

Annual Report **2011**



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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* 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

Auditor

CCIF CPA Limited

Legal Advisors as to Hong Kong Laws

Loong & Yeung

Principal Bankers

China Construction Bank, Shaoxing City 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

1 Connaught 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 2011.

BUSINESS REVIEW

Due to global recovery, the Company had achieved growth in 2011. 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 2011 amounted to 11.03 million sets and 10.76 million sets, respectively, representing a decrease of approximately 1.34% and 4.44% as compared to 11.18 million sets and 11.26 million sets in 2010.

Turnover for the year ended 31 December 2011 amounted to approximately RMB114.76 million, representing an increase of approximately 7.4% as compared to RMB106.83 million in 2010. Net loss after tax amounted to approximately RMB9.51 million, a decrease of approximately 19.15% as compared to that of 2010. The increase in turnover was mainly due to the increase in demand from overseas customers. The decrease in net loss after tax was mainly due to reversal of provision for bad and doubtful debts and decrease in finance cost.

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 of the Company (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 Cardan Shaft Parts, Slip yoke, welding Yoke and Tube yoke in the second half of 2011.

* For identification purpose only

Chairman's Statement

Strengthen product research and development

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

Expand PRC and international markets

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

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

Continually improve product quality

The Company has obtained the TS16949 Certification. On this basis, the Company will continue to strengthen its quality management and strive to enhance its product quality and reduce production costs of its products. The Directors believe that high product quality and better production costs control will be the key to substantially increasing the market competitiveness of its products.

LOOKING AHEAD

We believe that our experienced management team and dedicated staff members are the key to our success. We would like to take this opportunity to extend our thanks to them for their commitment and support for the year.

Zhejiang Prospect Company Limited*

Tang Li Min

Chairman

Zhejiang Province, the PRC

29 March 2012

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Management Discussion and Analysis

BUSINESS OVERVIEW

Due to global recovery, the Company had achieved a slight increase in growth in 2011. The commitment and hard work devoted by the staff members under the leadership of the board of Directors (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 2011 amounted to 11.03 million sets and 10.76 million sets respectively, representing a decrease of approximately 1.34% and 4.44% as compared with previous year of 11.18 million sets and 11.26 million sets.

Turnover for the year ended 31 December 2011 amounted to approximately RMB114.76 million, representing an increase of approximately 7.4% year on year as compared to RMB106.83 million in 2010. Net loss after tax amounted to approximately RMB9.51 million, a decrease of approximately 19.15% as compared to net loss after tax of approximately RMB11.76 million in 2010. The increase in turnover was mainly due to the increase in demand from oversea customers. The decrease in net loss after tax was mainly due to reversal of provision for bad and doubtful debts and decrease in finance cost.

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 2011, the Company continued to develop new models and specifications of wing bearing universal joints and heavy-duty series of universal joints.

Management Discussion and Analysis

TURNOVER

Turnover amounted to approximately RMB114.76 million in 2011, representing an increase of approximately 7.4% as compared to approximately RMB106.83 million in 2010. Export sales of approximately RMB57.77 million were contributed by overseas customers. Sales of approximately RMB44.37 million were attributable to the import and export corporations, which were then sold to various overseas markets and domestic sales were RMB12.62 million for the year ended 31 December 2011.

COST OF SALES AND GROSS PROFIT

Cost of sales increased from RMB93.57 million in 2010 to RMB102.17 million in 2011, representing an increase of approximately 9.2% as compared to the previous year due to the increase in turnover in 2011. Gross profit margin of the Company's products decrease by about 1.44% in 2011 as compared to 2010.

OTHER REVENUE

Other operating income in 2011 amounted to RMB1.27 million, representing an increase of RMB0.6 million from that of RMB0.67 million in 2010. This was mainly due to increase in sales of scrap materials.

DISTRIBUTION COSTS AND ADMINISTRATIVE EXPENSES

Distribution expenses for 2011 totaled RMB2.79 million. This represents an increase of RMB0.09 million, or approximately 3.33% from that of RMB2.70 million in 2010. The increase was in line with increase in turnover.

In 2011, administrative expenses of the Company were approximately RMB18.66 million, representing a decrease of RMB1.39 million or 6.93% compared to that of RMB20.05 million in 2010. Administrative expenses include management salaries, professional fees, depreciation and amortization of intangible assets.

OTHER OPERATING EXPENSES AND FINANCE COSTS

Other operating expenses for the financial year of 2011 amounted to RMB0.24 million, as compared to RMB0.13 million in 2010.

In the financial year of 2011, the net finance costs of approximately RMB2.73 million, comprised interest on bank advances and other borrowings, representing a decrease of 9.52% from that of RMB3.01 million in 2010. 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 2011. No instruments had been employed by the Company for any hedging purpose during the year ended 31 December 2011.

SIGNIFICANT INVESTMENTS HELD

The Company had not held any significant investments during the year ended 31 December 2011.

FINANCIAL RESOURCES AND LIQUIDITY

The Company continued to be in a healthy financial position with shareholders' equity amounted to RMB84.44 million as at 31 December 2011 (2010: RMB93.95 million). Current assets amounted to RMB86.24 million as at 31 December 2011 (2010: RMB112.47 million), of which RMB9.84 million (2010: RMB29.2 million) was cash and cash equivalents. As at 31 December 2011, the Company had short-term bank loans of approximately RMB6.99 million (2010: RMB56.18 million) and long-term bank loans of approximately RMB20 million (2010: Nil). The short term bank loans were repayable within one year.

CONTINGENT LIABILITIES

As at 31 December 2011, the Directors were not aware of any material contingent liabilities.

CHARGES ON ASSETS

As at 31 December 2011, the short-term bank loans of RMB6.99 million and long term bank loans of RMB20 million were secured by guarantees provided by 浙江嘉利蛋白纖維有限公司 (Zhejiang Jiali Protein Fiber Company Limited*) bearing interest at a range of 4.98% per annum, where the short term bank loans are repayable within one year and the long term bank loans are repayable within two years.

GEARING RATIO

The Company's gearing ratio, based on total liabilities to shareholders' equity, amounted to 0.66 (2010: 0.89) as at 31 December 2011.

