Annual Report **2012**

浙江展望股份有限公司
ZHEJIANG PROSPECT COMPANY LIMITED*

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code : 8273)

*for identification purpose only

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

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

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

This report, for which the directors of Zhejiang Prospect Company Limited ("the Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirmed that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.*

* For identification purpose only

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Tang Li Min *(Chairman)*
Mr. Hong Guo Ding *(Managing Director)*
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 (the "Audit Committee")

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

Nomination and Remuneration Committee (the "Nomination and Remuneration Committee")

(which name has been changed to the Nomination Committee (the "Nomination Committee") with effect from 30 March 2012)
Mr. Wang He Rong
Mr. Lu Guo Xing
Mr. Ma Hong Ming

Remuneration Committee (the "Remuneration Committee")

(established by the Board on 30 March 2012)
Mr. Wang He Rong
Mr. Lu Guo Xing
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

Compliance Adviser

Octal Capital Limited

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 2012.

BUSINESS REVIEW

Due to the European sovereign debt crisis, the Company's sales in 2012 had dropped. Under the leadership of the Company's board (the "Board") of directors (the "Directors"), the staff members of the Company will continue to commit and work hard to lay a firm foundation for further growth of the Company.

The Company is principally engaged in the manufacture and sale of universal joints for automobiles. The Company has three main product categories, being cardan universal joints, wing bearing universal joints and transmission shaft.

In order to develop new markets and new customers, new products were tailored by the Company for customers' needs and special efforts were made to develop new overseas markets. The total number of universal joints produced and sold in 2012 amounted to approximately 9.15 million sets and approximately 9.35 million sets, respectively, representing a decrease of approximately 17.04% and approximately 13.1% as compared to approximately 11.03 million sets and approximately 10.76 million sets in 2011.

Turnover for the year ended 31 December 2012 amounted to approximately RMB100.22 million, representing a decrease of approximately 12.67% as compared to RMB114.76 million for the year ended 31 December 2011. Net loss after tax amounted to approximately RMB7.46 million, a decrease of approximately 21.5% as compared to RMB9.51 million for the year ended 31 December 2011. The decrease in turnover was mainly due to the decrease in demand from local import and export corporations customers. The decrease in net loss after tax was mainly due to the decrease in impairment loss of intangible assets.

BUSINESS OBJECTIVES AND OUTLOOK

The principal business objectives of the Company are to enhance "Zhanwang" as a leading brand name in the People's Republic of China (the "PRC") automobile parts and components market and become a major player in the global market for the procurement and supply of universal joints. To achieve these objectives, the Directors intend to implement the following business strategies:

Expand the production capacity of primary products

The Directors believe that the development of the automotive parts and components industry in the PRC is closely related to the automobile industry. Due to the rapid development of the PRC economy and the country's rising living standard, both corporate and personal demands for automobiles have been increasing, which in turn would drive up demands for automotive parts and components. Accordingly, the Company will strive towards the expansion of production capacity for universal joints by increasing investments in both equipment and other property, plant and equipment.

Expand product types

In order to increase the competitiveness of the Company and to satisfy the demands of customers, the Company will further expand its product types, including developing different product models and specifications.

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 the 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 more competitive pricing 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
27 March 2013

* For identification purpose only

Management Discussion and Analysis

BUSINESS OVERVIEW

Due to the European debt crisis, the Company had suffered a drop in sales in 2012. Under the leadership of the Board, the staff members will continue to work hard to lay a firm foundation for further growth of the Company.

The Company is principally engaged in the manufacture and sale of universal joints for automobiles. The Company has three main product categories, comprising cardan universal joints, wing bearing universal joints and transmission shaft.

BUSINESS REVIEW

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

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 approximately 9% of the total turnover in 2012, as compared to approximately 11% of the total turnover in 2011. In addition, the Company sells its products to import and export corporations in the PRC, which accounted for approximately 31.8% and approximately 38.7% of the total turnover in 2012 and 2011 respectively. The Company has been selling its products directly to overseas customers in countries and regions including the United Kingdom, Taiwan, the United States, India, Italy and Japan. For 2012, direct sales to overseas customers represented approximately 58.9% (2011: approximately 50.3%) of the Company's total turnover.

