	**76,600**	76,600
Reserves	27	**29,105**	39,004
TOTAL EQUITY		**105,705**	115,604

Approved and authorised for issue by the board of directors on 11 March 2010.

Tang Li Min
Director

Hong Guo Ding
Director

The notes on pages 36 to 71 form part of these financial statements.

Statement of Changes in Equity

For the year ended 31 December 2009

	Share capital *RMB'000*	Share premium *RMB'000*	Statutory surplus reserve *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*
At 1 January 2008	76,600	246	5,564	31,892	114,302
Total comprehensive income for the year	–	–	–	1,302	1,302
Transfer	–	–	145	(145)	–
At 31 December 2008 and 1 January 2009	**76,600**	**246**	**5,709**	**33,049**	**115,604**
Total comprehensive loss for the year	**–**	**–**	**–**	**(9,899)**	**(9,899)**
At 31 December 2009	**76,600**	**246**	**5,709**	**23,150**	**105,705**

The notes on pages 36 to 71 form part of these financial statements.

Statement of Cash Flows

For the year ended 31 December 2009

	Note	2009 RMB'000	2008 RMB'000
Operating activities			
(Loss)/profit before taxation		**(9,843)**	1,802
Adjustments for:			
Depreciation of property, plant and equipment		**4,436**	4,720
Amortisation of prepaid lease payments		**139**	139
Interest income		**(73)**	(700)
Finance costs		**5,848**	6,462
Loss on disposal of property, plant and equipment		**–**	25
Impairment loss on trade receivables		**1,018**	216
Impairment loss on deposit paid for proposed acquisition of patent rights		**7,000**	–
Operating profit before changes in working capital		**8,525**	12,664
Decrease in inventories		**7,497**	1,118
Decrease/(increase) in trade and other receivables	30	**16,115**	(5,466)
Increase/(decrease) in trade and other payables		**1,474**	(9,534)
Cash generated from/(used in) operations		**33,611**	(1,218)
PRC enterprise income tax paid		**(56)**	(1,048)
Net cash generated from/(used in) operating activities		**33,555**	(2,266)
Investing activities			
Refund for acquisition of a subsidiary		**–**	30,000
Refund/(payment) for acquisition of land use rights		**32,000**	(32,000)
Payment for acquisition of patent rights		**(25,000)**	–
Purchase of property, plant and equipment		**(4,401)**	(2,927)
Proceeds from disposal of property, plant and equipment		**–**	172
Interest received		**73**	700
Net cash generated from/(used in) investing activities		**2,672**	(4,055)
Financing activities			
Cash advance to a related company		**–**	(1,890)
Repayment from a related company		**830**	–
Proceeds from new short-term bank loans		**65,000**	105,000
Repayment of short-term bank loans		**(100,000)**	(85,000)
Interest paid		**(5,848)**	(6,462)
Net cash (used in)/generated from financing activities		**(40,018)**	11,648
Net (decrease)/increase in cash and cash equivalents		**(3,791)**	5,327
Cash and cash equivalents at beginning of year		**40,848**	35,521
Cash and cash equivalents at end of year	22	**37,057**	40,848

The notes on pages 36 to 71 form part of these financial statements.

Notes to the Financial Statements

For the Year Ended 31 December 2009

1. CORPORATE INFORMATION

a) GENERAL

The company was incorporated and domiciled 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 2201-2203, 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 collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the company is set out below.

The HKICPA has issued certain amendments and interpretations which are or have become effective. It has also issued certain new and revised HKFRSs which are first effective or available for early adoption for the current accounting period of the company. Note 3 provides information on initial application of these developments to the extent that they are relevant to the company for the current and prior accounting periods reflected in these financial statements.

b) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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.

Notes to the Financial Statements

For the Year Ended 31 December 2009

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

b) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS *(Continued)*

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 the period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 33.

c) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (see note 2(e)).

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 of 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 the statement of comprehensive income 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 held for own use	20-30 years
Machinery and equipment	12 years
Office equipment and furniture	2-5 years
Motor vehicles	5 years

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) LEASED ASSETS

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the company determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Where the company has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are written off as an expense of the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property.

e) IMPAIRMENT OF ASSETS

i) Impairment of trade and other receivables

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; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

Notes to the Financial Statements

For the Year Ended 31 December 2009

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

e) IMPAIRMENT OF ASSETS *(Continued)*

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

– 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 the 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 collective group.

  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.

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 the end of each reporting period to identify indications that the following assets may be impaired:

– property, plant and equipment (other than properties carried at revalued amounts).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

e) IMPAIRMENT OF ASSETS *(Continued)*

ii) Impairment of trade and other receivables (Continued)

If any such indication exists, the asset's recoverable amount is estimated.

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

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 Growth Enterprise Market of the Stock Exchange of Hong Kong Limited, the company is required to prepare a quarterly financial report in compliance with HKAS 34, Interim financial reporting, in respect of each quarter of the financial year. At the end of the quarterly period, the company applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see note 2(e)(i) and (ii)).