CAPITAL STRUCTURE

The Company issued 23,000,000 new H shares with a nominal value at RMB1.00 each at a price of HK\$1.33 per H share upon the listing of the Company's H shares on GEM of the Stock Exchange on 18 February 2004. Since the listing of the Company's H shares on the GEM of the Stock Exchange, there has been no change in the capital structure of the Company.

As at 31 December 2011, 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.

* For identification purpose only

Management Discussion and Analysis

EMPLOYEE INFORMATION

During the year ended 31 December 2011, the Company had an average number of employees of 425 (2010: 405). 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 11% of the total turnover in 2011, as compared to 28.87% of the total turnover in 2010. In addition, the Company sells its products to import and export corporations in the PRC, which accounted for 38.7% and 25.93% of the total turnover in 2011 and 2010 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 2011, direct sales to overseas customers represented approximately 50.3% (2010: 45.2%) 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 49, 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 48, 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 (費國揚先生), aged 41, 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 10 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 35, 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 47, 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 46, 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 51, 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 47, 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.

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Profiles of Directors, Supervisors and Senior Management

Mr. Ma Hong Ming (馬洪明先生), aged 49, 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 48, 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 54, 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 38, 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 44, 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 43, 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.

* For identification purpose only

Profiles of Directors, Supervisors and Senior Management

SENIOR MANAGEMENT

Mr. Fu Yong Jun (傅永君先生), aged 40, 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 46, is a qualified accountant with over 7 years of experience in accounting, auditing and financial management. She graduated with a degree of Bachelor of Social Sciences from The University of Hong Kong in 1986 and is an associate member of the Hong Kong Institute of Certified Public Accountants. She had worked for Ernst and Young. During the period from 1996 to 1998, she worked for a foreign-invested enterprise responsible for financial management. From September 1998 to August 2000, she was employed by PCCW Limited as finance manager. Subsequently, she worked for an investment consultancy limited. She joined the Company in June 2003.

* For identification purpose only

Corporate Governance

The Company is committed to maintaining a high standard of corporate governance. The principles of good corporate governance 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 2011 are as follows:

	Attendance/ number of meetings		
	Board	Audit Committee	Nomination and Remuneration Committee
Executive Directors			
Mr. Tang Li Min (<i>Chairman</i>)	8/8	–	–
Mr. Hong Guo Ding	8/8	–	–
Mr. Fei Guo Yang	8/8	–	–
Mr. Hong Chun Qiang	8/8	–	–
Non-executive Directors			
Mr. Tang Cheng Fang	6/8	–	–
Mr. Li Zhang Rui	1/8	–	–
Independent non-executive Directors			
Mr. Wang He Rong	5/8	3/3	1/1
Mr. Lu Guo Qing	3/8	1/3	1/1
Mr. Ma Hong Ming	5/8	3/3	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 eight meetings of the Board held in 2011 and the average attendance rate was 72%.

Corporate Governance

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.

Corporate Governance

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 two 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 three meetings in 2011 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 78%.

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;

Corporate Governance

Review of financial information of the Company

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

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

- (f) to review financial controls, internal control and risk management systems;
- (g) to discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system;
- (h) to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;
- (i) where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of the internal audit function;
- (j) to review the Company's financial and accounting policies and practices;
- (k) to review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response;

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 is 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 2011 to review, inter alia, the composition of existing Board members and the Directors' remuneration and the meeting was attended by all of the members of the committee. The average attendance rate was 100%.

Duties of the Committee include the following:

- (a) to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes;
- (b) to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;
- (c) to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors in particular the Chairman and the Chief Executive Officer;
- (d) assess the independence of independent non-executive Directors;
- (e) to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

Corporate Governance

- (f) to have the delegated responsibility to determine the specific remuneration packages of all executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board on the remuneration of non-executive Directors. The Committee shall consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Company and desirability of performance-based remuneration;
- (g) to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;
- (h) to review and approve the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;
- (i) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;
- (j) to ensure that provisions regarding disclosure of remuneration, including pensions, as set out in the Companies Ordinance and 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.

Corporate Governance

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 2011, 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.

Corporate Governance

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

A statement by the auditors about their reporting responsibilities is included in the Independent Auditor's Report on page 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 2011; 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 2010 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 2011, the total remuneration in respect of audit services provided by the external auditor amounted to HK\$438,000. 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 2011.

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES OF THE COMPANY

As at 31 December 2011, 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 (<i>Note</i>)	Beneficial owner	36,626,666 domestic shares	68.33%	47.82%
	Interest of children under 18	4,466,667 domestic shares	8.33%	5.83%
Mr. Hong Guo Ding	Beneficial owner	3,216,000 domestic shares	6%	4.2%
Mr. Tang Cheng Fang	Beneficial owner	2,680,000 domestic shares	5%	3.5%
Mr. Fei Guo Yang	Beneficial owner	1,072,000 domestic shares	2%	1.4%
Mr. Feng Yun Lin	Beneficial owner	1,072,000 domestic shares	2%	1.4%

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

Saved as disclosed above, as at 31 December 2011, none of the Directors, chief executives and supervisors of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 & 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors as referred to in Rule 5.46 of the GEM Listings Rules.

Corporate Governance

OTHER PERSONS

So far as was known to any Director or chief executive of the Company, as at 31 December 2011, the following persons (other than the Directors, chief executives and supervisors of the Company as disclosed in the paragraph headed “Directors’ and Supervisors’ interests in Shares of the Company” above) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long position in shares

Names of Shareholders	Capacity	No. and class of securities	Approximate percentage of shareholding in the same class of securities	Approximate percentage of shareholding in the total registered share capital
Mr. Tang Liu Jun (<i>Note</i>)	Beneficial owner	4,466,667 domestic shares	8.33%	5.83%
Ms. Tang Jing Jing (<i>Note</i>)	Beneficial owner	4,466,667 domestic shares	8.33%	5.83%
Greater China I Private Placement Fund	Investment Manager	1,360,000 H shares	5.91%	1.77%

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

Saved as disclosed above, as at 31 December 2011, 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 2011.

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 2011 are set out on pages 32 to 75 of the annual report.

MAJOR CUSTOMERS AND SUPPLIERS

The Company's sales to the five largest customers accounted for less than 51.41% of the Company's turnover during the year ended 31 December 2011. The Company's sales to the largest customer accounted for 20.37% of the Company's turnover during the year ended 31 December 2011.

