Annual Report **2010**

浙江展望股份有限公司

ZHEJIANG PROSPECT COMPANY LIMITED*

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

(Stock Code : 8273)

*for identification purpose only

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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

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
Suites 2001-05, 20th Floor
Jardine House, 1 Connaught Place
Central, Hong Kong

Auditors

CCIF CPA Limited

Legal Advisors as to Hong Kong Laws

Loong & Yeung

Principal Bankers

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

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 2001-05, 20th 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 2010.

BUSINESS REVIEW

Due to global recovery, the Company had achieved growth in 2010. 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 2010 amounted to 11.18 million sets and 11.26 million sets, respectively, representing an increase of approximately 35.35% and 28.83% as compared to 8.26 million sets and 8.74 million sets in 2009.

Turnover for the year ended 31 December 2010 amounted to approximately RMB106.83 million, representing an increase of approximately 21.18% as compared to RMB88.16 million in 2009. Net loss after tax amounted to approximately RMB11.76 million, an increase of approximately 18.79% as compared to that of 2009. The increase in turnover was mainly due to the increase in demand from oversea customers. The increase in net loss after tax was mainly due to the amortization of intangible assets of RMB4.08 million and the provision made for intangible assets of RMB7.92 million.

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 2010.

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
28 March 2011

Management Discussion and Analysis

BUSINESS OVERVIEW

Due to global recession, the Company had a slight increase in growth in 2010. 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 2010 amounted to 11.18 million sets and 11.26 million sets respectively, representing an increase of approximately 35.35% and 28.83% as compared with previous year of 8.26 million sets and 8.74 million sets.

Turnover for the year ended 31 December 2010 amounted to approximately RMB106.83 million, representing an increase of approximately 21.18% year on year as compared to RMB88.16 million in 2009. Net loss after tax amounted to approximately RMB11.76 million, an increase of approximately 18.79% as compared to net loss after tax of approximately RMB9.9 million in 2009. The increase in turnover was mainly due to the increase in demand from oversea customers. The increase in net loss after tax was mainly due to the amortization of intangible assets of RMB4.08 million and the provision made for intangible assets of RMB7.92 million.

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 2010, 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 RMB106.83 million in 2010, representing an increase of approximately 21.18% as compared to approximately RMB88.16 million in 2009. Export sales of approximately RMB48.29 million were contributed by overseas customers. Sales of approximately RMB27.7 million were attributable to the import and export corporations, which were then sold to various overseas markets and domestic sales were RMB30.84 million for the year ended 31 December 2010.

COST OF SALES AND GROSS PROFIT

Cost of sales increased from RMB76.54 million in 2009 to RMB93.57 million in 2010, representing an increase of approximately 22.25% as compared to the previous year due to the increase in turnover in 2010. Gross margin of the Company's products is approximately the same in 2010 as in 2009.

OTHER REVENUE

Other operating income in 2010 amounted to RMB0.58 million, representing an increase of RMB0.04 million from that of RMB0.54 million in 2009. This was mainly due to decrease in bank interest income and sales of scrap materials.

DISTRIBUTION COSTS AND ADMINISTRATIVE EXPENSES

Distribution expenses for 2010 totaled RMB2.70 million. This represents an increase of RMB0.28 million, or approximately 11.57% from that of RMB2.42 million in 2009. The increase was in line with increase in turnover.

In 2010, administrative expenses of the Company were approximately RMB20.05 million, representing an increase of RMB6.42 million or 47.1% compared to that of RMB13.63 million in 2009. The administrative expenses including amortization of intangible management salaries, professional fees and depreciation.

OTHER OPERATING EXPENSES AND FINANCE COSTS

Other operating expenses for the financial year of 2010 amounted to RMB0.13 million, as compared to RMB0.12 million in 2009.

In the financial year of 2010, the net finance costs of approximately RMB3.01 million, comprised interest on bank advances and other borrowings, representing a decrease of 48.46% from that in 2009. 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 2010. No instruments had been employed by the Company for any hedging purpose during the year ended 31 December 2010.

SIGNIFICANT INVESTMENTS HELD

The Company has no significant investments held during the year ended 31 December 2010.

FINANCIAL RESOURCES AND LIQUIDITY

The Company continued to be in a healthy financial position with shareholders' equity amounted to RMB93.95 million as at 31 December 2010 (2009: RMB105.71 million). Current assets amounted to RMB112.47 million as at 31 December 2010 (2009: RMB116.04 million), of which RMB29.25 million (2009: RMB37.06 million) were cash and cash equivalents. As at 31 December 2010, the Company had short-term bank loans of about RMB56.18 million (2009: RMB57 million) and no long-term bank loans (2009: Nil). The short term bank loans were repayable within one year.

CONTINGENT LIABILITIES

As at 31 December 2010, the Directors were not aware of any material contingent liabilities.

CHARGES ON ASSETS

As at 31 December 2010, the short-term bank loans of RMB56.18 million were secured by the Company's land use rights and buildings, and guarantees provided by Mr. Tang Li Min, Ms. Chen Yan Jing, 浙江展望新合纖有限公司 (Zhejiang Prospect New Synthetic Fibre Company Limited*), 浙江嘉利蛋白纖維有限公司 (Zhejiang Jiali Protein Fiber Company Limited*) and 紹興柯城輕紡原料有限公司 (Shaoxing Kecheng Light Texitile Materials Company Limited*), bearing interest at a range of 4.86% to 5.84% per annum and repayable within one year.

GEARING RATIO

The Company's gearing ratio, based on total liabilities to shareholders' equity, amounted to 0.89 (2009: 0.77) as at 31 December 2010.

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 8 February 2004. Since the listing of the Company's H shares on the GEM of the Stock Exchange on 8 February 2004, there has been no change in the capital structure of the Company.

As at 31 December 2010, the Company's operations were financed mainly by shareholders' equity, internal resources and bank loans. The Company will continue to adopt its treasury policy of placing the Company's cash and cash equivalents in interest bearing deposits.

EMPLOYEE INFORMATION

During the year ended 31 December 2010, the Company had an average number of employees of 405 (2009: 403). 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 28.87% of the total turnover in 2010, as compared to 32.62% of the total turnover in 2009. In addition, the Company sells its products to import and export corporations in the PRC, which accounted for 25.93% and 23.89% of the total turnover in 2010 and 2009 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 2010, direct sales to overseas customers represented approximately 45.2% (2009: 43.49%) of the Company's total turnover.