Notes to the Financial Statements

For the Year Ended 31 December 2009

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

f) 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.

g) INCOME TAX

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

g) INCOME TAX *(Continued)*

The limited exceptions to recognition of deferred tax assets and liabilities are the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), 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 end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period 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

- 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.

h) PROVISIONS AND CONTINGENT LIABILITIES

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

Notes to the Financial Statements

For the Year Ended 31 December 2009

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

h) PROVISIONS AND CONTINGENT LIABILITIES *(Continued)*

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

i) RESEARCH AND DEVELOPMENT COSTS

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

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 profit or loss on a straight-line basis over the estimated useful lives of the underlying products of not exceeding five years, commencing from the date when the products are put into commercial production.

j) BORROWING COSTS

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

k) REVENUE RECOGNITION

Provided it is probable that the economic benefits will flow to the company and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

l) TRANSLATION OF FOREIGN CURRENCIES

Functional and presentation currency

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

Transactions and balances

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

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

m) RETIREMENT BENEFIT COSTS

The company was incorporated in the PRC and participates in defined contribution retirement plans managed by the local municipal government in the locations in which it operates. The relevant authorities of the local municipal government in the PRC is responsible for the retirement benefit obligations payable to the company's retired employees. The company has no obligation for payment of retirement benefits beyond the annual contribution. The contribution payable is charged as an expense to profit or loss as and when incurred.

n) TRADE AND OTHER RECEIVABLES

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for 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 doubtful debts (see note 2(e)).

o) TRADE AND OTHER PAYABLES

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

p) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments 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 statement of cash flows.

Notes to the Financial Statements

For the Year Ended 31 December 2009

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

q) 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.

r) SEGMENT REPORTING

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the company's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the company's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The HKICPA has issued one new HKFRS, a number of amendments to HKFRS and new Interpretations that are first effective for the current accounting period of the company. Of these, the following developments are relevant to the company's financial statements:

- HKFRS 8, Operating segments
- HKAS 1 (revised 2007), Presentation of financial statements
- Amendments to HKFRS 7, Financial instruments: Disclosures – improving disclosures about financial instruments
- Improvements to HKFRSs (2008)
- Amendments to HKAS 27, Consolidated and separate financial statements – cost of an investment in a subsidiary, jointly controlled entity or associate
- HKAS 23 (revised 2007), Borrowing costs
- Amendments to HKFRS 2, Share-based payment – vesting conditions and cancellations

Amendments to HKFRS 7, HKAS 27, HKAS 23 and HKFRS 2 have had no material impact on the company's financial statements as the amendments and interpretations were consistent with policies already adopted by the company. The impact of the remainder of these developments are as follows:

- HKFRS 8 requires segment disclosure to be based on the way that the company's chief operating decision maker regards and manages the company, with the amounts reported for each reportable segment being the measures reported to the company's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contracts with the presentation of segment information in prior years which was based on a disaggregation of the company's financial statements into segments based on related products and services and on geographical areas. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the company's most senior executive management, and has resulted in additional reportable segments being identified and presented (see note 14). Corresponding amounts have been provided on a basis consistent with the revised segment information.

- As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a statement of changes in equity. All other items of income and expense are presented in the statement of comprehensive income, if they are recognised as part of profit or loss for the period, or otherwise in the statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

Notes to the Financial Statements

For the Year Ended 31 December 2009

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

The application of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior adjustment is required.

The company has not early applied any of the following new and revised standards, amendments or interpretations which have been issued but are not yet effective for annual periods beginning on 1 January 2009.

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of improvements to HKFRS 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 24 (Revised)	Related Party Disclosures[3]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendment)	Financial Instruments: Presentation – Classification of Rights Issues[4]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Revised)	First-time Adoption of HKFRSs[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[5]
HKFRS 2 (Amendments)	Share-based Payment – Group Cash-settled Share-based Payment Transactions[5]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments[6]
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[3]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[7]

[1] Effective for annual periods beginning on or after 1 July 2009
[2] Effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate
[3] Effective for annual periods beginning on or after 1 January 2011
[4] Effective for annual periods beginning on or after 1 February 2010
[5] Effective for annual periods beginning on or after 1 January 2010
[6] Effective for annual periods beginning on or after 1 January 2013
[7] Effective for annual periods beginning on or after 1 July 2010

The company's directors anticipate that the application of the new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the company.

4. TURNOVER

The principal activities of the company are manufacture and sale of universal joints for automobiles in the PRC.

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.

5. OTHER REVENUE

	2009	2008
	RMB'000	*RMB'000*
Bank interest income, being total interest income on financial assets not at fair value through profit or loss	**73**	700
Sales of scrap materials	**473**	1,203
Sundry income	**–**	207
	546	2,110

6. (LOSS)/PROFIT FROM OPERATIONS

(Loss)/profit from operations is stated after charging the followings:

	2009	2008
	RMB'000	*RMB'000*
Cost of inventories sold *(Note)*	**76,539**	112,843
Staff costs		
– Salaries, wages and other benefits (including directors' emoluments – *note 12*)	**8,490**	11,892
– Contributions to defined contribution retirement plans	**425**	930
Research and development costs	**151**	182
Depreciation of property, plant and equipment	**4,436**	4,720
Amortisation of prepaid lease payments	**139**	139
Auditors' remuneration	**471**	471
Impairment loss on trade receivables	**1,018**	216
Impairment loss on deposit paid for proposed acquisition of patent rights	**7,000**	–
Loss on disposal of property, plant and equipment	**–**	25
Exchange loss, net	**121**	1,368

Note: Cost of inventories includes RMB11,854,000 (2008: RMB15,254,000) relating to staff costs, depreciation and amortisation expenses, which are also included in the respective total amounts disclosed separately above for each of these types of expenses.

Notes to the Financial Statements

For the Year Ended 31 December 2009

7. FINANCE COSTS

	2009	2008
	RMB'000	*RMB'000*
Interest expense on bank loans repayable within five years, being total interest expense on financial liabilities not at fair value through profit or loss	**5,848**	6,462

8. INCOME TAX

a) Income tax in the statement of comprehensive income represents:

	2009	2008
	RMB'000	*RMB'000*
Current tax		
PRC enterprise income tax	**–**	483
Under provision in respect of prior years		
PRC enterprise income tax	**56**	17
	56	500

The provision for PRC enterprise income tax is calculated at the standard rate of 25% on the estimated assessable income for the year as determined in accordance with the relevant income tax rules and regulations of the PRC.