The Company's purchases attributable to the five largest suppliers in aggregate during the year ended 31 December 2011 amounted to 58.55% of the total purchases. The Company's purchases attributable to the largest supplier accounted for 21.85% of the Company's total purchases during the year ended 31 December 2011.

At no time during the year ended 31 December 2011 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 2011 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 2011.

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 24 to the financial statements.

Report of the Board of Directors

RESERVES

Details of movements in reserves of the Company during the year are set out in note 25 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2011, the Company's reserves available for distribution as dividends, calculated in accordance with the relevant rules and regulations, amounted to RMB1.89 million.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Company for the last five financial years is set out on page 76.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

Save as disclosed in note 27 on the financial statements, no contract of significance to which the Company, its holding company its controlling shareholder, or any of its fellow subsidiaries was a party, nor contract of significance in which a Director or supervisor of the Company had a material interest, either directly or indirectly, nor contract of significance for the provision of services to the Company by its controlling shareholder or any of its subsidiaries 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.

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.

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 27 to the financial statements. Save as disclosed below, all the other related party transactions did not fall under the scope of "Connected Transactions" or "Continuing Connected Transactions" under Chapter 20 of the GEM Listing Rules which are required to comply with any of the reporting, announcement or independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules:

Report of the Board of Directors

Pursuant to an electricity tariff agency agreement between the Company and Zhejiang Prospect New Synthetic Fibre Company Limited* 浙江展望新合纖有限公司 (“Zhejiang New Synthetic Fibre Company”) dated 3 November 2009, Zhejiang New Synthetic Fibre Company would provide electricity to the Company from 1 January 2010 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 2011 were RMB6.53 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 substantial 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 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. 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, and in the interests of the shareholders of the Company as a whole;
- (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 Board; (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 2011 as disclosed in the announcement of the Company dated 3 November 2009.

* For identification purpose only

Report of the Board of Directors

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 2011.

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 2011.

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 2011 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 2011 are set out in note 23 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 2011.

POST BALANCE SHEET EVENTS

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

Report of the Board of Directors

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Company for the five years ended 31 December 2011 is set out on page 76.

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 2011 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, 16 April 2012 to Tuesday, 15 May 2012 (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, 15 May 2012, 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, 13 April 2012.

AUDITOR

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

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

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

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

Zhejiang Province, the People's Republic of China
29 March 2012

* For identification purpose only

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 2011 and has great confidence in the future of the Company.

By Order of the Supervisory Committee
Zhejian Prospect Company Limited*

Mr. Hong Jin Shui

Chairman

Zhejiang Province, the PRC

29 March 2012

* For identification purpose only

Independent Auditor's Report

**CCIF****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 75, which comprise the statement of financial position as at 31 December 2011, 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 2011, and of its loss 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,

29 March 2012

Kwok Cheuk Yuen

Practising Certificate Number P02412

Statement of Comprehensive Income

For the year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Turnover	4	114,757	106,832
Cost of sales		(102,167)	(93,570)
Gross profit		12,590	13,262
Other revenue	5	1,267	670
Other net income	5	1,045	199
Distribution costs		(2,791)	(2,700)
Administrative expenses		(18,655)	(20,046)
Other operating expenses		(235)	(130)
Loss from operations	6	(6,779)	(8,745)
Finance costs	7	(2,727)	(3,014)
Loss before taxation		(9,506)	(11,759)
Income tax	8(a)	–	–
Loss for the year		(9,506)	(11,759)
Other comprehensive income/(loss) for the year		–	–
Total comprehensive loss for the year attributable to owners of the Company		(9,506)	(11,759)
Loss per share			
Basic and diluted	10	(RMB0.124)	(RMB0.154)

The notes on pages 36 to 75 form part of these financial statements.

Statement of Financial Position

As at 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Non-current assets			
Property, plant and equipment	15	43,465	42,887
Prepaid lease payments	16	5,605	5,744
Intangible assets	17	5,000	16,000
		54,070	64,631
Current assets			
Inventories	18	41,278	32,991
Trade and other receivables	19	33,548	49,454
Prepaid lease payments	16	139	139
Amount due from a related party	20	1,432	640
Cash and cash equivalents	21	9,843	29,246
		86,240	112,470
Current liabilities			
Trade and other payables	22	28,835	26,928
Amount due to a related party	20	50	50
Secured bank loans	23	6,985	56,177
		35,870	83,155
Net current assets		50,370	29,315
TOTAL ASSETS LESS CURRENT LIABILITIES		104,440	93,946
Non-current liabilities			
Secured bank loans	23	20,000	–
NET ASSETS		84,440	93,946
EQUITY			
Equity attributable to owners of the Company			
Share capital	24	76,600	76,600
Reserves	25	7,840	17,346
TOTAL EQUITY		84,440	93,946

Approved and authorised for issue by the board of directors on 29 March 2012.

Tang Li Min

Director

Hong Guo Ding

Director

The notes on pages 36 to 75 form part of these financial statements.

Statement of Changes in Equity

For the year ended 31 December 2011

	Attributable to owners of the Company				
	Share capital RMB'000	Share premium RMB'000	Statutory surplus reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 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 and 1 January 2011	76,600	246	5,709	11,391	93,946
Loss and total comprehensive loss for the year	–	–	–	(9,506)	(9,506)
At 31 December 2011	76,600	246	5,709	1,885	84,440

The notes on pages 36 to 75 form part of these financial statements.