The management will continue to expand the Company's domestic and overseas sales networks. For the PRC market, the Company intends to increase its market share by expanding its sales and marketing team as well as establishing sales networks in certain regions of the PRC. For the overseas market, the Company intends to further expand its own export networks by boosting its direct export sales. The Company 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 48, 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 47, 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 40, 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 34, 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 46, 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 45, 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 50, 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 46, 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 48, is the principal of Shaoxing Zhong Xing Accounting Firm* (紹興中興會計師事務所). He obtained his master degree in management from Shanghai Financial and Economic Studies University* (上海財經大學). From December 1981 to March 1992, he worked for Shaoxing Xing Hong Chemical Fibre Company Limited* (紹興興虹化纖 公司) as finance manager; from March 1992 to December 1999, he was the assistant principal of Shaoxing County Audit Firm* (紹興縣審計事務所); and from January 2000 onwards, he served as the principal of Shaoxing Zhong Xing Accounting Firm* (紹興中興會計師事務所). He is the general manager of Shaoxing Zhong Xing Assets Valuation Company* (紹興中興資產評估公司) and Shaoxing Zhong Xing Tax Consultants* (紹興中興稅務師事務所). He 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 47, 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 53, 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 37, 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 43, 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 42, 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.

SENIOR MANAGEMENT

Mr. Fu Yong Jun (傅永君先生), aged 39, 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 45, 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.

The composition of the Board and details of attendance of Board meetings and meetings of other committees held throughout the financial year ended on 31 December 2010 are as follows:

	Attendance/ number of meetings		
	Board	**Audit Committee**	**Nomination and Remuneration Committee**
Executive Directors			
Mr. Tang Li Min *(Chairman)*	5/5	–	–
Mr. Hong Guo Ding	5/5	–	–
Mr. Fei Guo Yang	5/5	–	–
Mr. Hong Chun Qiang	5/5	–	–
Non-executive Directors			
Mr. Tang Cheng Fang	4/5	–	–
Mr. Li Zhang Rui	1/5	–	–
Independent non-executive Directors			
Mr. Wang He Rong	3/5	3/4	1/1
Mr. Lu Guo Qing	2/5	2/4	1/1
Mr. Ma Hong Ming	4/5	4/4	1/1

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 five meetings of the Board held in 2010 and the average attendance rate was 75%.

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.

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 2010 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 56%.

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;

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;

Corporate Governance

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

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

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

Other duties

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

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

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

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

NOMINATION AND REMUNERATION COMMITTEE

A Nomination and Remuneration Committee was set up in October 2005, constituted by three independent non-executive Directors, namely Mr. Wang He Rong, Mr. Lu Guo Qing and Mr. Ma Hong Ming. Meeting will be held at least once a year to review human resource issues, including significant changes in salary structure and terms and conditions affecting Directors and senior management. The Committee held one meeting in 2010 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;

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

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

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

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

COMPANY SECRETARY

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

QUALIFIED ACCOUNTANT

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

SENIOR MANAGEMENT

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

ACCOUNTABILITY AND INTERNAL AUDIT

The Company's accounts are prepared in accordance with the GEM Listing Rules, 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 2010, 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 30.

INTERNAL CONTROL

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

There is a well defined specific limit of authority governing activities of the Directors and executives. Budgets are prepared and are subject to the Directors' approval before being adopted. The 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 and 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 2010; 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 2009 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.

Corporate Governance

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 2010.

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES OF THE COMPANY

As at 31 December 2010, 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 2010, 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.

OTHER PERSONS

So far as was known to any Director or chief executive of the Company, as at 31 December 2010, 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 2010, 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 2010.

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 2010 are set out on pages 32 to 73 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 year ended 31 December 2010. The Company's sales to the largest customer accounted for 12% of the Company's turnover during the year ended 31 December 2010.

The Company's purchases attributable to the five largest suppliers in aggregate during the year ended 31 December 2010 amounted to 81.1% of the total purchases. The Company's purchases attributable to the largest supplier accounted for 58% of the Company's total purchases during the year ended 31 December 2010.

At no time during the year ended 31 December 2010 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 the aforesaid major customers and suppliers of the Company.

FINANCIAL STATEMENTS

The profit and cash flows of the Company for the year ended 31 December 2010 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 did not recommend the payment of any dividend during and for the year ended 31 December 2010.

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 25 the financial statements.

RESERVES

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

DISTRIBUTABLE RESERVES

As at 31 December 2010, the Company's reserves available for distribution as dividends, calculated in accordance with the relevant rules and regulations, amounted to RMB11.39 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 74.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

Save as disclosed in note 28 on the financial statements, no contract of significance to which the Company, its holding company or any of its fellow subsidiaries was a party and in which a director or supervisor of the Company had a material interest, subsisted at the end of the year or at any time during the year.

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

Each of the Directors (including the non-executive Directors) and supervisors of the Company has entered into a service contract with the Company. Each service contract is for an initial term of three years commencing on the respective date of appointment 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. Tang Li Min, Mr. Hong Guo Ding, Mr. Fei Guo Yang, Mr. Tang Cheng Fang, Mr. Li Zhang Rui, Mr. Wang He Rong and Mr. Lu Guo Qing 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 of the Company representing the staff members of the Company shall be elected by the staff members of the Company. The term for supervisors of the Company are three years and a supervisor of the Company may serve consecutive terms if re-elected upon the expiration of the term. Mr. Feng Yun Lin, Mr. Chen Jin Long , Mr. Wang Zhong and Mr. Wang Ye Gang are required to retire from office and offer themselves for reelection as supervisor of the Company 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 2012 are disclosed in note 28 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:

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 3 November 2009, Zhejiang New Synthetic Fibre Company would provide electricity to the Company from the effective date of agreement until 31 December 2012. The calculation of electricity tariff is based on the meter reading of the Company's separately installed meter. Pricing of the electricity tariff is determined with reference to the uniform rate payable by Zhejiang New Synthetic Fibre Company to Keqiao Power Supply Division of the Shaoxing Power Supply Bureau* (紹興電力局柯橋供電分局). The fee payable by the Company to Zhejiang New Synthetic Fibre Company is determined on an actual cost basis and is allocated on a fair and equitable basis. The expenses paid by the Company to Zhejiang New Synthetic Fibre Company in accordance with the above agreement for the financial year ended 31 December 2010 were RMB5.4 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 2010 as disclosed in the circular of the Company dated 3 November 2009.

* *For identification purpose only*

COMPETING INTERESTS

None of the Directors and supervisors of the Company and their respective associates had any interest in any businesses which directly or indirectly compete with the business of the Company during the year ended 31 December 2010.

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 year ended 31 December 2010.

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 4 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 results and this annual report, including the Company's financial statements for the year ended 31 December 2010 and had provided advice and comments thereon to the Board. The Committee was of the opinion that the Company's annual results and this annual report 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 2010 are set out in note 24 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 year ended 31 December 2010.