No Hong Kong profits tax has been provided for in the financial statements as the company did not carry on a trade, profession nor business in Hong Kong.

8. INCOME TAX *(Continued)*

b) Reconciliation between tax expense and accounting (loss)/profit at applicable tax rates:

	2009	2008
	RMB'000	*RMB'000*
(Loss)/profit before taxation	**(9,843)**	1,802
Calculated at the taxation rate of 25% (2008: 25%)	**(2,460)**	451
Tax effect of non-deductible expenses	**30**	32
Tax effect of unused tax losses not recognised	**426**	–
Tax effect of deductible temporary differences not recognised	**2,004**	–
Under provision in prior years	**56**	17
Actual tax expense	**56**	500

c) Income tax in the statement of financial position represents:

	2009	2008
	RMB'000	*RMB'000*
Balance of PRC enterprise income tax brought forward	**–**	548
Provision for PRC enterprise income tax for the year	**–**	483
Under provision in respect of prior years	**56**	17
Payment of PRC enterprise income tax	**(56)**	(1,048)
Balance of PRC enterprise income tax carried forward	**–**	–

d) No provision for deferred taxation has been made for the years 2008 and 2009 as the effect of all temporary differences is not material.

9. DIVIDENDS

The directors resolved not to declare any dividend in respect of the year ended 31 December 2009 (2008: Nil).

10. (LOSS)/EARNINGS PER SHARE

The basic loss (2008: earnings) per share is calculated based on the loss (2008: profit) attributable to shareholders of RMB9,899,000 (2008: RMB1,302,000) and the 76,600,000 shares in issue during the years ended 31 December 2008 and 2009.

Diluted loss (2008: earnings) per share is equal to basic loss (2008: earnings) per share as there were no potential dilutive ordinary shares outstanding for the years ended 31 December 2008 and 2009.

Notes to the Financial Statements

For the Year Ended 31 December 2009

11. 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 it operates. The relevant authorities of the local municipal government in the PRC is responsible for the retirement benefit obligations payable to the company's retired 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 profit or loss as and when incurred. The company's contributions for each of the two years ended 31 December 2008 and 31 December 2009 were approximately RMB930,000 and RMB425,000 respectively.

12. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

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

Year ended 31 December 2009

	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)*	–	50	–	50
Hong Guo Ding	–	–	–	–
Fei Guo Yang	–	50	3	53
Hong Chun Qiang	–	50	1	51
Non-executive directors				
Tang Cheng Fang	–	–	–	–
Li Zhang Rui	–	–	–	–
Independent non-executive directors				
Wang He Rong	–	30	–	30
Lu Guo Qing	–	30	–	30
Ma Hong Ming	–	30	–	30
Supervisors				
Hong Jin Shui	–	48	5	53
Feng Yun Lin	–	–	–	–
Chen Jin Long	–	10	5	15
Independent supervisors				
Wang Zhong	–	–	–	–
Wang Ye Gang	–	–	–	–
	–	298	14	312

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

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

Year ended 31 December 2008

	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	–	49	3	52
Hong Chun Qiang	–	32	–	32
Non-executive directors				
Tang Cheng Fang	–	–	–	–
Li Zhang Rui	–	37	–	37
Independent non-executive directors				
Wang He Rong	–	30	–	30
Lu Guo Qing	–	30	–	30
Ma Hong Ming	–	30	–	30
Supervisors				
Hong Jin Shiu	–	47	3	50
Feng Yun Lin	–	–	–	–
Chen Jin Long	–	38	2	40
Independent supervisors				
Wang Zhong	–	23	–	23
Wang Ye Gang	–	23	–	23
	–	339	8	347

Notes to the Financial Statements

For the Year Ended 31 December 2009

13. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2008: one) were directors whose emoluments are included in the disclosure in note 12. The emoluments of the remaining two (2008: four) individuals were as follows:

	2009	2008
	RMB'000	*RMB'000*
Salaries and other emoluments	**102**	197
Pension scheme contributions	**9**	11
	111	208

Their emoluments were all within RMB880,000.

During the years ended 31 December 2008 and 2009, no emoluments were paid by the company to the five highest paid individuals as an inducement to join or upon joining the company or as compensation for loss of office and no bonuses were paid or payable by the company to the five highest paid individuals based on the performance of the company.

14. SEGMENT INFORMATION

The company has adopted HKFRS 8 "Operating Segments" with effect from 1 January 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the company that are regularly reviewed by the most senior executive management in order to allocate resources to the segments and to assess their performance.

a) Segment revenue, results, assets and liabilities

The company is principally engaged in the manufacture and sale of universal joints for automobiles in the PRC. Although the universal joints are sold to domestic and overseas customers, the company's most senior executive management regularly reviews their combined financial information to assess the performance and makes resource allocation decisions. Accordingly, no segmental revenue, results, assets and liabilities are presented.

14. SEGMENT INFORMATION *(Continued)*

b) Geographical information

The following table sets out information about the geographical location of the company's revenue from external customers. The geographical location of customers is based on the location at which the goods are delivered.

	Revenue from external customers	
	2009	2008
	RMB'000	*RMB'000*
The PRC, excluding Hong Kong	**49,822**	72,967
Europe	**20,792**	31,894
Asia	**11,453**	20,297
Other countries	**6,095**	4,955
	88,162	130,113

Substantially, all of the company's non-current assets and capital expenditure are located in the PRC, no analysis on non-current assets by location is presented.

c) Information about major customers

The company's customer base includes two (2008: two) customers with whom transactions have exceeded 10% of the company's revenue from the company's sole operating activity of sale of universal joints for automobiles in the PRC. In 2009, revenue from these customers amounted to approximately RMB10 million and RMB9.7 million (2008: RMB28.3 million and RMB17.3 million) respectively.