Statement of Cash Flows

For the year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Operating activities			
Loss before taxation		(9,506)	(11,759)
Adjustments for:			
Depreciation of property, plant and equipment	15	4,969	4,432
Amortisation of intangible assets	17	4,115	4,079
Amortisation of prepaid lease payments	16	139	139
Interest income	5	(309)	(58)
Finance costs	7	2,727	3,014
Loss/(gain) on disposal of property, plant and equipment	6	7	(89)
Impairment loss on trade receivables	19(b)	716	709
Reversal of impairment loss on trade receivables	19(b)	(1,035)	–
Impairment loss on intangible assets	17	6,885	7,921
		8,708	8,388
Changes in working capital			
Increase in inventories		(8,287)	(6,991)
Decrease in trade and other receivables		16,225	2,679
Increase in trade and other payables		1,907	2,256
Increase in amount due from a related party		(792)	(640)
Increase in amount due to a related party		–	50
Net cash generated from operating activities		17,761	5,742
Investing activities			
Payment for acquisition of patent rights		–	(10,000)
Purchase of property, plant and equipment	15	(5,644)	(11)
Proceeds from disposal of property, plant and equipment		90	237
Interest received	5	309	58
Net cash used in investing activities		(5,245)	(9,716)
Financing activities			
Proceeds from new short-term bank loans		–	20,500
Repayment of short-term bank loans		(29,192)	(21,323)
Interest paid	7	(2,727)	(3,014)
Net cash used in financing activities		(31,919)	(3,837)
Net decrease in cash and cash equivalents		(19,403)	(7,811)
Cash and cash equivalents at beginning of year		29,246	37,057
Cash and cash equivalents at end of year	21	9,843	29,246

The notes on pages 36 to 75 form part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2011

I. 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 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 basis. 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.

Notes to the Financial Statements

For the year ended 31 December 2011

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**b) Basis of preparation of the financial statements** (Continued)

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

Judgements made by management in the application of HKFRSs that have a significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 30.

c) Property, plant and equipment

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

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 lease 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.

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 the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised in profit or loss during the financial period in which they are incurred.

An 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.

Notes to the Financial Statements

For the year ended 31 December 2011

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses/revalued amounts, being their fair value at the date of the revaluation less subsequent accumulated amortisation and any subsequent accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

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

Gains or losses arising from derecognition of an intangible asset are measured as 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 the 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 2011

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**e) Leased assets** (Continued)*ii) Assets acquired under finance leases*

Where the Company acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset or, if lower, the present value of the minimum lease payments of such assets are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Company will obtain ownership of the asset, the life of the asset, as set out in note 2(c). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(f). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

iii) 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 charged as expenses in 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.

iv) Leasehold land and building

When a lease includes both land and building elements, the Company assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Company, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the statement of financial position and is amortised over the lease term on a straight-line basis.

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;

Notes to the Financial Statements

For the year ended 31 December 2011

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) Impairment of assets (Continued)

i) Impairment of trade and other receivables (Continued)

- 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 these financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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

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

ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired:

- property, plant and equipment; and
- intangible assets

Notes to the Financial Statements

For the year ended 31 December 2011

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) Impairment of assets (Continued)

ii) Impairment of other assets (Continued)

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

– **Calculation of recoverable amount**

The recoverable amount of an asset is the higher 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 to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– **Reversals of impairment losses**

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

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

iii) *Interim financial reporting and impairment*

Under the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, the Company is required to prepare a quarterly financial report in compliance with HKAS 34, Interim Financial Reporting, in respect of each quarter of the financial year. At the end of the quarterly period, the Company applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see note 2(f)(i) and (ii)).

g) **Inventories**

Inventories comprising raw materials, work-in-progress and finished goods are carried 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.

Notes to the Financial Statements

For the year ended 31 December 2011

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Inventories (Continued)

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 is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

h) Trade and other receivables

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

i) 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 contributions. Contributions payable are charged as an expense to profit or loss as and when incurred.

j) Trade and other payables

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

k) 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.

l) 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 in other comprehensive income or directly in equity, respectively.

Notes to the Financial Statements

For the year ended 31 December 2011

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

l) Income tax *(Continued)*

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.

Notes to the Financial Statements

For the year ended 31 December 2011

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

l) 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.

m) 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 carried 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.

n) 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) Sale of goods

Revenue is recognised when goods are delivered which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts and returns.

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 2011

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

o) 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 carried at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

p) 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.

q) 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 incurred.

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 carried 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.

Notes to the Financial Statements

For the year ended 31 December 2011

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

r) Related parties

- a) A person, or a close member of that person's family, is related to the Company if that person:
 - i) has control or joint control over the Company;
 - ii) has significant influence over the Company; or
 - iii) is a member of the key management personnel of the Company's parent.
- b) An entity is related to the Company if any of the following conditions applies:
 - i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - iii) Both entities are joint ventures of the same third party.
 - iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company.
 - vi) The entity is controlled or jointly controlled by a person identified in (a).
 - vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person 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 ("CODM") for the purposes of allocating resources to, and assessing the performance of, the Company's various lines of business and geographical locations.

Notes to the Financial Statements

For the year ended 31 December 2011

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

s) Segment reporting (Continued)

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

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

In the current year, the Company has applied the following new and revised HKFRSs issued by the HKICPA.

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related Party Disclosures
Amendments to HKAS 32	Classification of Rights Issues
Amendments to HK(IFRIC) – Int 14	Prepayments of a Minimum Funding Requirement
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

Except as described below, the application of the new and revised HKFRSs in the current year has had no material effect on the Company’s financial performance and positions for the current and prior accounting periods and/or on the disclosures set out in these financial statements.

HKAS 24 Related Party Disclosures (as revised in 2009)

HKAS 24 (as revised in 2009) has been revised on the following two aspects: (a) it has changed the definition of a related party and (b) it introduces a partial exemption from the disclosure requirements for government-related entities.

The Company is not a government-related entity. The application of the revised definition of related party set out in HKAS 24 (as revised in 2009) in the current year has not resulted in the identification of related parties that were not identified as related parties under the previous Standard. The related party disclosures set out in note 27 are not required to be changed as a result of the application of the revised Standard.

Improvements to HKFRSs issued in 2010

Improvements to HKFRSs issued in 2010 omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7 *Financial instruments: Disclosures*. The disclosures about the Company’s financial instruments in note 29 have been conformed to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

Notes to the Financial Statements

For the year ended 31 December 2011

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

	2011 RMB'000	2010 RMB'000
Other revenue		
Bank interest income, being total interest income on financial assets not at fair value through profit or loss	309	58
Government grant (Note (i))	274	86
Sales of scrap materials	684	526
	1,267	670
Other net income		
Gain on disposal of property, plant and equipment	–	89
Insurance claim	10	110
Reversal of impairment loss on trade receivables	1,035	–
	1,045	199

Note:

- i) In 2011, the government grants received represents subsidies of social insurance from the Yangxunqiao Town Ministry of Finance to stabilise the labour market. In 2010, the government grants received represents subsidies from the Yangxunqiao Town Ministry of Finance as encouragement for economic development.