AUTOMOBILES COMPONENTS AND PARTS INDUSTRY

The rapid and enormous growth of both annual production and ownership of automobiles among the public in the PRC provides a broad base for the development of the automobile parts and components industry in the PRC. The lower costs in labour in the PRC serves an important function in reducing the cost of manufacturing automobile parts and components. Together, these factors have made the PRC automotive parts and components industry an attractive centre for investment.

DEVELOPMENT OF NEW PRODUCTS

During 2012, the Company continued to develop new models and specifications of wing bearing universal joints and heavy-duty series of universal joints.

TURNOVER

Turnover amounted to approximately RMB100.22 million in 2012, representing a decrease of approximately 12.67% as compared to approximately RMB114.76 million in 2011. For the year ended 31 December 2012, export sales of approximately RMB59.04 million were contributed by overseas (including Hong Kong) customers, sales of approximately RMB31.92 million were attributable to the import and export companies, which were then sold to various overseas markets, and domestic sales were approximately RMB9.26 million for the year ended 31 December 2012.

COST OF SALES AND GROSS PROFIT

Cost of sales decreased from approximately RMB102.17 million in 2011 to approximately RMB89.46 million in 2012, representing a decrease of approximately 12.44% as compared to the previous year. Gross profit margin of the Company's products slightly decreased 2.19% to 10.73% in 2012 as compared to 10.97% in 2011 primarily due to increase in staff cost.

Management Discussion and Analysis

OTHER REVENUE

Other operating income in 2012 amounted to approximately RMB0.96 million, representing a decrease of approximately 24.4% from that of approximately RMB1.27 million in 2011. This was mainly due to the decrease in sales of scrap materials and bank interest income.

DISTRIBUTION COSTS AND ADMINISTRATIVE EXPENSES

Distribution costs for 2012 totaled to approximately RMB2.29 million. This represents a decrease of approximately 17.9% from that of approximately RMB2.79 million in 2011. The increase was in line with the decrease in turnover.

In 2012, administrative expenses of the Company were approximately RMB13.46 million, representing a decrease of approximately 27.9% compared to that of approximately RMB18.66 million in 2011. The decrease in administrative expenses was mainly due to decrease in impairment loss of intangible assets.

OTHER OPERATING EXPENSES AND FINANCE COSTS

Other operating expenses for the financial year of 2012 amounted to approximately RMB1.73 million, as compared to approximately RMB0.24 million in 2011.

In the financial year of 2012, the finance costs of approximately RMB2.62 million comprised interest on interest-bearing borrowings, representing a decrease of approximately 4.0% from that of approximately RMB2.73 million in 2011.

ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENT

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

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 risk associated with the exchange rate fluctuations was limited for the year of 2012. No instrument had been employed by the Company for any hedging purpose during the year ended 31 December 2012.

SIGNIFICANT INVESTMENTS HELD

The Company had not held any significant investments during the year ended 31 December 2012.

FINANCIAL RESOURCES AND LIQUIDITY

The shareholders' equity amounted to approximately RMB76.98 million as at 31 December 2012 (2011: approximately RMB84.44 million). Current assets amounted to approximately RMB84.21 million as at 31 December 2012 (2011: approximately RMB86.24 million), of which approximately RMB19.51 million (2011: approximately RMB9.84 million) was cash and cash equivalents. As at 31 December 2012, the Company had interest-bearing borrowings of approximately RMB26.99 million (2011: approximately RMB26.99 million) and has no long-term borrowings (2011: nil). The interest-bearing borrowings were repayable within one year.

For the year ended 31 December 2012, all of the Company's borrowings were made in RMB at fixed interest rates and cash and cash equivalents amounted to RMB17,551,000 (2011 : RMB8,042,000) and RMB1,955,000 (2011 : RMB1,801,000) were held in RMB and US dollar respectively.

CONTINGENT LIABILITIES

As at 31 December 2012, the Directors were not aware of any material contingent liabilities.

CHARGES ON ASSETS

As at 31 December 2012, the interest-bearing borrowings of approximately RMB26.99 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 7.47% per annum, where the interest-bearing borrowings are repayable within one year.

GEARING RATIO

The Company's gearing ratio, based on total liabilities to shareholders' equity, amounted to approximately 0.68 (2011: approximately 0.66) as at 31 December 2012.

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 2012, the Company's operations were financed mainly by shareholders' equity, internal resources and interest-bearing borrowings. The Company will continue to adopt its treasury policy of placing the Company's cash and cash equivalents in interest bearing deposits.