Notes to the Financial Statements

For the Year Ended 31 December 2009

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings held for own use *RMB'000*	Machinery and equipment *RMB'000*	Office equipment and furniture *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
Cost					
At 1 January 2008	27,172	42,671	1,345	1,367	72,555
Additions	–	2,876	12	39	2,927
Disposals	–	–	(200)	(203)	(403)
At 31 December 2008 and 1 January 2009	27,172	45,547	1,157	1,203	75,079
Additions	–	4,401	–	–	4,401
Disposals	(332)	(7,551)	–	–	(7,883)
At 31 December 2009	26,840	42,397	1,157	1,203	71,597
Accumulated depreciation and impairment losses					
At 1 January 2008	4,336	11,956	981	291	17,564
Charge for the year	929	3,400	235	156	4,720
Written back on disposal	–	–	(190)	(16)	(206)
At 31 December 2008 and 1 January 2009	5,265	15,356	1,026	431	22,078
Charge for the year	919	3,266	105	146	4,436
Written back on disposal	(67)	(2,306)	–	–	(2,373)
At 31 December 2009	6,117	16,316	1,131	577	24,141
Carrying amount					
At 31 December 2009	20,723	26,081	26	626	47,456
At 31 December 2008	21,907	30,191	131	772	53,001

At 31 December 2009 the company's buildings with an aggregate net book value of approximately RMB20,723,000 (2008: RMB21,907,000) were pledged to secure general banking facilities granted to the company (note 24).

The company's buildings held for own use are located in the PRC for the years 2008 and 2009 and are held under medium-term leases.

16. PREPAID LEASE PAYMENTS

	2009	2008
	RMB'000	*RMB'000*
Net carrying amount		
At 1 January	**6,161**	6,300
Amortisation for the year	**139**	139
At 31 December	**6,022**	6,161
The company's prepaid lease payment comprise:		
Land use rights in PRC under medium-term lease (leases of between 10 to 50 years)	**6,022**	6,161
Analysed for reporting purposes as:		
Current asset	**139**	139
Non-current asset	**5,883**	6,022
	6,022	6,161

As at the end of the reporting period, the prepaid lease payment was pledged to secure bank loan facilities granted to the company (note 24).

17. DEPOSIT PAID FOR PROPOSED ACQUISITION OF PATENT RIGHTS

	2009	2008
	RMB'000	*RMB'000*
Payment during the year	**25,000**	–
Less: Impairment loss on deposit paid for proposed acquisition of patent rights	**(7,000)**	–
Net carrying amount	**18,000**	–

On 1 November 2009, the company entered into an agreement with an independent third party to acquire patent rights of automobile accessories at a consideration of RMB35,000,000 and a deposit of RMB25,000,000 was paid to the vendor pursuant to the agreement. The title of the patent right has not yet been transferred to the company as at 31 December 2009 and the registration of such transfer is in progress. In view of the delay in payment for the consideration, a supplementary agreement was signed on 31 December 2009. Pursuant to the supplementary agreement, the contract for the transfer will be completed when the balance of RMB10,000,000 is paid. The balance was not yet paid as at the date of this report.

Notes to the Financial Statements

For the Year Ended 31 December 2009

17. DEPOSIT PAID FOR PROPOSED ACQUISITION OF PATENT RIGHTS *(Continued)*

As at 31 December 2009, the company engaged BMI Appraisal Limited, an independent qualified professional valuer to assess the recoverable amount of the patent rights and determined that the patent rights were impaired by approximately RMB7,000,000. The recoverable amount of the patent rights was determined on the basis that the contract of acquisition will be finally completed and from the cash flow projection based on financial budgets approved by senior management covering a period of 5 years, and the discount rate of 11.47% per annum was applied to the Relief-from-royalty method. The discount rate used is after-tax and reflect specific risks relating to the industry. The main factor contributing to the impairment of the patent rights was a reduction in the estimation of the revenue from sales of the products produced under the patent rights resulted from the sudden lowed down of the pace of economic recovery in the target sales markets in Eastern Europe soon after the company entered into the contract for the acquisition of the patent rights.

18. INVENTORIES

	2009	2008
	RMB'000	*RMB'000*
Raw materials	**4,507**	5,503
Work-in-progress	**11,985**	14,083
Finished goods	**9,508**	13,911
	26,000	33,497

The analysis of the amount of inventories recognised as an expenses is as follows:

	2009	2008
	RMB'000	*RMB'000*
Carrying amount of inventories sold	**76,539**	112,843

19. TRADE AND OTHER RECEIVABLES

	2009	2008
	RMB'000	*RMB'000*
Trade receivables	**41,611**	60,012
Bills receivables	**7,302**	147
	48,913	60,159
Less: Allowance for doubtful debts *(Note 19(c))*	**(6,598)**	(5,657)
	42,315	54,502
Prepayments, deposits and other receivables	**6,233**	551
Trade deposits paid to suppliers	**4,294**	9,412
	52,842	64,465

19. TRADE AND OTHER RECEIVABLES *(Continued)*

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

	2009	2008
	RMB'000	*RMB'000*
Within 30 days	**14,229**	10,116
31-60 days	**8,344**	9,011
61-90 days	**4,022**	8,831
91-180 days	**9,318**	16,048
More than 180 days	**13,000**	16,153
	48,913	60,159
Less: Allowance for doubtful debt	**(6,598)**	(5,657)
	42,315	54,502

b) The normal credit period granted to the customers of the company is 30 to 120 days (2008: 30 to 120 days). Allowance for doubtful debts is made and thereafter written off when collection of full amount is no longer probable. Accordingly, specific allowances for doubtful debts were recognised.

c) Allowance for doubtful debts

Impairment losses in respect of trade debtors are recorded using an allowance account unless the company is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors directly.