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 2010 is set out on page 74.

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 2010 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, 18 April 2011 to Tuesday, 17 May 2011 (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 Tuesday, 17 May 2011, 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, 15 April 2011.

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.

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), the Company's PRC auditors, will retire at the forthcoming annual general meeting of the Company.

By order of the Board
Zhejiang Prospect Company Limited
Mr. Tang Li Min
Chairman

Zhejiang Province, the People's Republic of China
28 March 2011

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 2010 and has great confidence in the future of the Company.

By Order of the Supervisory Committee

Hong Jin Shui
Chairman

Zhejiang Province, the PRC
28 March 2011

Independent Auditor's Report

CCIF CPA LIMITED
34/F The Lee Gardens
33 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 73, which comprise the statement of financial position as at 31 December 2010, 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 information.

Directors' responsibility for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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 of financial statements that give a true and fair view 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

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2010, 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
28 March 2011

Kwok Cheuk Yuen
Practising Certificate Number P02412

Statement of Comprehensive Income

For the Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Turnover	4	**106,832**	88,162
Cost of sales		**(93,570)**	(76,539)
Gross profit		**13,262**	11,623
Other revenue	5	**584**	546
Other net income	5	**285**	–
Distribution costs		**(2,700)**	(2,418)
Administrative expenses		**(20,046)**	(13,625)
Other operating expenses		**(130)**	(121)
Loss from operations	6	**(8,745)**	(3,995)
Finance costs	7	**(3,014)**	(5,848)
Loss before taxation		**(11,759)**	(9,843)
Income tax	8(a)	**–**	(56)
Loss for the year		**(11,759)**	(9,899)
Other comprehensive loss for the year		**–**	–
Total comprehensive loss for the year attributable to owners of the Company		**(11,759)**	(9,899)
Loss per share			
Basic and diluted	10	**(RMB0.154)**	(RMB0.129)

The notes on pages 36 to 73 form part of these financial statements.

Statement of Financial Position

As at 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Non-current assets			
Property, plant and equipment	15	42,887	47,456
Prepaid lease payments	16	5,744	5,883
Deposit paid for proposed acquisition of patent rights	17	–	18,000
Intangible assets	18	16,000	–
		64,631	71,339
Current assets			
Inventories	19	32,991	26,000
Trade and other receivables	20	49,454	52,842
Prepaid lease payments	16	139	139
Amount due from a related party	21	640	–
Cash and cash equivalents	22	29,246	37,057
		112,470	116,038
Current liabilities			
Trade and other payables	23	26,928	24,672
Amount due to a related party	21	50	–
Short-term bank loans – secured	24	56,177	57,000
		83,155	81,672
Net current assets		29,315	34,366
TOTAL ASSETS LESS CURRENT LIABILITIES		93,946	105,705
EQUITY			
Equity attributable to owners of the Company			
Share capital	25	76,600	76,600
Reserves	26	17,346	29,105
TOTAL EQUITY		93,946	105,705

Approved and authorised for issue by the board of directors on 28 March 2011.

Tang Li Min
Director

Hong Guo Ding
Director

The notes on pages 36 to 73 form part of these financial statements.

Statement of Changes in Equity

For the Year Ended 31 December 2010

	Attributable to owners of the Company				
	Share capital	**Share premium**	**Statutory surplus reserve**	**Retained profits**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2009	76,600	246	5,709	33,049	115,604
Loss and total comprehensive loss for the year	–	–	–	(9,899)	(9,899)
At 31 December 2009 and 1 January 2010	**76,600**	**246**	**5,709**	**23,150**	**105,705**
Loss and total comprehensive loss for the year	**–**	**–**	**–**	**(11,759)**	**(11,759)**
At 31 December 2010	**76,600**	**246**	**5,709**	**11,391**	**93,946**

The notes on pages 36 to 73 form part of these financial statements.

Statement of Cash Flows

For the Year ended 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
Operating activities			
Loss before taxation		**(11,759)**	(9,843)
Adjustments for:			
Depreciation of property, plant and equipment		**4,432**	4,436
Amortisation of intangible assets		**4,079**	–
Amortisation of prepaid lease payments		**139**	139
Interest income		**(58)**	(73)
Finance costs		**3,014**	5,848
Gain on disposal of property, plant and equipment		**(89)**	–
Impairment loss on trade receivables		**709**	1,018
Impairment loss on deposit paid for proposed acquisition of patent rights		**–**	7,000
Impairment loss on intangible assets		**7,921**	–
Operating profit before changes in working capital		**8,388**	8,525
(Increase)/decrease in inventories		**(6,991)**	7,497
Decrease in trade and other receivables	20	**2,679**	16,115
Increase in trade and other payables		**2,256**	1,474
Increase in amount due from a related company		**(640)**	–
Increase in amount due to a related company		**50**	–
Cash generated from operations		**5,742**	33,611
PRC enterprise income tax paid		**–**	(56)
Net cash generated from operating activities		**5,742**	33,555
Investing activities			
Refund for acquisition of land use rights		**–**	32,000
Payment for acquisition of patent rights		**(10,000)**	(25,000)
Purchase of property, plant and equipment		**(11)**	(4,401)
Proceeds from disposal of property, plant and equipment		**237**	–
Interest received		**58**	73
Net cash (used in)/generated from investing activities		**(9,716)**	2,672
Financing activities			
Repayment from a related company		**–**	830
Proceeds from new short-term bank loans		**20,500**	65,000
Repayment of short-term bank loans		**(21,323)**	(100,000)
Interest paid		**(3,014)**	(5,848)
Net cash used in financing activities		**(3,837)**	(40,018)
Net decrease in cash and cash equivalents		**(7,811)**	(3,791)
Cash and cash equivalents at beginning of year		**37,057**	40,848
Cash and cash equivalents at end of year	22	**29,246**	37,057

The notes on pages 36 to 73 form part of these financial statements.

Notes to the Financial Statements

For the Year Ended 31 December 2010

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 2001-2005, 20th 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 new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Company. Note 3 provides information on any changes in accounting policies resulting from the 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 measurement basis used in the preparation of the financial statements is the historical cost conversion. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except where otherwise indicated.

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

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

Notes to the Financial Statements
For the Year Ended 31 December 2010

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

c) Property, plant and equipment

Property, plant and equipment held for own use are stated at cost less accumulated depreciation and impairment losses (see note 2(f)).