EMPLOYEE INFORMATION

During the year ended 31 December 2012, the Company had 378 employees (2011: 425). They were remunerated in accordance with their performance and the market condition. Other benefits available to eligible employees include retirement benefits. The Company does not have a share option scheme. The remuneration of the Directors are determined with reference to the Company's performance and profitability as well as the remuneration level within the industry and prevailing market conditions. The total remuneration of the Company's employees were approximately RMB13.12 million for the year ended 31 December 2012 including Directors' remuneration. Staff salary and production line workers salary were mainly based on piece rate. The Company's back office staff salary was mainly based on yearly remuneration, with an increase of 5% per annum.

OUTLOOK AND PROSPECT

The Company plans to expand its production capacity for all three product categories by increasing investments in equipment and other properties, plants and equipments.

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.

* *For identification purpose only*

Profiles of Directors, Supervisors and Senior Management

DIRECTORS

Executive Directors

Mr. Tang Li Min (唐利民先生), aged 50, 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 49, is the managing Director, executive Director and compliance officer of the Company. He is responsible for the administration and finance of the Company. From February 1991 to December 1992, he was the deputy head of Shaoxing Zhanwang Knitting Factory* (紹興縣展望針織廠); from January 1993 to January 1995, he was the deputy general manager of Shaoxing Prospect Industrial Company Limited* (紹興縣展望實業有限公司) and factory head of Shaoxing Huqiao Garment Factory (紹興縣滬橋製衣廠); and from February 1995 to August 1999, he was the deputy general manager of Zhejiang Prospect Industrial Group Limited* (浙江展望實業集團有限公司). From September 2000 onwards, he has been the general manager of Zhejiang Prospect Industrial Group Limited* (浙江展望實業集團有限公司). He completed his tertiary education in administration and management at Hangzhou University (杭州大學) in 1996. He was accredited as "Economist" by the Personnel Bureau of Shaoxing County (紹興縣人事局) in July 1998. He has over 10 years of experience in corporate administrative management. He joined Shaoxing Prospect Universal Joint Company Limited* (紹興縣展望萬向節有限公司), the predecessor of the Company, at the time of its establishment in 1995 as a supervisor.

Mr. Fei Guo Yang (費國楊先生), aged 42, 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

Mr. Hong Chun Qiang (洪春強先生), aged 36, is an executive Director. 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 48, 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 47, 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 52, 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 48, 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 50, is an independent non-executive Director. He 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 49, 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 55, is a supervisor of the Company ("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 39, 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 45, 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 44, 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

SENIOR MANAGEMENT

Mr. Fu Yong Jun (傅永君先生), aged 41, 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 47, 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. During the period from 1 January 2012 to 31 March 2012, the Company has adopted and complied with the previous code provisions (the "Code Provisions") set out in the Code on Corporate Governance Practices (the "Code") as stated in the former 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"), which was effective before 1 April 2012.

During the period from 1 April 2012 to 31 December 2012, the Company has adopted and complied with the revised code provisions (the "Revised Code Provisions") set out in the revised Corporate Governance Code (the "Revised Code") effective from 1 April 2012 and set out in the revised Appendix 15 to the GEM Listing Rules.

BOARD OF DIRECTORS

The Board currently comprises nine persons, consisting of four executive Directors, namely Mr. Tang Li Min (Chairman), Mr. Hong Guo Ding (Managing Director), 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, meetings of other committees and general meetings held throughout the financial year ended on 31 December 2012 are as follows:

	Attendance/ number of meetings					
	Board	Audit Committee	Nomination and Remuneration Committee	Nomination Committee	Remuneration Committee	General Meeting
Executive Directors						
Mr. Tang Li Min *(Chairman)*	8/8	–	–	–	–	1/1
Mr. Hong Guo Ding *(Managing Director)*	8/8	–	–	–	–	1/1
Mr. Fei Guo Yang	7/8	–	–	–	–	0/1
Mr. Hong Chun Qiang	8/8	–	–	–	–	1/1
Non-executive Directors						
Mr. Tang Cheng Fang	6/8	–	–	–	–	1/1
Mr. Li Zhang Rui	3/8	–	–	–	–	0/1
Independent non-executive Directors						
Mr. Wang He Rong	4/8	2/3	1/1	1/1	1/1	0/1
Mr. Lu Guo Qing	6/8	3/3	1/1	1/1	1/1	1/1
Mr. Ma Hong Ming	6/8	3/3	1/1	1/1	1/1	1/1

Corporate Governance

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 2012 and the average attendance rate was approximately 78%.