Notes to the Financial Statements

For the year ended 31 December 2011

6. LOSS FROM OPERATIONS

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

	2011 RMB'000	2010 RMB'000
Cost of inventories sold (Note)	102,167	93,570
Staff costs		
– Salaries, wages and other benefits (including directors' emoluments – note 12)	13,171	9,039
– Contributions to defined contribution retirement plans	858	548
Research and development costs	193	186
Depreciation of property, plant and equipment	4,969	4,432
Amortisation of prepaid lease payments	139	139
Amortisation of intangible assets	4,115	4,079
Auditors' remuneration	359	471
Impairment loss on trade receivables	716	709
Impairment loss on intangible assets	6,885	7,921
Loss/(gain) on disposal of property, plant and equipment	7	(89)
Exchange loss, net	805	616

Note: Cost of inventories sold includes RMB16,180,000 (2010: RMB12,571,000) relating to staff costs and depreciation, which are also included in the respective total amounts disclosed separately above for each of these types of expenses.

7. FINANCE COSTS

	2011 RMB'000	2010 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	2,727	3,014

Notes to the Financial Statements

For the year ended 31 December 2011

8. INCOME TAX

- a) 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 2010 and 2011.

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 2010 and 2011.

- b) Reconciliation between tax expense and accounting loss at the applicable tax rates:

	2011 RMB'000	2010 RMB'000
Loss before taxation	(9,506)	(11,759)
Calculated at the taxation rate of 25% (2010: 25%)	(2,377)	(2,940)
Tax effect of non-deductible expenses	245	247
Tax effect of unused tax losses not recognised	2,391	2,693
Tax effect of non-taxable income	(259)	–
Actual tax expense	–	–

- c) No provision for deferred taxation has been made for the years 2010 and 2011 as the effect of all temporary differences is not material.

9. DIVIDENDS

The directors resolved not to declare any dividend in respect of both years ended 31 December 2011 (2010: Nil).

10. LOSS PER SHARE

The basic loss per share calculated based on the loss attributable to owners of the Company of RMB9,506,000 (2010: RMB11,759,000) and the 76,600,000 shares in issue during both years ended 31 December 2010 and 2011.

Diluted loss per share equals to basic loss per share as there were no potential dilutive ordinary share outstanding for both years ended 31 December 2010 and 2011.

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 contributions. Contributions payable are charged as an expense to profit or loss as and when incurred. The Company's contributions for each of the two years ended 31 December 2010 and 31 December 2011 amounted to approximately RMB548,000 and RMB858,000 respectively.

Notes to the Financial Statements

For the year ended 31 December 2011

12. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

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

Year ended 31 December 2011

	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	4	58
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	-	50	4	54
Feng Yun Lin	-	-	-	-
Chen Jin Long	-	-	-	-
Independent supervisors				
Wang Zhong	-	-	-	-
Wang Ye Gang	-	-	-	-
	90	204	10	304

Notes to the Financial Statements

For the year ended 31 December 2011

12. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Continued)

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	–	–	–	–
	90	243	11	344

None of the directors has waived any emoluments during each of the two years ended 31 December 2010 and 2011.

Notes to the Financial Statements

For the year ended 31 December 2011

13. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2010: two) were directors whose emoluments are included in note 12. The emoluments of the remaining three (2010: three) individuals were as follows:

	2011 RMB'000	2010 RMB'000
Salaries and other emoluments	211	288
Pension scheme contributions	7	8
	218	296

Their emoluments were all within the RMB0-RMB820,000 (equivalent to HK\$0-HK\$1,000,000).

During the years ended 31 December 2010 and 2011, 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 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.

Notes to the Financial Statements

For the year ended 31 December 2011

14. SEGMENT INFORMATION (Continued)

b) Geographical information (Continued)

	Revenue from external customers	
	2011 RMB'000	2010 RMB'000
The PRC, excluding Hong Kong	56,990	58,543
Europe	28,335	26,139
Asia other than the PRC	18,862	14,145
Other countries	10,570	8,005
	114,757	106,832

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

c) Information about major customers

The Company's customer base includes two (2010: three) 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 2011, revenue from these customers amounted to approximately RMB23.4 million and RMB17.4 million (2010: RMB13.3 million, RMB12.9 million and RMB12.8 million) respectively.

Notes to the Financial Statements

For the year ended 31 December 2011

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 2010	26,840	42,397	1,157	1,203	71,597
Additions	–	11	–	–	11
Disposals	–	(1,173)	–	–	(1,173)
At 31 December 2010 and 1 January 2011	26,840	41,235	1,157	1,203	70,435
Additions	76	5,555	13	–	5,644
Disposals	–	(116)	–	–	(116)
At 31 December 2011	26,916	46,674	1,170	1,203	75,963
Accumulated depreciation and impairment losses					
At 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 and 1 January 2011	7,032	18,642	1,157	717	27,548
Charge for the year	919	3,962	2	86	4,969
Written back on disposal	–	(19)	–	–	(19)
At 31 December 2011	7,951	22,585	1,159	803	32,498
Carrying amount					
At 31 December 2011	18,965	24,089	11	400	43,465
At 31 December 2010	19,808	22,593	–	486	42,887

At 31 December 2011, none of the Company's buildings (2010: RMB7,198,000) was pledged to secure general banking facilities granted to the Company (note 23).

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

Notes to the Financial Statements

For the year ended 31 December 2011

16. PREPAID LEASE PAYMENTS

	2011 RMB'000	2010 RMB'000
Net carrying amount		
At 1 January	5,883	6,022
Amortisation for the year	(139)	(139)
At 31 December	5,744	5,883
The Company's prepaid lease payments comprise:		
Land use rights in PRC under medium-term lease (leases of between 10 to 50 years)	5,744	5,883
Analysed for reporting purposes as:		
Current asset	139	139
Non-current asset	5,605	5,744
	5,744	5,883

As at the end of the reporting period, none of the prepaid lease payments (2010: RMB5,883,000) was pledged to secure bank loan facilities granted to the Company (note 23).