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

As asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Buildings held for own use	20-30 years or the leases term of the land, if shorter
Machinery and equipment	12 years
Office equipment and furniture	2-5 years
Motor vehicles	5 years

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

d) Intangible assets (other than goodwill)

Intangible assets that are acquired by the company are carried at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(f)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

Patents	2-7 years

Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

e) 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.

i) Classification of assets leased to the company

Assets that are held by company under leases which transfer to the company substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the company are classified as operating leases, with the following exceptions:

– property held under operating leases that would otherwise meet the definition of an investment property is classified as investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease; and

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the company, or taken over from the previous lessee.

Notes to the Financial Statements
For the Year Ended 31 December 2010

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

e) Leased assets *(Continued)*

ii) Operating lease charges

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.

f) 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.

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

- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

f) Impairment of assets *(Continued)*

i) Impairment of trade and other receivables (Continued)

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable 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

– intangible assets

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 fair value less costs to sell 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 if 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

f) Impairment of assets *(Continued)*

ii) Impairment of other assets (Continued)

– **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(f)(i) and (ii)).

g) Inventories

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

h) Income tax

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

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

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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

h) Income tax *(Continued)*

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the company 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 the same taxable entity.

i) Provisions and contingent liabilities

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

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

j) Research and development costs

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

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

Amortisation of capitalised development costs is charged to 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

k) Borrowing costs

Borrowing costs that are 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 are capitalized as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

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.

l) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. 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 sale of goods

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

Interest income is recognised as it accrues using the effective interest method.

iii) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the company will comply with the conditions attaching to them. Grants that compensate the company for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the company for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expenses.

Notes to the Financial Statements

For the Year Ended 31 December 2010

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

m) Translation of foreign currencies

i) 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.

ii) Transactions and balances

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

n) Retirement benefit costs

The Company was incorporated in the PRC and participates in defined contribution retirement plans managed by the local municipal government in the locations in which 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.

o) Trade and other receivables

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

p) Trade and other payables

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

q) Cash and cash equivalents

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

r) Related parties

For the purposes of these financial statements, parties are considered to be related to the Company if:

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

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

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

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

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

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

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

s) Segment reporting

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 chief operating decision makers 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.

Notes to the Financial Statements

For the Year Ended 31 December 2010

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

The HKICPA has issued two revised HKFRSs, a number of amendments to HKFRSs and two new Interpretations that are first effective for the current accounting period of Company. Of these, the following development is relevant to the Company's financial statements:

- HKFRSs (Amendments), Improvements to HKFRSs (2009)

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

The *Improvements to HKFRSs* (2009) have had no material impact on the Company's financial statements as the amendment conclusions were consistent with policies already adopted by 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 AND OTHER NET INCOME

	2010	2009
	RMB'000	*RMB'000*
Other revenue		
Bank interest income, being total interest income on financial assets not at fair value through profit or loss	**58**	73
Sales of scrap materials	**526**	473
	584	546
Other net income		
Gain on disposal of property, plant and equipment	**89**	–
Government grant *(note (i))*	**86**	–
Insurance claim	**110**	–
	285	–

Note:

i) The government grants received represents subsidies from the Yangxunqiao Town Ministry of Finance as encouragement for economic development.

6. LOSS FROM OPERATIONS

Loss from operations is stated after charging the followings:

	2010	2009
	RMB'000	*RMB'000*
Cost of inventories sold *(Note)*	**93,570**	76,539
Staff costs		
– Salaries, wages and other benefits (including directors' emoluments – note 12)	**9,039**	8,490
– Contributions to defined contribution retirement plans	**548**	425
Research and development costs	**186**	151
Depreciation of property, plant and equipment	**4,432**	4,436
Amortisation of prepaid lease payments	**139**	139
Amortisation of intangible assets	**4,079**	–
Auditor's remuneration	**471**	471
Impairment loss on trade receivables	**709**	1,018
Impairment loss on deposit paid for proposed acquisition of patent rights	**–**	7,000
Impairment loss on intangible assets	**7,921**	–
Gain on disposal of property, plant and equipment	**(89)**	–
Exchange loss, net	**616**	121

Note: Cost of inventories sold includes RMB12,571,000 (2009: RMB11,854,000) 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.

7. FINANCE COSTS

	2010	2009
	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	**3,014**	5,848

Notes to the Financial Statements
For the Year Ended 31 December 2010

8. INCOME TAX

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

	2010 *RMB'000*	2009 *RMB'000*
Under provision in respect of prior years		
PRC enterprise income tax	**–**	56
	–	56

No provision for PRC enterprise income tax has been provided for in the financial statements as the Company has no assessable profit in both of the years ended 31 December 2009 and 2010.

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 for both of the years ended 31 December 2009 and 2010.

b) The income tax for the year can be reconciled to the loss before taxation as follows:

	2010 *RMB'000*	2009 *RMB'000*
Loss before taxation	**(11,759)**	(9,843)
Calculated at the taxation rate of 25% (2009: 25%)	**(2,940)**	(2,460)
Tax effect of non-deductible expenses	**–**	30
Tax effect of unused tax losses not recognised	**–**	426
Tax effect of deductible temporary differences not recognised	**2,940**	2,004
Under provision in prior years	**–**	56
Actual tax expense	**–**	56

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

	2010 *RMB'000*	2009 *RMB'000*
Balance of PRC enterprise income tax brought forward	**–**	–
Under provision in respect of prior years	**–**	56
Payment of PRC enterprise income tax	**–**	(56)
Balance of PRC enterprise income tax carried forward	**–**	–

d) No provision for deferred taxation has been made for the years 2009 and 2010 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 2010 (2009: Nil).

10. LOSS PER SHARE

The basic loss per share calculated based on the loss attributable to owners of the Company of RMB11,759,000 (2009: RMB9,899,000) and the 76,600,000 shares in issue during the years ended 31 December 2009 and 2010.

Diluted loss per share equals to basic loss per share as there were no potential dilutive ordinary shares outstanding for the years ended 31 December 2009 and 2010.

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 are 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 2009 and 31 December 2010 were approximately RMB425,000 and RMB548,000 respectively.

Notes to the Financial Statements
For the Year Ended 31 December 2010

12. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

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

Year ended 31 December 2010

	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	–	54	3	57
Hong Chun Qiang	–	50	2	52
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	–	45	3	48
Feng Yun Lin	–	–	–	–
Chen Jin Long	–	44	3	47
Independent supervisors				
Wang Zhong	–	–	–	–
Wang Ye Gang	–	–	–	–
	–	333	11	344

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

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

Year ended 31 December 2009

	Fees *RMB'000*	Basic salaries, allowances andc 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

During the years ended 31 December 2009 and 2010, 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. None of the directors has waived any emoluments during each of the two years ended 31 December 2009 and 2010.

13. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2009: three) were directors whose emoluments are included in the disclosure in note 12. The emoluments of the remaining three (2009: two) individuals were as follows:

	2010	2009
	RMB'000	*RMB'000*
Salaries and other emoluments	**288**	102
Pension scheme contributions	**8**	9
	296	111

Their emoluments were all within RMB880,000 (equivalent to HK$1,000,000).

During the years ended 31 December 2009 and 2010, 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

Operating segments are identified on the basis of internal reports which provides information about components of the Company. These information are reported to and reviewed by the board of directors, the chief operating decision makers ("CODM") for the purpose of resource allocation and performance assessment.

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 CODM regularly review their combined financial information to assess the performance and make resource allocation decisions. Accordingly, no segmental revenue, results, assets and liabilities are presented.

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	
	2010	2009
	RMB'000	*RMB'000*
The PRC, excluding Hong Kong	**58,543**	49,822
Europe	**26,139**	20,792
Asia other than the PRC	**14,145**	11,453
Other countries	**8,005**	6,095
	106,832	88,162

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.

14. SEGMENT INFORMATION *(Continued)*

c) Information about major customers

The Company's customer base includes three (2009: 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 2010, revenue from these customers amounted to approximately RMB13.3 million, RMB12.9 million and RMB12.8 million (2009: RMB10 million and RMB9.7 million) respectively.

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 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 and 1 January 2010	26,840	42,397	1,157	1,203	71,597
Additions	–	11	–	–	11
Disposals	–	(1,173)	–	–	(1,173)
At 31 December 2010	26,840	41,235	1,157	1,203	70,435
Accumulated depreciation and impairment losses					
At 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 and 1 January 2010	6,117	16,316	1,131	577	24,141
Charge for the year	915	3,351	26	140	4,432
Written back on disposal	–	(1,025)	–	–	(1,025)
At 31 December 2010	7,032	18,642	1,157	717	27,548
Carrying amount					
At 31 December 2010	19,808	22,593	–	486	42,887
At 31 December 2009	20,723	26,081	26	626	47,456

At 31 December 2010 the Company's buildings with an aggregate net book value of approximately RMB9,277,000 (2009: RMB20,723,000) were pledged to secure general banking facilities granted to the Company (note 24).

The Company's buildings held for own use for the years 2009 and 2010 are located in the PRC and are held under medium-term leases.

Notes to the Financial Statements
For the Year Ended 31 December 2010

16. PREPAID LEASE PAYMENTS

	2010	2009
	RMB'000	*RMB'000*
Net carrying amount		
At 1 January	**6,022**	6,161
Amortisation for the year	**(139)**	(139)
At 31 December	**5,883**	6,022
The Company's prepaid lease payments comprise:		
Land use rights in PRC under medium-term lease (leases of between 10 to 50 years)	**5,883**	6,022
Analysed for reporting purposes as:		
Current asset	**139**	139
Non-current asset	**5,744**	5,883
	5,883	6,022

As at the end of the reporting period, the prepaid lease payments amounting to RMB5,883,000 (2009: RMB6,022,000) were pledged to secure bank loan facilities granted to the Company (note 24).

17. DEPOSIT PAID FOR PROPOSED ACQUISITION OF PATENT RIGHTS

	2010	2009
	RMB'000	*RMB'000*
Net carrying amount as at 31 December	**–**	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 titles of the patent rights have not yet been transferred to the Company as at 31 December 2009 and the registration of such transfer was 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 would be completed when the balance of RMB10,000,000 is paid. The remaining balance had been paid separately in cash on 13 May 2010 and 18 June 2010 at RMB5,000,000 each, after filing of the application documents regarding transfer of the patents at the relevant PRC patent authority.

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 the directors 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 reflects 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 which resulted from the sudden slow 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.

The deposit and impairment loss were transferred to intangible assets upon completion of the agreement.

18. INTANGIBLE ASSETS

	2010 *RMB'000*
Cost	
Transfer from deposit paid *(note 17)*	**35,000**
At 31 December 2010	**35,000**
Accumulated amortization and impairment	
Impairment loss transferred from deposit paid *(note 17)*	**7,000**
Charge for the year	**4,079**
Impairment loss recognised for the year	**7,921**
At 31 December 2010	**19,000**
Net book value	
At 31 December 2010	**16,000**
At 31 December 2009	**–**

Intangible assets represent patent rights held by the Company.

The amortisation charge for the year and the impairment loss are included in "other operating expenses" in profit or loss.

As at 31 December 2010, the Company engaged BMI Appraisal Limited, an independent qualified professional valuer to assess the recoverable amount of the patent rights and determined that the recoverable amount of the patent rights is approximately RMB16,000,000. The recoverable amount of the patent rights was determined from the cash flow projection based on financial budgets approved by the directors covering a period of 5 years, and the discount rate of 10.32% 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 factors contributing to the impairment of the patent rights are the limitation in the production capacity resulted from the rebound of demand of traditional products and the increasingly keen competition in the target sales market in Eastern Europe.

Notes to the Financial Statements
For the Year Ended 31 December 2010

19. INVENTORIES

	2010	2009
	RMB'000	*RMB'000*
Raw materials	**6,399**	4,507
Work-in-progress	**16,586**	11,985
Finished goods	**10,006**	9,508
	32,991	26,000

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

	2010	2009
	RMB'000	RMB'000
Carrying amount of inventories sold	**93,570**	76,539

20. TRADE AND OTHER RECEIVABLES

	2010	2009
	RMB'000	*RMB'000*
Trade receivables	**47,125**	41,611
Bills receivables	**846**	7,302
	47,971	48,913
Less: Allowance for doubtful debts	**(7,307)**	(6,598)
Loans and receivables	**40,664**	42,315
Prepayments, deposits and other receivables	**1,227**	6,233
Trade deposits paid to suppliers	**7,563**	4,294
	49,454	52,842

20. TRADE AND OTHER RECEIVABLES *(Continued)*

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

	2010	2009
	RMB'000	*RMB'000*
Within 30 days	6,530	14,229
31-60 days	7,534	8,344
61-90 days	7,070	4,022
91-180 days	9,542	9,318
More than 180 days	17,295	13,000
	47,971	48,913
Less: Allowance for doubtful debts	(7,307)	(6,598)
	40,664	42,315

b) The normal credit period granted to the customers of the Company is 30 to 120 days (2009: 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 on doubtful debts is as follows:

	2010	2009
	RMB'000	*RMB'000*
At 1 January	6,598	5,657
Allowance for doubtful debts recognised during the year *(Note i)*	709	1,018
Uncollectible amounts written off *(Note ii)*	–	(77)
At 31 December	7,307	6,598

Notes

i) As at 31 December 2010, trade receivables of the Company amounting to approximately RMB7,307,000 (2009: RMB6,598,000) 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 RMB709,000 (2009: RMB1,018,000) were recognised. The Company does not hold any collateral over these balances.

ii) During the year, none of the trade receivable previously provided for was written off. In 2009, RMB77,000 of the trade receivables previously provided for was written off when the debtor became bankrupt.