All the Directors have access to timely information in relation to the Company's business and are free to make further enquiries where necessary. It has been agreed by the Board that the Directors may 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 business in conformity with applicable laws and regulations.

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 the Directors are subject to re-election by shareholders at general meetings every three years. New appointments of Directors shall be approved by shareholders at general meetings.

All existing Directors (including executive, non-executive and independent non-executive Directors) are appointed for a term of three years, and are subject to re-election by shareholders at the general meeting by the end of the three-year period.

Executive Director Mr. Hong Chun Qiang, independent non-executive Director Mr. Ma Hong Ming and Supervisor Mr. Hong Jin Shui will retire from office as Directors and Supervisor by rotation at the forthcoming annual general meeting of the Company and all of them, being eligible, will offer themselves for re-election.

Although Mr. Ma Hong Ming has been serving as an independent non-executive Director of the Company for more than nine years, the Board considers that Mr. Ma Hong Ming is a person of integrity and independent in judgement and character. He is independent of management and free from any business or other relationships or circumstances which could materially interfere with the exercise of his independent judgement. The Board considers that Mr. Ma Hong Ming meets the independent guidelines set out in Rule 5.09 of the GEM Listing Rules, and is of the view that his independence is not affected by his long service with the Company. Hence, the Board considers Mr. Ma Hong Ming as independent and should be re-elected at the forthcoming annual general meeting.

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 or other material/relevant relationship among members of the Board and in particular, between Mr. Tang Li Min, the Chairman and Mr. Hong Guo Ding, the Managing Director. All of them are free to exercise their independent judgments.

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 under Rule 5.09 of the GEM Listing Rules.

Corporate Governance

Directors' Responsibility for the Financial Statements and Going Concern

They Directors acknowledge their responsibility for preparing the Company's financial statements. The Company incurred a loss attributable to the owners of the Company of RMB7,464,000 for the year ended 31 December 2012 and had interest-bearing borrowings of RMB26,985,000 and net debt of RMB7,479,000 as at 31 December 2012 respectively. As detailed in note 23 to the financial statements, the Company failed to repay the entrusted loan of RMB7,000,000 which was due for repayment before 30 December 2012. Subsequent to the reporting period on 15 March 2013, the Company repaid the said overdue loan of RMB7,000,000 to the lender. In addition, the balance of the entrusted loan of RMB19,985,000 is due for repayment before 29 December 2013.

In preparing the financial statements for the year ended 31 December 2012, the Directors have given careful consideration to the impact of the current and anticipated future liquidity of the Company and the ability of the Company to attain profitable and positive cash flow operations in the immediate and longer term.

Based on the cash flow projections of the Company and having taken into account the available financial resources of the Company, the Directors have concluded that the Company is able to continue as a going concern and to meet their financial obligations as and when they fall due in the foreseeable future, having regards to the Company had cash and cash equivalents of RMB19,506,000 and net current assets of RMB31,570,000 as at 31 December 2012.

In order to strengthen the Company's capital base and liquidity in the foreseeable future, the Company will take the following measures:

- Obtain banking facilities from banks in the PRC for repayment of the entrusted loan which is due for repayment before 29 December 2013; and

- Negotiate with the lender to extend the repayment date of the entrusted loan of RMB19,985,000

Should the Company be unable to continue as a going concern, adjustments would have to be made to restate the values of assets to their immediate recoverable amounts, to provide for any further liabilities which might arise and to classify non-current assets as current assets. The effects of these potential adjustments have not been reflected in financial statements for the year ended 31 December 2012.

For further details, please refer to the paragraph headed "Emphasis of Matters" in the Independent Auditor's Report, and note 2(b)(i) and note 30(b) to the financial statements in this annual report. Save as disclosed above, in the paragraph headed "Emphasis of Matters" in the Independent Auditor's Report, in note 2(b)(i) and note 30(b) to the financial statements in this annual report, there are no other material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The Board is also responsible for presenting a balanced, clear and understandable assessment of annual, interim and quarterly reports, inside information announcements and other disclosures required under the GEM Listing Rules and other statutory requirements.

CONTINUOUS PROFESSIONAL DEVELOPMENT

The Revised Code Provision A.6.5 provided that all Directors should participate in continuous professional development to develop and refresh their skills and knowledge.