The movement of allowance for doubtful debts is as follows:

	2009	2008
	RMB'000	*RMB'000*
At 1 January	**5,657**	5,441
Allowance for doubtful debts recognised during the year *(Note i)*	**1,018**	216
Uncollectible amounts written off *(Note ii)*	**(77)**	–
At 31 December	**6,598**	5,657

Notes to the Financial Statements

For the Year Ended 31 December 2009

19. TRADE AND OTHER RECEIVABLES *(Continued)*

c) Allowance for doubtful debts *(Continued)*

Notes

i) As at 31 December 2009, trade receivables of the company amounting to approximately RMB6,598,000 (2008: RMB5,657,000) were individually determined to be impaired and full provision had been made. These individually impaired receivables were outstanding over the credit period as at the end of the reporting period without subsequent repayment record or were due from companies with financial difficulties. Accordingly, specific allowances for doubtful debts of approximately RMB1,018,000 (2008: RMB216,000) were recognised. The company does not hold any collateral over these balances.

ii) During the year 2009, approximately RMB77,000 (2008: RMB Nil) of the trade receivable previously provided for was written off when the debtor became bankrupt.

d) Trade debtors and bill receivables that are not impaired

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

	2009 RMB'000	2008 RMB'000
Neither past due nor impaired	**33,365**	33,245
Less than 2 months past due	**2,050**	10,079
2 months to 1 year past due	**1,800**	3,340
Over 1 year past due	**5,100**	7,838
	8,950	21,257
	42,315	54,502

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 2009

20. AMOUNT DUE FROM A RELATED COMPANY

Particulars of the amount due from a related company, disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, are as follows:

	31/12/2009	**31/12/2008**	**Maximum amount outstanding during the year**
	RMB'000	*RMB'000*	*RMB'000*
Zhejiang Prospect New Synthetic Fibre Company Limited ("New Synthetic")	–	830	6,439

Mr. Tang Li Min, a director of the company, has a controlling interest in New Synthetic.

The amount due is unsecured, interest-free and is repayable on demand.

21. DEPOSIT PAID FOR PROPOSED ACQUISITION OF LAND USE RIGHTS

During the year ended 31 December 2008, the company entered into a conditional agreement with a third party to acquire a land use rights in Shaoxing, PRC for business expansion purpose at a consideration of RMB64,000,000. Deposit of RMB32,000,000 was paid to the vendor pursuant to the conditional agreement. However, it was subsequently discovered that the land was pledged and cannot be released. Therefore, the company decided to terminate the proposed acquisition and the deposit paid of RMB32,000,000 was refunded to the company on 3 March 2009.

22. CASH AND CASH EQUIVALENTS

	2009	2008
	RMB'000	*RMB'000*
Cash at bank and in hand	**37,057**	40,848

23. TRADE AND OTHER PAYABLES

	2009	2008
	RMB'000	*RMB'000*
Trade payables	**12,704**	12,713
Other payables	**9,327**	9,281
Value added tax, business tax and other taxes payable	**548**	337
Accruals	**1,544**	636
Trade deposits received from customers	**549**	231
Financial liabilities measured at amortised cost	**24,672**	23,198

Notes to the Financial Statements

For the year ended 31 December 2009

23. TRADE AND OTHER PAYABLES *(Continued)*

The following is an aging analysis of trade payables as at the end of the reporting period:

	2009	2008
	RMB'000	*RMB'000*
Due within 3 months	**9,373**	9,516
Due after 3 months but within 6 months	**2,711**	2,628
Due after 6 months but within 12 months	**531**	531
Due after 12 months	**89**	38
	12,704	12,713

24. SHORT-TERM BANK LOANS

As at 31 December 2009, the short-term bank loans are secured by the company's land use rights and buildings, and conditional floating charge on machineries and inventories (2008: company's land use rights and buildings) thereon, and the corporate guarantees provided by the parties set out in note 29(b), bearing interest at the range of 4.86% to 6.37% (2008: 4.99% to 8.22%) per annum and are repayable within one year.

25. LONG-TERM BANK LOANS

At 31 December 2008, the long-term bank loan amounting to RMB15,000,000 was secured by the corporate guarantee of a third party, 浙江南宇輕紡有限公司, as set out in note 29(b). The bank loan bears interest at 4.98% per annum and is wholly repayable in January 2010.

At 31 December 2009, the aforesaid bank loan is repayable within one year and classified as short-term bank loan.

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

26. SHARE CAPITAL

	2009 and 2008	
	No. of shares	*RMB'000*
Registered, issued and fully paid:		
At 1 January and 31 December		
State-owned equity interest shares of RMB1 each *(Note)*	53,600,000	53,600
H Shares of RMB1 each	23,000,000	23,000
	76,600,000	76,600

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

27. RESERVES

	Share premium	**Statutory surplus reserve**	**Retained profits**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2008	246	5,564	31,892	37,702
Total comprehensive income for the year	–	–	1,302	1,302
Transfer	–	145	(145)	–
At 31 December 2008 and 1 January 2009	246	5,709	33,049	39,004
Total comprehensive loss for the year	–	–	(9,899)	(9,899)
At 31 December 2009	246	5,709	23,150	29,105

(a) SHARE PREMIUM

Share premium represents the difference between the nominal value of the ordinary shares issued by the company and the aggregate of the share capital consideration received.