Notes to the Financial Statements
For the Year Ended 31 December 2010

20. TRADE AND OTHER RECEIVABLES *(Continued)*

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:

	2010	2009
	RMB'000	*RMB'000*
Neither past due nor impaired	**25,408**	33,365
Less than 2 months past due	**4,259**	2,050
2 months to 1 year past due	**8,346**	1,800
Over 1 year past due	**2,651**	5,100
	15,256	8,950
	40,664	42,315

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.

21. AMOUNT DUE FROM/(TO) A RELATED PARTIES

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

	31/12/2010	**31/12/2009**	**Maximum amount outstanding during the year**
	RMB'000	*RMB'000*	*RMB'000*
浙江展望控股集團有限公司(“展望控股”)	(50)	–	(50)
浙江展望新合纖有限公司(“新合纖”)	640	–	640

Mr. Tang Li Min, a director of the companies, has controlling interest in 展望控股 and 新合纖.

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

22. CASH AND CASH EQUIVALENTS

	2010	2009
	RMB'000	*RMB'000*
Cash at bank and in hand	**29,246**	37,057

23. TRADE AND OTHER PAYABLES

	2010	2009
	RMB'000	*RMB'000*
Trade payables	**12,498**	12,704
Other payables	**9,103**	9,327
Value added tax, business tax and other taxes payable	**701**	548
Accruals	**1,754**	1,544
Trade deposits received from customers	**2,872**	549
Financial liabilities measured at amortised cost	**26,928**	24,672

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

	2010	2009
	RMB'000	*RMB'000*
Within 90 days	**10,686**	9,373
91-180 days	**1,568**	2,711
181-365 days	**90**	531
Over 365 days	**154**	89
	12,498	12,704

24. SHORT-TERM BANK LOANS – SECURED

As at 31 December 2010, the short-term bank loans are secured by the Company's prepaid lease payments and buildings (2009: Company's prepaid lease payments and buildings, and conditional floating charge on machineries and inventories) thereon, and the corporate guarantees provided by the parties set out in note 28(b), bearing effective interest rates (which are also equal to contracted interest rates) at the range of 4.86% to 5.84% (2009: 4.86% to 6.37%) per annum and are repayable within one year.

All of the secured bank loans are carried at amortised cost.

Notes to the Financial Statements
For the Year Ended 31 December 2010

25. SHARE CAPITAL

	2010 and 2009	
	No. of shares	*RMB'000*
Registered, issued and fully paid:		
At 1 January and 31 December		
State-owned equity interest shares of RMB 1 each *(Note)*	53,600,000	53,600
H Shares of RMB 1 each	23,000,000	23,000
	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 profits, statutory surplus reserve and statutory public welfare fund at 30 June 2002 were capitalised into 53,600,000 shares of RMB1 each, totalling RMB53,600,000, in accordance with Article 99 of the PRC Company Law.

26. RESERVES

	Share premium	Statutory surplus reserve	Retained profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2009	246	5,709	33,049	39,004
Total comprehensive loss for the year	–	–	(9,899)	(9,899)
At 31 December 2009 and 1 January 2010	246	5,709	23,150	29,105
Total comprehensive loss for the year	–	–	(11,759)	(11,759)
At 31 December 2010	246	5,709	11,391	17,346

(a) Share premium

Share premium represents the difference between the nominal value of the ordinary shares issued by the Company and the aggregate consideration received for shares issued.

(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.

26. 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 owners 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 2009 and 31 December 2010 amounted to approximately RMB23,150,000 and RMB11,391,000 respectively.

27. CAPITAL COMMITMENTS

The Company's authorised capital commitments outstanding at 31 December 2009 and 31 December 2010 not provided for in the financial statements are as follows:

	2010 ***RMB'000***	2009 *RMB'000*
Contracted but not provided for		
– Intangible assets	**–**	10,000
– Property, plant and equipment	**53**	163
	53	10,163

Notes to the Financial Statements
For the Year Ended 31 December 2010

28. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in the financial statements, the Company had the following transactions with related parties during the year.

(a) Related party transactions:

		Amounts included in the statement of comprehensive income			Balance as at 31 December	
	Notes	**2010 RMB'000**	2009 *RMB'000*	*Notes*	**2010 RMB'000**	2009 *RMB'000*
新合纖	*(i)(ii)*	**(6,314)**	(4,984)	*(iii)*	**640**	–
展望控股	*(ii)*	**50**	–	*(iv)*	**(50)**	–

Notes:

i) During the two years ended 31 December 2010 and 31 December 2009, electricity fee paid to 新合纖 were charged in the normal course of business as the Company has to share the electricity expense with 新合纖 and prices were calculated based on actual electricity consumed by the Company at the average unit rate charged by the power company.

ii) Mr. Tang Li Min ("Mr. Tang"), a director of the companies, has a controlling interest in 新合纖 and 展望控股.

iii) This represents the overpayment of electricity fees as at 31 December 2010.

iv) This represents the cash advance received as at 31 December 2010.

(b) As at 31 December 2010, Mr. Tang and his wife, Miss Chen Yan Jing, 新合纖, 浙江嘉利蛋白纖維有限公司("浙江嘉利") and 紹興柯城輕紡原料有限公司("柯城輕紡"), have given several guarantees in favour of banks to secure bank loans of the company amounting to RMB56,177,000.

As at 31 December 2009, Mr. Tang and his wife, Miss Chen Yan Jing, 新合纖, 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.

28. RELATED PARTY TRANSACTIONS *(Continued)*

(b) *(Continued)*

新合織 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, 柯城輕紡 and 南宇輕紡 are companies incorporated in the PRC and are third parties independent of the Company. Zhejiang Industrial has given several guarantees to 浙江嘉利 and 南宇輕紡 for obtaining their own bank loans. In return, 浙江嘉利 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, are as follows:

	2010	2009
	RMB'000	*RMB'000*
Salaries, wages and other benefits	**243**	208
Post-employment benefits	**11**	14
	254	222

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

29. ULTIMATE CONTROLLING PARTY

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

Notes to the Financial Statements
For the Year Ended 31 December 2010

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND FAIR VALUES

The Company's major financial instruments include borrowings, trade receivable and trade payables. Details of the financial instruments are disclosed in the 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. There has been no change to the Company's exposure to these risks or the manner in which the Company manages and measures these risks.

a) Credit risk

i) As at 31 December 2010, 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 12% (2009: 20%) and 46% (2009: 49%) 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 20.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND FAIR VALUES

(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 shows the Company's remaining contractual maturity at the end of the reporting period of the company's non-derivative financial liabilities, which are based on contractual cash flows (including interest payments computed using contractual rates) and the earliest date the Company can be required to pay.