For the year ended 31 December 2012, each of the Directors, namely, Mr. Tang Li Min, Mr. Hong Guo Ding, Mr. Fei Guo Yang, Mr. Hong Chun Qiang, Mr. Tang Cheng Fang, Mr. Li Zhang Rui, Mr. Wang He Rong, Mr. Lu Guo Qing and Mr. Ma Hong Ming, has completed 24 hours of training on GEM Listing Rules compliance (including notifiable transaction requirements), director's duties and corporate governance matters given by course provider approved by the Listing Division on 23 November 2012 to 25 November 2012.

The Directors have provided a record of the training they received to the Company for the year ended 31 December 2012.

For further details of the training attended by the Directors, please refer to the announcement of the Company dated 30 November 2012.

CHAIRMAN

The Chairman, Mr. Tang Li Min, provides leadership to the Board. He is responsible for ensuring that the Directors receive adequate information, which must be complete and reliable, in a timely manner and all Directors are properly briefed on the issues arising at the Board meetings. He also ensures that:

- the Board works effectively and discharges its responsibilities;
- all key and appropriate issues are discussed by the Board in a timely manner;
- good corporate governance practices and procedures are established; and
- appropriate steps are taken to provide effective communication with shareholders and that views of shareholders are communicated to the Board as a whole.

He will encourage all Directors to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the Company.

MANAGING DIRECTOR (CHIEF EXECUTIVE)

The Managing Director, Mr. Hong Guo Ding, performs the role as the chief executive of the Company. The role of the Managing Director is separate from that 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. The Audit Committee 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 the company secretary for the purpose

Corporate Governance

of discussing the nature and scope of audit work and assessing the Company's internal controls. Separate meetings will also be held with the external auditor (in the absence of management) as and when required. The Audit Committee held three meetings in the year ended 31 December 2012 to review, inter alia, the Company's quarterly, half-yearly and annual financial statements and reviewed the internal control systems and to recommend to the Board the appointment of an external auditor. The average attendance rate was approximately 89% during the year ended 31 December 2012.

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 and removal of the external auditor, and to approve remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;

(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 and reporting obligations before the audit commences;

(c) to develop and implement policy on engaging an external auditor to supply non-audit services (for this purpose, the external auditor includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally), and report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

Review of financial information of the Company

(d) to monitor integrity of the Company's financial statements, annual report and accounts and half-year and quarterly reports; and to review significant financial reporting judgments contained in 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 legal requirements in relation to financial reporting;

(e) in regard to (d) above:

  (i) members of the Audit Committee must liaise with the Board and senior management and the Audit Committee must meet, at least twice a year, with the Company's auditor; and

(ii) the Audit Committee shall consider any significant or unusual items that are, or may need to be, reflected in the reports and accounts and should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditor;

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

(f) to review the Company's financial controls, internal control and risk management systems;

(g) to discuss with the management the internal control system and ensure that management has performed its duty to have an effective internal control system which should include adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;

(h) to consider major investigations findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

(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 its effectiveness;

(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 to accounting records, financial accounts or systems of control and management's response;

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

(m) to report to the Board on the matters set out in the Code Provisions;

(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 Audit 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 Audit Committee; to obtain outside legal or other independent professional advice; and to secure the attendance of outsiders with relevant experience and expertise if necessary.

Corporate Governance

NOMINATION AND REMUNERATION COMMITTEE

A Nomination and Remuneration Committee was set up in October 2005, constituted by three independent non-executive Directors, namely Mr. Wang He Rong, Mr. Lu Guo Qing and Mr. Ma Hong Ming. Nomination and Remuneration Committee meetings are 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 Nomination and Remuneration Committee held one meeting in 2012 to review, inter alia, the composition of Board members and the Directors' remuneration and the meeting was attended by all of the members of the Nomination and Remuneration Committee. The average attendance rate was 100%. The name of the Nomination and Remuneration Committee has been changed to the Nomination Committee with effect from 30 March 2012. Mr. Ma Hong Ming remains as the chairman and a member of the Nomination Committee and Mr. Lu Guo Qing and Mr. Wang He Rong remain as members of the Nomination Committee with revised terms of reference with effect from 30 March 2012. For details of the duties and the number and attendance of committee meetings held by the Nomination Committee for the period from 30 March 2012 to 31 December 2012, please refer to the "Nomination Committee" section in this annual report. For further details of the change of name of the Nomination and Remuneration Committee to the Nomination Committee, please refer to the announcement of the Company dated 30 March 2012.