(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 and distributed in proportion to the shareholders' existing shareholdings, provided that the balance after such conversion is not less than 25% of the registered capital.

Notes to the Financial Statements

For the year ended 31 December 2009

27. RESERVES *(Continued)*

(c) DISTRIBUTABLE RESERVES

Pursuant to the company's articles of association, the profit after tax of the company for the purpose of profit distribution to equity shareholders is deemed to be the lesser of (i) the 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, profit after tax can be distributed as dividends after allowance has been made for:

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

(ii) allocation of 10% of 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) allocation to the discretionary surplus reserve, if approved by the shareholders.

The distributable reserves of the company as at 31 December 2008 and 31 December 2009 amounted to approximately RMB33,049,000 and RMB23,150,000 respectively.

28. CAPITAL COMMITMENTS

The company's authorised capital commitments outstanding at 31 December 2008 and 31 December 2009 not provided for in the financial statements are as follows:

	2009	2008
	RMB'000	*RMB'000*
Contracted but not provided for	**35,163**	32,514

29. RELATED PARTY TRANSACTIONS

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

(a) Related party transactions with a related company – New Synthetic:

	Amounts included in the statement of comprehensive income		Balance as at 31 December	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Electricity fee paid	**4,984**	7,302	**–**	(830) *(Note 3)*

29. RELATED PARTY TRANSACTIONS *(Continued)*

Notes:

1) During the two years ended 31 December 2009 and 31 December 2008, electricity fee paid to New Synthetic were charged in the normal course of business as the company has to share the electricity expense with New Synthetic and prices were calculated based on actual electricity consumed by the company at the average unit rate charged by the power company.

2) Mr. Tang Li Min ("Mr. Tang"), a director of the company, has a controlling interest in New Synthetic.

3) This represents the overpayment of electricity fees as at 31 December 2008.

(b) As at 31 December 2009, Mr. Tang and his wife, Miss Chen Yan Jing, Zhejiang Prospect New Synthetic Fribre Company Limited ("New Synthetic"), 浙江嘉利蛋白纖維有限公司 ("浙江嘉利") 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 RMB57,000,000.

As at 31 December 2008, Mr. Tang, Mr. Hong Guo Ding, Zhejiang Prospect Industrial Group Limited ("Zhejiang Industrial"), Guang Yu Group Co., Limited ("Guang Yu"), Zhjiang 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 RMB52,000,000.

New Synthetic is a company incorporated in PRC and is a subsidiary of Zhejiang Industrial in which Mr. Tang is the controlling shareholder.

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

(c) Key management personnel remuneration

Remuneration for key management personnel of the company, including amounts paid to the company's directors as disclosed in note 12 and certain of the highest paid employees as disclosed in note 13, are as follow:

	2009 ***RMB'000***	2008 *RMB'000*
Salaries, wages and other benefits	**150**	49
Post-employment benefits	**8**	3
	158	52

Total remuneration is included in "Staff costs" (see note 6).

Notes to the Financial Statements

For the year ended 31 December 2009

30. NON-CASH TRANSACTION

During the year, the company disposed the property, plant and equipment at a consideration equal to the carrying amount of RMB5,510,000 to a third party. The property, plant and equipment has already been transferred to the purchaser, however, the company has not yet received the consideration as at 31 December 2009 which is included in other receivables. This transaction is considered as non-cash transaction.

31. ULTIMATE CONTROLLING PARTY

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

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The company's major financial instruments include borrowings, trade receivable 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. The company's 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 2009, the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance.

ii) In respect of trade and other receivables, in order to minimise 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 30 to 120 days from the date of billing.

iii) In respect of trade and other 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 end of the reporting period, the company has a certain concentration of credit risk as 20% (2008: 29%) and 49% (2008: 55%) 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.

Further quantitative disclosures in respect of the company's exposure to credit risk arising from trade and other receivables are set out in note 19.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

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 table detailed the company's remaining contractual maturity for its non-derivative financial liabilities as at 31 December 2009. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the company can be required to pay. The table includes both interest and principal cash flows. The adjustment column represents the possible future cash flows attributable to the instrument included in the maturity analysis which are not included in the carrying amount of the financial liability on the statement of financial position.

	2009				2008			
	Within 1 year or on demand	**More than 1 year but less than 2 years**	**Total contractual undiscounted cash flow**	**Carrying amount**	Within 1 year or on demand	More than 1 year but less than 2 years	Total contractual undiscounted cash flow	Carrying amount
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Secured bank loans	**57,000**	**–**	**57,000**	**57,000**	79,445	15,075	94,520	92,000
Trade and other payables	**24,672**	**–**	**24,672**	**24,672**	23,198	–	23,198	23,198
	81,672	**–**	**81,672**	**81,672**	102,643	15,075	117,718	115,198

c) INTEREST RATE RISK

The company is exposed to cash flow interest rate risk in relation to variable-rate borrowings (see Note 24 and 25 for details of these borrowings). It is the company's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The company's exposures to interest rate risk on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The company's cash flow interest rate risk is mainly concentrated on the fluctuation in the interest rate arising from the company's RMB borrowings.

Notes to the Financial Statements

For the year ended 31 December 2009

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

c) INTEREST RATE RISK

i) *Interest rate profile*

The following table details the interest rate profile of the company's borrowings at the end of the reporting period:

	2009		2008	
	Effective interest rates		Effective interest rates	
	%	***RMB'000***	%	*RMB'000*
Variable rate borrowings:				
Short term bank loans	**4.86%** to 6.37%	**57,000**	4.99% to 8.22%	77,000
Long term bank loans	**–**	**–**	4.98%	15,000
Total borrowings		**57,000**		92,000

ii) *Sensitivity analysis*

The sensitivity analyses below have been determined based on the exposure to interest rates for financial instruments at the end of the reporting period. For variable-rate bank borrowings, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year.