Notes to the Financial Statements

For the year ended 31 December 2011

17. INTANGIBLE ASSETS

	2011 RMB'000	2010 RMB'000
Cost		
At 1 January	35,000	–
Transfer from deposit paid	–	35,000
At 31 December	35,000	35,000
Accumulated amortisation and impairment		
At 1 January	19,000	–
Impairment loss transferred from deposit paid	–	7,000
Charge for the year	4,115	4,079
Impairment loss recognised for the year	6,885	7,921
At 31 December	30,000	19,000
Carrying amount		
At 31 December	5,000	16,000

Intangible assets represent patents held by the Company.

As at 31 December 2011, 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 RMB5,000,000 (2010: RMB16,000,000). The recoverable amount of the patent rights was determined from the cash flow projection based on financial budgets approved by CODM covering a period of 5 years, and the discount rate of 30.18% (2010: after-tax 10.32%) per annum was applied to the Relief-from-royalty method. The discount rate used is pre-tax and reflects specific risks relating to the industry. The factors contributing to the impairment of the patent rights is the limitation in the production capacity of the Company and the shortage of technical staff in the labour market.

Notes to the Financial Statements

For the year ended 31 December 2011

18. INVENTORIES

	2011 RMB'000	2010 RMB'000
Raw materials	7,859	6,399
Work-in-progress	19,336	16,586
Finished goods	14,083	10,006
	41,278	32,991

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

	2011 RMB'000	2010 RMB'000
Carrying amount of inventories sold	102,167	93,570

19. TRADE AND OTHER RECEIVABLES

	2011 RMB'000	2010 RMB'000
Trade receivables	36,623	47,125
Bills receivables	832	846
	37,455	47,971
Less: Allowance for doubtful debts	(6,988)	(7,307)
	30,467	40,664
Prepayments, deposits and other receivables	1,399	1,227
Trade deposits paid to suppliers	1,682	7,563
	33,548	49,454

All of the trade receivables and other receivables are expected to be recovered or recognised as expenses within one year.

Notes to the Financial Statements

For the year ended 31 December 2011

19. TRADE AND OTHER RECEIVABLES (Continued)

- a) Trade and bills receivables with the following analysis by age are presented based on invoice date as of the end of the reporting period.

	2011 RMB'000	2010 RMB'000
Within 30 days	7,947	6,530
31-60 days	6,789	7,534
61-90 days	4,722	7,070
91-180 days	7,265	9,542
More than 180 days	10,732	17,295
	37,455	47,971
Less: Allowance for doubtful debts	(6,988)	(7,307)
	30,467	40,664

The normal credit period granted to the customers of the Company is 30 to 120 days (2010: 30 to 120 days). Further details on the Company's credit policy are set out in note 29(a).

b) 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.

Movements of allowance for doubtful debts is as follows:

	2011 RMB'000	2010 RMB'000
At 1 January	7,307	6,598
Allowance for doubtful debts recognised during the year (Note)	716	709
Reversal of allowance for doubtful debts	(1,035)	–
At 31 December	6,988	7,307

Notes to the Financial Statements

For the year ended 31 December 2011

19. TRADE AND OTHER RECEIVABLES (Continued)

b) Allowance for doubtful debts (Continued)

Note:

As at 31 December 2011, trade receivables of the Company amounting to approximately RMB6,988,000 (2010: RMB7,307,000) 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 RMB716,000 (2010: RMB709,000) were recognised. The Company does not hold any collateral over these balances.

c) Trade debtors and bills 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:

	2011 RMB'000	2010 RMB'000
Neither past due nor impaired	24,259	25,408
Less than 2 months past due	1,937	4,259
2 months to 1 year past due	2,788	8,346
Over 1 year past due	1,483	2,651
	6,208	15,256
	30,467	40,664

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

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

Notes to the Financial Statements

For the year ended 31 December 2011

20. AMOUNT DUE FROM/(TO) A RELATED PARTY

Particulars of the amount due from/(to) a related party are as follows:

	2011 RMB'000	2010 RMB'000	Maximum amount outstanding during the year RMB'000
浙江展望控股集團有限公司 (“展望控股”)	(50)	(50)	(50)
浙江展望新合織有限公司 (“新合織”)	1,432	640	1,432

Mr. Tang Li Min (“Mr. Tang”), a director of the Company, has a controlling interest in 展望控股 and 新合織.

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

21. CASH AND CASH EQUIVALENTS

	2011 RMB'000	2010 RMB'000
Cash at bank and in hand, cash and cash equivalents in the statement of financial position and the statement of cash flow	9,843	29,246

22. TRADE AND OTHER PAYABLES

	2011 RMB'000	2010 RMB'000
Trade payables	12,503	12,498
Other payables	13,931	9,103
Value added tax, business tax and other taxes payable	409	701
Accruals	394	1,754
Trade deposits received from customers	1,598	2,872
	28,835	26,928

Notes to the Financial Statements

For the year ended 31 December 2011

22. TRADE AND OTHER PAYABLES (Continued)

The following is an aging analysis of trade payables by age presented based on invoice date as at the end of the reporting period:

	2011 RMB'000	2010 RMB'000
Within 90 days	10,851	10,686
91 – 180 days	923	1,568
181 – 365 days	628	90
Over 365 days	101	154
	12,503	12,498

23. SECURED BANK LOANS

The analysis of the carrying amount of secured bank loans is as follows:

	2011 RMB'000	2010 RMB'000
Current liabilities		
Portion of term loans from banks due for repayment within one year	6,985	56,177
Non-current liabilities		
Bank loans	20,000	–
Total	26,985	56,177

As at 31 December 2011, total interest-bearing bank loans of RMB26,985,000 were due for repayment as follows:

	2011 RMB'000	2010 RMB'000
Portion of term loans due for repayment within one year	6,985	56,177
Term loans due for repayment after one year (Note): After 1 year but within 2 years	20,000	–
	26,985	56,177

Notes to the Financial Statements

For the year ended 31 December 2011

23. SECURED BANK LOANS (Continued)

Note:

The amounts due are based on the scheduled repayment dates as stipulated in the respective loan agreements.

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

None of the bank loans due for repayment after one year contain a repayment on demand clause that requires them to be classified as current liabilities.