Duties of the Nomination and Remuneration Committee include the following:

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

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

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

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

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

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

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

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

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

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

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

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

NOMINATION COMMITTEE

The Nomination Committee was re-named from the Nomination and Remuneration Committee with effect from 30 March 2012. Its members include all independent non-executive Directors, namely, Mr. Wang He Rong, Mr. Lu Guo Qing and Mr. Ma Hong Ming, with Mr. Ma Hong Ming as the chairman of the Nomination Committee. For the year ended 31 December 2012, the Nomination Committee resolved, assessed and reviewed the structure, size and composition (including skills, knowledge and experience of the Board and succession planning).

For further details of the change of name of the Nomination and Remuneration Committee to the Nomination Committee, please refer to the announcement of the Company dated 30 March 2012.

The main duties of the Nomination Committee are to regularly review the structure of the Board and make recommendations to the Board regarding any proposed change to the structure of the Board, identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships and assess the independence of the independent non-executive Directors.

The attendance of the members of the Nomination Committee at the committee meetings is as follows:

	Attendance/ Committee Meetings held
Mr. Ma Hong Ming *(chairman)*	1/1
Mr. Wang He Rong	1/1
Mr. Lu Guo Qing	1/1

REMUNERATION COMMITTEE

The Remuneration Committee was established by the Board on 30 March 2012 with written terms of reference with effect from 30 March 2012. Its members include all independent non-executive Directors, namely, Mr. Wang He Rong, Mr. Lu Guo Qing and Mr. Ma Hong Ming, with Mr. Ma Hong Ming as the chairman of the Remuneration Committee. For the year ended 31 December 2012, the Remuneration Committee resolved, assessed and reviewed the policy and structure for the remuneration of all the Directors and the Company's senior management, the establishment and the mechanism of the remuneration policies, the 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, remuneration of non-executive Directors and the performance of Directors in their terms of office.

For further details of the formation of the Remuneration Committee, please refer to the announcement of the Company dated 30 March 2012.

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The main duties of the Remuneration Committee are to regularly make recommendations to the Board on the Company's policy and structure for the remuneration of all the Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policy. The Remuneration Committee should also review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is other fair and no excessive. The model of making recommendations to the Board on remuneration packages of individual executive Directors and members of senior management has been adopted.

The attendance of the members of the Remuneration Committee at the committee meetings is as follows:

	Attendance/ Committee Meetings held
Mr. Ma Hong Ming *(chairman)*	1/1
Mr. Wang He Rong	1/1
Mr. Lu Guo Qing	1/1

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 Nomination and Remuneration Committee will consult the Chairman and the Managing Director about their proposals relating to the remuneration of other executive Directors and have access to professional advice if considered necessary.

CORPORATE GOVERNANCE DUTIES

The Board is responsible for performing the corporate governance duties as set out in Revised Code Provision D.3.1. During the year ended 31 December 2012, the Board had reviewed and discussed the corporate governance policy of the Company and was satisfied with the effectiveness of the corporate governance policy of the Company.

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 in relation to the applicable Code and Revised Code. 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.

For the year ended 31 December 2012, Ms. Kwok Pui Ching, as the company secretary, has taken no less than 15 hours of relevant professional training.

QUALIFIED ACCOUNTANT

The Company has employed a qualified accountant, Ms. Kwok Pui Ching, on a full time-basis. Being a 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 2012, the Directors had:

(a) approved the adoption of all HKFRSs which are generally adopted in Hong Kong;

(b) selected suitable accounting policies and applied them consistently; and

(c) made judgments and estimates that were prudent and reasonable; and ensured the accounts were prepared on the going concern basis.

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

A statement by the auditors about their reporting responsibilities is included in the Independent Auditor's Report on pages 36-37.

Corporate Governance

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 the effectiveness of all material control systems, including financial, operational and compliance controls and risk management functions of the Company for the fiscal year ended 31 December 2012; 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 applicable Code and Revised Code in respect of maintaining an effective internal control system.

For further details of the internal control review conducted by the Company during the year ended 31 December 2012, please refer to the paragraph headed "Internal Control Adviser" in this annual report.

AUDITOR'S REMUNERATION

CCIF CPA Limited had been re-appointed as the Company's external auditor by the shareholders at the 2011 annual general meeting held by the Company on 15 May 2012 until the conclusion of the forthcoming annual general meeting. They are primarily responsible for providing audit services in connection with the annual financial statements.