	2010			2009		
	Within 1 year or on demand	**Total contractual undiscounted cash flow**	**Carrying amount**	Within 1 year or on demand	Total contractual undiscounted cash flow	Carrying amount
	RMB'000	**RMB'000**	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Secured bank loans	**56,177**	**56,177**	**56,177**	57,000	57,000	57,000
Trade and other payables	**26,928**	**26,928**	**26,928**	24,672	24,672	24,672
	83,105	**83,105**	**83,105**	81,672	81,672	81,672

Notes to the Financial Statements
For the Year Ended 31 December 2010

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND FAIR VALUES

(Continued)

c) Interest rate risk

The Company is exposed to cash flow interest rate risk in relation to variable-rate borrowings (see Note 24 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 fluctuations in the interest rate arising from the Company's RMB borrowings.

i) Interest rate profile

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

	2010		2009	
	Effective interest rate %	**RMB'000**	Effective interest rate %	RMB'000
Variable rate borrowings:				
Short term bank loans	**4.86%-5.84%**	**56,177**	4.86% to 6.37%	57,000

ii) Sensitivity analysis

The sensitivity analyies below have been determined based on the exposure to interest rates for variable-rate bank borrowings at the end of the reporting period, which 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 2009.

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 2010 would increase/decrease by RMB730,000 (2009: increase/decrease by RMB856,000). This is mainly attributable to the Company's exposure to interest rates on its variable-rate bank borrowings.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND FAIR VALUES

(Continued)

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.

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. The Company was not exposed to material currency risk at the end of the reporting period.

	Exposure to foreign currencies (expressed in Renminbi)	
	2010	2009
	'000	*'000*
Trade and other receivables – USD	**10,506**	12,589
Cash and cash equivalents – USD	**1,809**	934
Overall exposure to currency risk	**12,315**	13,523

Notes to the Financial Statements
For the Year Ended 31 December 2010

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND FAIR VALUES

(Continued)

d) Currency risk *(Continued)*

ii) Sensitivity analysis

The following table indicates the approximate change in the Company's loss after tax and accumulated losses 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.

	2010		2009	
	Increase/ (decrease) in foreign exchange rates	**Effect on loss after tax and retained profits RMB'000**	Increase/ (decrease) in foreign exchange rates	Effect on loss after tax and retained profits *RMB'000*
USD	**3%**	**(369)**	3%	(406)
	(3%)	**369**	(3%)	406

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.

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 loss after tax and retained profits 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 2009.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not affect the exposure during the year.

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 payments to shareholders, issue new shares as well as issue new debts or the redemption of existing debts as it sees fit and appropriate.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND FAIR VALUES

(Continued)

e) Capital management *(Continued)*

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 comprises all components of equity and adjusted for the amounts due to/from related parties. The adjusted net debt-to-capital ratios at 31 December 2009 and 31 December 2010 are as follows:

	2010	2009
	RMB'000	*RMB'000*
Interest-bearing bank loans	**56,177**	57,000
Less: Cash and cash equivalents	**(29,246)**	(37,057)
Adjusted net debt	**26,931**	19,943
Equity	**93,946**	105,705
Add: Amount due to a related company	**50**	–
Less: Amount due from a related company	**(640)**	–
Adjusted capital	**93,356**	105,705
Adjusted net debt-to-capital ratio	**29%**	19%

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.

31. ACCOUNTING ESTIMATES

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.

Notes to the Financial Statements
For the Year Ended 31 December 2010

31. ACCOUNTING ESTIMATES *(Continued)*

a) Key sources of estimation uncertainty *(Continued)*

i) Useful lives of property, plant and equipment

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

The carrying amount of property, plant and equipment as at 31 December 2010 were RMB42,887,000 (2009 RMB47,456,000).

ii) Impairment of property, plant and equipment, prepaid lease payments, deposit paid for proposed acquisition of patent rights and intangible assets.

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.

The carrying amounts, as at 31 December 2010, of the Company's property, plant and equipment were RMB42,887,000 (2009: RMB47,456,000), prepaid lease payments were RMB5,883,000 (2009: RMB6,022,000), deposit paid for proposed acquisition of patent rights were Nil (2009: RMB18,000,000) and intangible assets were RMB16,000,000 (2009: Nil).

iii) Impairment of receivables

The Company maintains impairment allowance for doubtful accounts based upon a periodic evaluation of their recoverability, 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 conditions of the debtors were to deteriorate, additional impairment allowance may be required.

The carrying amounts of trade and other receivables of the Company as at 31 December 2010 were RMB49,454,000 (2009: RMB52,842,000).

31. ACCOUNTING ESTIMATES *(Continued)*

a) Key sources of estimation uncertainty *(Continued)*

iv) Allowance for inventories

The management of the Company periodically reviews its inventories and makes 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 makes allowance for obsolete items.

The carrying amounts of inventories of the Company as at 31 December 2010 were RMB32,991,000 (2009: RMB26,000,000).

32. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2010

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and Interpretations which are not yet effective for the year ended 31 December 2010.

The Company has not early applied any of the following new and revised Standards, Amendments or Interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improviements to HKFRSs 2010 except for the amendments to HKFRS 3 (Revised in 2008), HKFRS 7, HKAS 1 and HKAS 28[1]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[4]
HKFRS 9	Financial instruments[6]
HKAS 12 (Amendment)	Deferred Tax: Rcovery of Underlying Assets[5]
HKAS 24 (Revised)	Related Party Disclosures[3]
HKAS 32 (Amendment)	Classification of Rights Issues[2]
HK(IFRIC)-Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[3]
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments[3]

1 Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.
2 Effective for annual periods beginning on or after 1 February 2010.
3 Effective for annual periods beginning on or after 1 January 2011.
4 Effective for annual periods beginning on or after 1 July 2011.
5 Effective for annual periods beginning on or after 1 January 2012.
6 Effective for annual periods beginning on or after 1 January 2013.

HKFRS 9 Financial Instruments issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

32. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2010 *(Continued)*

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 that will be adopted in the Company's financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard will have a significant impact on amounts reported in respect of the Company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The amendments to HKFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors do not anticipate that these amendments to HKFRS 7 will have a significant effect on the Company's disclosures regarding transfers of trade receivables previously effected. However, if the Company enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

HKAS 24 Related Party Disclosures (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities.