As at 31 December 2011, none of the short-term bank loans is secured by the Company's assets (2010: The short-term bank loans are secured by the Company's prepaid lease payments and buildings thereon, and the corporate guarantees provided by the parties set out in note 27(b)). The effective interest rate (which also equals to contracted interest rates) is 4.98% (2010: 4.86% to 5.84%) per annum.

24. SHARE CAPITAL

	2011 and 2010	
	No. of shares	RMB'000
Registered, issued and fully paid:		
At 1 January and 31 December		
State-owned equity shares of RMB1 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.

Notes to the Financial Statements

For the year ended 31 December 2011

25. RESERVES

	Share premium <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i>	Retained profits <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2010	246	5,709	23,150	29,105
Loss and total comprehensive loss for the year	–	–	(11,759)	(11,759)
At 31 December 2010 and 1 January 2011	246	5,709	11,391	17,346
Loss and total comprehensive loss for the year	–	–	(9,506)	(9,506)
At 31 December 2011	246	5,709	1,885	7,840

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.

Notes to the Financial Statements

For the year ended 31 December 2011

25. RESERVES (Continued)**c) Distributable reserves**

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

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

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

The distributable reserves of the Company as at 31 December 2010 and 31 December 2011 amounted to approximately RMB11,391,000 and RMB1,885,000 respectively.

26. CAPITAL COMMITMENTS

The Company's authorised capital commitments outstanding at 31 December 2010 and 31 December 2011 not provided for in the financial statements are as follows:

	2011	2010
	RMB'000	RMB'000
Contracted but not provided for		
– Property, plant and equipment	772	53

Notes to the Financial Statements

For the year ended 31 December 2011

27. RELATED PARTY TRANSACTIONS

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

a) Financing arrangement

	Note	2011		2010		Related interest expenses	
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Amount due to a related party, 展望控股							
Advance from		-	(50)				
Outstanding balance (note 20)	(i)	(50)	(50)			N/A	N/A
Amount due from a related party, 新合織							
Advanced from		(8,921)	(6,314)				
Repaid to		9,713	6,954				
Outstanding balance (note 20)	(ii)	1,432	640			6,533	6,314

Notes:

- i) This represents the cash advance received from 展望控股.
- ii) This represents the deposit of electricity fees to 新合織.
- iii) During the two years ended 31 December 2011 and 31 December 2010, electricity fee paid to 新合織 were charged in the normal course of business as the Company has to share the electricity expense with 新合織 and charges were calculated based on actual electricity consumed by the Company at the average unit rate charged by the power company.

- b) As at 31 December 2011, 浙江嘉利蛋白纖維有限公司 (“浙江嘉利”) has given guarantees in favour of banks to secure bank loans of the Company amounting to RMB26,985,000. 浙江嘉利 is a company incorporated in the PRC and is an independent third party to the Company. In 2011, 浙江展望實業集團有限公司 (“展望實業”) has given guarantees to 浙江嘉利 for obtaining its own bank loans. In return, 浙江嘉利 provides guarantees to the Company. 展望實業 is a company in which Mr. Tang is the controlling shareholder.

As at 31 December 2010, Mr. Tang and his wife, Miss Chen Yan Jing, 新合織, 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 RMB57,000,000. 浙江嘉利 and 柯城輕紡 are companies incorporated in the PRC and are independent third parties to the Company. In 2010, 展望實業 has given several guarantees to 浙江嘉利 and 柯城輕紡 for obtaining their own bank loans. In return, 浙江嘉利 and 柯城輕紡 provide guarantees to the Company. 展望實業 is a company in which Mr. Tang is the controlling shareholder.

Notes to the Financial Statements

For the year ended 31 December 2011

27. RELATED PARTY TRANSACTIONS (Continued)

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:

	2011 RMB'000	2010 RMB'000
Salaries, wages and other benefits	204	243
Pension scheme contributions	10	11
	214	254

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

28. ULTIMATE CONTROLLING PARTY

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

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND FAIR VALUES

The Company's major financial instruments include trade and other receivables, amount due from a related party, cash and cash equivalents, trade and other payables, amount due to a related party and secured bank loans. 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 policies on how to mitigate these risk are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

a) Credit risk

- i) Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of merely dealing with creditworthy counterparties, as a means of mitigating the risk of financial loss from defaults.

Notes to the Financial Statements

For the year ended 31 December 2011

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND FAIR VALUES

(Continued)

a) Credit risk (Continued)

- ii) As at 31 December 2011, 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.
- iii) 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 are 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 has not obtained any collateral in respect of its financial assets. Debts are usually due within 30 to 120 days from the date of billing.
- iv) 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 28% (2010: 12%) and 35% (2010: 46%) of the total trade and other receivables was due from the Company's largest customer and the five largest customers respectively.
- v) The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings.

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

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.

Notes to the Financial Statements

For the year ended 31 December 2011

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND FAIR VALUES*(Continued)***b) Liquidity risk *(Continued)***

The following table detailed 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 is required to pay.

Year ended 31 December 2011

	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	Total contractual undiscounted cash flow RMB'000	Carrying amount RMB'000
Secured bank loans	7,327	21,956	29,283	26,985
Trade and other payables	28,835	–	28,835	28,835
	36,162	21,956	58,118	55,820

Year ended 31 December 2010

	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	Total contractual undiscounted cash flow RMB'000	Carrying amount RMB'000
Secured bank loans	56,177	–	56,177	56,177
Trade and other payables	26,928	–	26,928	26,928
	83,105	–	83,105	83,105

c) Interest rate risk

The Company is exposed to cash flow interest rate risk in relation to variable-rate borrowings (see Note 23 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.

Notes to the Financial Statements

For the year ended 31 December 2011

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND FAIR VALUES

(Continued)

c) Interest rate risk (Continued)

i) Interest rate profile

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

	2011		2010	
	Effective interest rate %	RMB'000	Effective interest rate %	RMB'000
Variable rate borrowings:				
Secured bank loans	4.98%	26,985	4.86%-5.84%	56,177

ii) Sensitivity analysis

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

A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. The analysis is performed on the same basis for 2010.