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 2008.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the company's loss for the year ended 31 December 2009 would decrease/increase by RMB856,000 (2008: decrease/increase by RMB782,000). This is mainly attributable to the company's exposure to interest rates on its variable-rate bank borrowings.

d) CURRENCY RISK

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

32. 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 end of the reporting period to currency risk arising from recognised assets or liabilities that are denominated in a currency other than the functional currency of the entity to which they relate. The currency giving rise to this risk is primarily United States dollars and Hong Kong dollars. The company does not expose to material currency risk at the end of the reporting period.

	Exposure to foreign currencies (expressed in Renminbi)			
	2009		2008	
	USD'000	***HKD'000***	*USD'000*	*HKD'000*
Trade and other receivables	**12,589**	**–**	19,971	–
Cash and cash equivalents	**934**	**30**	302	34
Overall exposure to currency risk	**13,523**	**30**	20,273	34

ii) *Sensitivity analysis*

The following table indicates the approximate change in the company's loss 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 end of the reporting period.

	2009		2008	
	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%**	**406**	3%	414
	(3%)	**(406)**	(3%)	(414)
HKD	**10%**	**3**	10%	2
	(10%)	**(3)**	(10%)	(2)

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

Notes to the Financial Statements

For the year ended 31 December 2009

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

d) CURRENCY RISK *(Continued)*

ii) *Sensitivity analysis (Continued)*

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the end of the next annual reporting period. Results of the analysis as presented in the above table represent the exposure to currency risk on the company's profit after tax and total comprehensive income measured in the respective currencies, translated into Renminbi at the exchange rate ruling at the end of the reporting period for presentation purposes. The analysis is performed on the same basis for 2008.

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 maximise 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, issue new shares as well as issue new debts or the redemption of existing debt as it sees fit and appropriate.

The company monitors capital on the basis of the adjusted net debt-to-capital ratio, which is calculated as adjusted net debt divided by adjusted capital. Adjusted net debt is calculated as interest-bearing bank loans less cash equivalents. Adjusted capital represents equity attributable to the equity holders of the company and includes the amounts due to related parties. The adjusted net debt-to-capital ratios at 31 December 2008 and 31 December 2009 are as follows:

	2009	2008
	RMB'000	*RMB'000*
Interest-bearing bank loans	**57,000**	92,000
Less: Cash and cash equivalents	**(37,057)**	(40,848)
Adjusted net debt	**19,943**	51,152
Equity	**105,705**	115,604
Less: Amount due from a related company	**–**	(830)
Adjusted capital	**105,705**	114,774
Adjusted net debt-to-capital ratio	**19%**	45%

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

f) FAIR VALUES

The fair values of cash and cash equivalents, deposits, trade and 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 carrying amounts of bank loans approximate their fair values.

g) ESTIMATION OF FAIR VALUES

The fair values of interest-bearing loans and borrowings are estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

33. ACCOUNTING ESTIMATES AND JUDGEMENTS

a) KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the company's accounting policies which are described in note 2, management has made certain key assumptions concerning the future, and other key sources of estimated uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, as discussed below.

i) Impairment of property, plant and equipment, prepaid lease payments and deposit paid for proposed acquisition of patent rights

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 the time value of money and the risks specific to the asset, which requires significant judgement relating to the level of revenue and amount of operating costs. The company uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

ii) Impairment of receivables

The company maintains impairment allowance for doubtful accounts based upon a periodic evaluation of the recoverability of the trade and other receivables, where applicable. The estimates are based on the aging of the trade and other receivables balances and the historical write-off experience, net of recoveries. If the financial condition of the debtors were to deteriorate, additional impairment allowance may be required.

iii) Allowance for inventories

The management of the company periodically reviews its inventories and make allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. Management estimates the net realisable value for such items based primarily on the latest invoice prices and current market conditions. The company carries out an inventory review on a product-by-product basis at the end of each reporting period and make allowance for obsolete items.

Notes to the Financial Statements

For the year ended 31 December 2009

33. ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

b) CRITICAL ACCOUNTING JUDGEMENTS IN APPLYING THE COMPANY'S ACCOUNTING POLICIES

In determining the carrying amounts of some assets and liabilities, the company makes assumptions for the effects of uncertain future events on those assets and liabilities at the end of the reporting period. These estimates involve assumptions about such items as cash flows and discount rates used. The company's estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the company's accounting policies.

34. COMPARATIVE FIGURES

As a result of the application of HKAS 1 (revised 2007), Presentation of financial statements, and HKFRS 8, Operating segments, certain comparative figures have been adjusted to conform to current period's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these developments are disclosed in note 3.

Financial Summary

Results

	For the year ended 31 December				
	2009	2008	2007	2006	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (Restated)
Turnover	**88,162**	130,113	140,390	113,233	94,759
(Loss)/profit for the year	**(9,899)**	1,302	5,569	4,061	7,598

Assets and liabilities

	As at 31 December				
	2009	2008	2007	2006	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (Restated)
Total assets	**187,377**	230,802	220,642	195,745	178,581
Total liabilities	**(81,672)**	(115,198)	(106,340)	(87,012)	(73,909)
Total equity	**105,705**	115,604	114,302	108,733	104,672

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 2009 Annual General Meeting (the "AGM") of Zhejiang Prospect Company Limited (the "Company") will be held at the conference room of the Company, Zhanwang Village, Yangxunqiao Town, Shaoxing County, Zhejiang Province, the PRC on Tuesday, 18 May 2010 at 10: 00 a.m. for the following purposes:

1. To consider and approve the report of the board of directors of the Company for the year ended 31 December 2009.

2. To consider and approve the audited financial statements and the report of the auditors of the Company for the year ended 31 December 2009.