The disclosure exemptions introduced in HKAS 24 (as revised in 2009) do not affect the Company because the Company is not a government-related entity. However, disclosures regarding related party transactions and balances in these financial statements may be affected when the revised version of the Standard is applied in future accounting periods because some counterparties that did not previously meet the definition of a related party may come within the scope of the Standard.

HK(IFRIC) – Int 19 provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. To date, the Company has not entered into transactions of this nature. However, if the Company does enter into any such transactions in the future, HK(IFRIC) – Int 19 will affect the required accounting. In particular, under HK(IFRIC) – Int 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognised in profit or loss.

Five Year Summary

Results

	For the year ended 31 December				
	2010	2009	2008	2007	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(Restated)
Turnover	**106,832**	88,162	130,113	140,390	113,233
(Loss)/profit for the year	**(11,759)**	(9,899)	1,302	5,569	4,061

Assets and liabilities

	As at 31 December				
	2010	2009	2008	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Restated)
Total assets	**177,101**	187,377	230,802	220,642	195,745
Total liabilities	**(83,155)**	(81,672)	(115,198)	(106,340)	(87,012)
Total equity	**93,946**	105,705	115,604	114,302	108,733

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 2010 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, 17 May 2011 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 2010.

2. To consider and approve the audited financial statements and the report of the auditors of the Company for the year ended 31 December 2010.

3. To consider and approve the report of the supervisory committee of the Company for the year ended 31 December 2010.

4. To consider and approve the remuneration proposals for the directors and supervisors of the Company for the financial year ended 31 December 2011.

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

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.

By Order of the Board
Zhejiang Prospect Company Limited*
Mr. Tang Li Min
Chairman

Zhejiang Province, the People's Republic of China
31 March 2011

* *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, 18 April 2011 to Tuesday, 17 May 2011 (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, 15 April 2011.

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, 15 April 2011 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, 27 April 2011. 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. Tang Li Min (Executive director), Mr. Hong Guo Ding (Executive director), Mr. Fei Guo Yang (Executive director), Mr. Tang Cheng Fang (Non-executive director), Mr. Li Zhang Rui (Non-executive director), Mr. Wang He Rong (Independent non-executive director), Mr. Lu Guo Qing (Independent non-executive director) as directors of the Company and Mr. Feng Yun Lin (Supervisor), Mr. Chen Jin Long (Supervisor), Mr. Wang Zhong (Independent Supervisor) and Mr. Wang Ye Gang (Independent Supervisor) as supervisors of the Company. The biographical profiles of the retiring directors and supervisors set out below in accordance with Chapter 17 of the GEM Listing Rules, so that the Shareholders of the Company can make informed decision regarding re-electing above retiring directors and supervisors:

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Mr. Tang Li Min, executive director

Mr. Tang Li Min (唐利民先生), aged 48, 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.

Should Mr. Tang 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. Tang, 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. Tang is not interested in any shares and underlying shares of the Company within the meaning of SFO. Mr. Tang is not connected with any of the directors, supervisor, senior management or managements of the Company or substantial or controlling shareholders.

Mr. Hong Guo Ding, executive director

Mr. Hong Guo Ding (洪國定先生), aged 47, 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.

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 does not receive any remuneration in relation to his service as director of the Company. 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.

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Mr. Fei Guo Yang, executive director

Mr. Fei Guo Yang (費國楊先生), aged 40, 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.

Should Mr. Fei 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. Fei, he is entitled to receive RMB51,000 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. Fei is not interested in any shares and underlying shares of the Company within the meaning of SFO. Mr. Fei is not connected with any of the directors, supervisor, senior management or managements of the Company or substantial or controlling shareholders.

Mr. Tang Cheng Fang, non-executive director

Mr. Tang Cheng Fang (唐成芳先生), aged 46, 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.

Should Mr. Tang 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. Tang, he does not receive any remuneration in relation to his service as director of the Company. Mr. Tang is not interested in any shares and underlying shares of the Company within the meaning of SFO. Mr. Tang is not connected with any of the directors, supervisor, senior management or managements of the Company or substantial or controlling shareholders.

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Mr. Li Zhang Rui, non-executive director

Mr. Li Zhang Rui (李張瑞先生), aged 45, 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.

Should Mr. Li 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. Li, he is entitled to receive RMB49,000 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. Li is not interested in any shares and underlying shares of the Company within the meaning of SFO. Mr. Li is not connected with any of the directors, supervisor, senior management or managements of the Company or substantial or controlling shareholders.

Mr. Wang He Rong, independent non-executive director

Mr. Wang He Rong (王和榮先生), aged 50, 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.

Should Mr. Wang 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. Wang, 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. Wang is not interested in any shares and underlying shares of the Company within the meaning of SFO. Mr. Wang is not connected with any of the directors, supervisor, senior management or managements of the Company or substantial or controlling shareholders.

Mr. Lu Guo Qing, independent non-executive director

Mr. Lu Guo Qing (陸國慶先生), aged 46, 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.

Should Mr. Lu 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. Lu, 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. Lu is not interested in any shares and underlying shares of the Company within the meaning of SFO. Mr. Lu is not connected with any of the directors, supervisor, senior management or managements of the Company or substantial or controlling shareholders.

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Mr. Feng Yun Lin, supervisor

Mr. Feng Yun Lin (馮雲林先生), aged 53, 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.

Should Mr. Feng 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. Feng, he does not receive any remuneration in relation to his service as supervisor of the Company. Mr. Feng is not interested in any shares and underlying shares of the Company within the meaning of SFO. Mr. Feng is not connected with any of the directors, supervisor, senior management or managements of the Company or substantial or controlling shareholders.

Mr. Chen Jin Long, supervisor

Mr. Chen Jin Long (陳金龍先生), aged 37, 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.

Should Mr. Chen 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. Chen, he is entitled to receive RMB43,000 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. Chen is not interested in any shares and underlying shares of the Company within the meaning of SFO. Mr. Chen is not connected with any of the directors, supervisor, senior management or managements of the Company or substantial or controlling shareholders.

Mr. Wang Zhong, independent supervisor

Mr. Wang Zhong (王眾先生), aged 43, 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.

Should Mr. Wang 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. Wang, 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. Wang is not interested in any shares and underlying shares of the Company within the meaning of SFO. Mr. Wang is not connected with any of the directors, supervisor, senior management or managements of the Company or substantial or controlling shareholders.

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Mr. Wang Ye Gang, independent supervisor

Mr. Wang Ye Gang (王葉剛先生), 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 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.

Should Mr. Wang 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. Wang, 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. Wang is not interested in any shares and underlying shares of the Company within the meaning of SFO. Mr. Wang 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.