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 2011 would increase/decrease by RMB270,000 (2010: increase/decrease by RMB730,000). This is mainly attributable to the Company's exposure to interest rates on its variable-rate bank borrowings. Other components of equity would not change in response to the general increase/decrease in interest rates.

d) Currency risk

Presently, there is no hedging policy with respect to the Company's foreign exchange exposure. The company's transactional currency is Renminbi ("RMB") and United States dollars ("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.

Notes to the Financial Statements

For the year ended 31 December 2011

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND FAIR VALUES*(Continued)***d) Currency risk (Continued)****i) Exposure to currency risk**

The following table details the Company's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities that are denominated in a currency other than the functional currency of the Company. The currency giving rise to this risk is primarily USD. The Company was not exposed to material currency risk at the end of the reporting period.

ii) Sensitivity analysis

	Exposure to foreign currencies (expressed in RMB)	
	2011 '000	2010 '000
Trade and other receivables – USD	9,084	10,506
Cash and cash equivalents – USD	1,801	1,809
Overall exposure to currency risk	10,885	12,315

The following table indicates the approximate change in the Company's loss after tax and retained profits in response to reasonably possible changes in the foreign exchange rates to which the Company has significant exposure at the end of the reporting period.

	2011		2010	
	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% (3%)	(327) 327	3% (3%)	(369) 369

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

Notes to the Financial Statements

For the year ended 31 December 2011

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND FAIR VALUES

(Continued)

d) Currency risk (Continued)

ii) Sensitivity analysis (Continued)

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the end of the next annual reporting period. Results of the analysis as presented in the above table represent the exposure to currency risk on the Company's loss after tax and total comprehensive loss measured in the respective currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes. The analysis is performed on the same basis for 2010.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure at the end of reporting period 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.

The Company monitors capital on the basis of the net debt-to-equity, which is calculated as net debt divided by total equity. Net debt is calculated as interest-bearing bank loans less cash equivalents. The net debt-to-equity ratios at 31 December 2010 and 31 December 2011 are as follows:

	2011 RMB'000	2010 RMB'000
Interest-bearing bank loans	26,985	56,177
Less: Cash and cash equivalents	(9,843)	(29,246)
Adjusted net debt	17,142	26,931
Total equity	84,440	93,946
Net debt-to-equity ratio	20%	29%

Notes to the Financial Statements

*For the year ended 31 December 2011***29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND FAIR VALUES***(Continued)***f) Fair value measurements**

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.

30. ACCOUNTING ESTIMATES AND JUDGEMENTS**a) Key sources of estimation uncertainty**

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

i) *Useful lives of property, plant and equipment*

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

The carrying amount of property, plant and equipment as at 31 December 2011 were RMB43,465,000 (2010: RMB42,887,000).

Notes to the Financial Statements

For the year ended 31 December 2011

30. ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

a) Key sources of estimation uncertainty (Continued)

ii) *Impairment of property, plant and equipment, prepaid lease payments 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 the 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 2011, of the Company's property, plant and equipment were RMB43,465,000 (2010: RMB42,887,000), prepaid lease payments were RMB5,744,000 (2010: RMB5,883,000) and intangible assets were RMB5,000,000 (2010: RMB16,000,000).

iii) *Impairment of receivables*

The Company maintains impairment allowance for doubtful accounts based upon a periodic evaluation of the recoverability of the trade and other receivables, where applicable. The estimates are based on the aging of the trade and other receivables balances and the historical write-off experience, net of recoveries. If the financial 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 2011 were RMB33,548,000 (2010: RMB49,454,000).

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 2011 were RMB41,278,000 (2010: RMB32,991,000).

Notes to the Financial Statements

For the year ended 31 December 2011

31. POSSIBLE IMPACT OF NEW AND REVISED STANDARDS, AMENDMENTS OR INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2011

Up to the date of issue of these financial statements, the HKICPA has issued the following new and revised Standards, Amendments or Interpretations which are not yet effective for the year ended 31 December 2011.

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.

Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets ¹
	Disclosures – Offsetting Financial Assets and Financial Liabilities ²
	Mandatory Effective Date of HKFRS 9 and Transition Disclosures ³
HKFRS 9	Financial Instruments ³
HKFRS 10	Consolidated Financial Statements ²
HKFRS 11	Joint Arrangements ²
HKFRS 12	Disclosure of Interests in Other Entities ²
HKFRS 13	Fair Value Measurement ²
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income ⁵
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets ⁴
HKAS 19 (as revised in 2011)	Employee Benefits ²
HKAS 27 (as revised in 2011)	Separate Financial Statements ²
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures ²
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities ⁶
HK (IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine ²

¹ Effective for annual periods beginning on or after 1 July 2011.

² Effective for annual periods beginning on or after 1 January 2013.

³ Effective for annual periods beginning on or after 1 January 2015.

⁴ Effective for annual periods beginning on or after 1 January 2012.

⁵ Effective for annual periods beginning on or after 1 July 2012.

⁶ Effective for annual periods beginning on or after 1 January 2014.

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

Five Year Summary

Results

	2011 RMB'000	For the year ended 31 December			2007 RMB'000 (Restated)
		2010 RMB'000	2009 RMB'000	2008 RMB'000	
Turnover	114,757	106,832	88,162	130,113	140,390
(Loss)/profit for the year	(9,506)	(11,759)	(9,899)	1,302	5,569

Assets and liabilities

	2011 RMB'000	As at 31 December			2007 RMB'000
		2010 RMB'000	2009 RMB'000	2008 RMB'000	
Total assets	140,310	177,101	187,377	230,802	220,642
Total liabilities	(55,870)	(83,155)	(81,672)	(115,198)	(106,340)
Total equity	84,440	93,946	105,705	115,604	114,302

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 2011 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, 15 May 2012 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 2011.
2. To consider and approve the audited financial statements and the report of the auditors of the Company for the year ended 31 December 2011.
3. To consider and approve the report of the supervisory committee of the Company for the year ended 31 December 2011.
4. To consider and approve the remuneration proposals for the directors and supervisors of the Company for the financial year ended 31 December 2012.
5. 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

29 March 2012

* 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, 16 April 2012 to Tuesday, 15 May 2012 (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, 13 April 2012.
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, 13 April 2012 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, 25 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. 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.