3. To consider and approve the report of the supervisory committee of the Company for the year ended 31 December 2009.

4. To consider and approve the remuneration proposals for the directors and supervisors of the Company for the financial year ended 31 December 2010.

5. Re-elect the Company's retiring directors and supervisor, approve the proposed remuneration and contractual terms of the concerned directors and supervisor.

6. To consider and approve 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 re-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.

By Order of the Board

Zhejiang Prospect Company Limited*
Mr. Tang Li Min
Chairman

Zhejiang Province, the People's Republic of China
31 March 2010

* *For identification purpose only*

Notice of Annual General Meeting

Notes:

1. Any shareholder of the Company entitled to attend and vote at the AGM is entitled to appoint one or more proxies to attend and vote on his behalf at the AGM in accordance with the article of association of the Company. A proxy needs not be a shareholder 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 of the Company, 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 of the Company or their proxies shall produce their identity documents when attending the AGM.

4. The H Share register of members of the Company will be closed from Monday, 19 April 2010 to Tuesday, 18 May 2010 (both dates inclusive), during which no transfer of H shares will be registered. In order to qualify for attending the AGM, unregistered holders of H shares of the Company should ensure that all transfers of H shares of the Company accompanied by the relevant share certificates and the appropriate transfer forms must be lodged with the H shares registrar of the Company at Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Friday, 16 April 2010.

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, 16 April 2010 are entitled to attend and vote at the AGM.

6. Shareholders of the Company who intend to attend the AGM should complete and lodge the reply slip at the Company's legal address (Zhanwang Village, Yangxunqiao Town, Shaoxing County, Zhejiang Province, the PRC) on or before Wednesday, 28 April 2010. The reply slip can be delivered in person or by mail.

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

8. To propose an ordinary resolution in respect of the re-election of Mr. Hong Chun Qiang (Executive director) and Mr. Ma Hong Ming (Independent non-executive director) as directors of the Company and Mr. Hong Jin Shui as supervisor of the Company. The biographical profiles of the retiring directors and supervisors set out below in accordance with Chapter 17 of GEM Listing Rules, so that the directors of the Company can make informed decision regarding re-electing above retiring directors and supervisors:

   Mr. Hong Chun Qiang, executive director

   Mr. Hong Chun Qiang (洪春强先生), aged 33, 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 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集團). 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 in May 2004.

* *For identification purpose only*

Notice of Annual General Meeting

Should Mr Hong be successfully re-elected, the Company will enter into a service contract with him for three years (with early termination provisions). According to the existing service contract of Mr. Hong, he is entitled to receive RMB50,000 annually, which is determined with reference to the Company's performance and profitability as well as the remuneration level within the industry and prevailing market condition. Mr. Hong is not interested in any shares and underlying shares of the Company within the meaning of SFO. Mr. Hong is not connected with any of the directors, supervisor, senior management or managements of the Company or substantial or controlling shareholders.

Mr. Ma Hong Ming, independent non-executive director

Mr. Ma Hong Ming (馬洪明先生), aged 47, is the principal of Shaoxing Zhong Xing Accounting Firm* (紹興中興會計師事務所所長). He obtained his master degree in management from Shanghai Financial and Economic Studies University* (上海財經大學管理學碩士學位).From December 1981 to March 1992, he worked for Shaoxing Xing Hong Chemical Fibre Company Limited* (紹興興虹化纖公司) as finance manager; from March 1992 to December 1999, he was the assistant principal of Shaoxing County Audit Firm*(紹興縣審計事務所); and from January 2000 onwards, he served as the principal of Shaoxing Zhong Xing Accounting Firm*(紹興中興會計師事務所). He is the general manager of Shaoxing Zhong Xing Assets Valuation Company* (紹興中興資產評估公司) and Shaoxing Zhong Xing Tax Consultants* (紹興中興稅務師事務所). He was an independent director of Zhejiang Jing Gong Technology Company Limited* (浙江精工科技股份有限公司), a company whose shares are listed on the Shenzhen Stock Exchange. He has been appointed as an independent non-executive Director in May 2004.

Should Mr Ma be successfully re-elected, the Company will enter into a service contract with him for three years (with early termination provisions). According to the existing service contract of Mr. Ma, he is entitled to receive RMB30,000 annually, which is determined with reference to the Company's performance and profitability as well as the remuneration level within the industry and prevailing market condition. Mr. Ma is not interested in any shares and underlying shares of the Company within the meaning of SFO. Mr. Ma is not connected with any of the directors, supervisor, senior management or managements of the Company or substantial or controlling shareholders.

Mr. Hong Jin Shui, supervisor

Mr. Hong Jin Shui (洪金水先生), aged 46, 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.

Should Mr Hong be successfully re-elected, the Company will enter into a service contract with him for three years (with early termination provisions). According to the existing service contract of Mr. Hong, he is entitled to receive RMB50,000 annually, which is determined with reference to the Company's performance and profitability as well as the remuneration level within the industry and prevailing market condition. Mr. Hong is not interested in any shares and underlying shares of the Company within the meaning of SFO. Mr. Hong is not connected with any of the directors, supervisor, senior management or managements of the Company or substantial or controlling shareholders.

9. Poll

Pursuant to Rule 17.47(4) of the GEM Listing Rules, all votes of the shareholders at the general meetings must be taken by poll. The Chairman of the AGM will therefore demand a poll for every resolution put to the vote at the AGM pursuant to Article 78 of the articles of association of the Company.