During the year ended 31 December 2012, 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.

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 of dealings and the Company's code of conduct regarding Directors' securities transactions throughout the year ended 31 December 2012.

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES OF THE COMPANY

As at 31 December 2012, 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	Beneficial owner	36,626,666 domestic shares	68.33%	47.82%
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%

Saved as disclosed above, as at 31 December 2012, 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 2012, 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 Jing Qi (formerly known as Tang Lin Jun)	Beneficial owner	4,466,667 domestic shares	8.33%	5.83%
Ms. Tang Jing Jing *(Note)*	Beneficial owner	4,466,667 domestic shares	8.33%	5.83%
Greater China I Private Placement Fund	Investment Manager	1,360,000 H shares	5.91%	1.77%

Saved as disclosed above, as at 31 December 2012, 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.

SHAREHOLDERS' RIGHTS

Convening An Extraordinary General Meeting

Pursuant to article 84 of the Articles of Association of the Company, shareholders of the Company who request to convene an extraordinary general meetings of the Company (the"EGM(s)") shall follow the procedures below:

(1) Shareholder(s) who hold(s) in aggregate 10 per cent or more of the shares vested with voting rights in such a meeting may sign one or several written requisitions in the same form requesting the Board to convene an EGM or a class shareholders' meeting, and the subject matter of the meeting shall be specified. Upon the receipt of the aforesaid written requisitions, the Board shall convene an extraordinary general meeting or a class shareholders' meeting as soon as possible. The calculation of the number of shares held as aforesaid shall be made as at the date of the written requisitions.

(2) If the Board fails to give notice of meeting within 30 days of the receipt of the aforesaid written requisitions, the shareholders making such requests may convene a meeting within four months of the receipt of the said requisitions by the board of directors. The procedure for convening the meeting shall, as far as possible, be the same as those for convening a shareholders' meeting by the Board.

All reasonable expenses incurred in convening and holding a meeting by the shareholders as a result of the failure of the board of directors to convene such meeting upon the aforesaid requisitions shall be borne by the Company and the same shall be deducted from outstanding payments due to the directors who are in fault of their duties.

Putting Enquiries to the Board

The Company's information shall be communicated to the shareholders mainly through general meetings, including annual general meetings, the Company's financial reports (interim reports and annual reports), and its corporate communications and other corporate publications on the Company's website and the Stock Exchange's website. Shareholders may at any time make a request for the Company's information to the extent that such information is publicly available. Any such questions shall be directed to the Board at the Company's registered office at Zhanwang Village Yangxunqiao Town, Shaoxing County, Zhejiang Province, the PRC.

Putting Forward Proposals at Shareholders' Meeting

To propose a person for election as a Director, starting from the second day after the dispatch of the notice of the general meeting appointed for the election of Director by the Company, a shareholder is entitled to lodge a notice in writing to the Company to propose a person for election as a Director. The minimum length of the period, during which the aforesaid notice is lodged with the Company, will be at least seven days. In any event, the aforesaid period shall end no later than 7 days prior to the date of such general meeting. In the aforesaid period of notice, such proposed Director shall give notice to the Company indicating his/her willingness to be elected.

Investor Relations

During the year ended 31 December 2012, there had been no significant change in the Company's constitutional documents.

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 2012.

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 2012 are set out on pages 38 to 81 of the annual report.

MAJOR CUSTOMERS AND SUPPLIERS

The Company's sales to the five largest customers accounted for approximately 52.73% of the Company's turnover during the year ended 31 December 2012. The Company's sales to the largest customer accounted for approximately 16.94% of the Company's turnover during the year ended 31 December 2012.

The Company's purchases attributable to the five largest suppliers in aggregate during the year ended 31 December 2012 amounted to approximately 66.10% of the total purchases. The Company's purchases attributable to the largest supplier accounted for approximately 26.83% of the Company's total purchases during the year ended 31 December 2012.

At no time during the year ended 31 December 2012 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 2012 and the state of the Company's affairs as at the date are set out in the financial statements on pages 38 to 41.

DIVIDENDS

The Directors did not recommend the payment of any dividend during and for the year ended 31 December 2012.

CHARITABLE DONATIONS

There was no charitable donations made by the Company during the year ended 31 December 2012.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Company during the year ended 31 December 2012 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.

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 2012, the Company did not have distributable reserves. The distributable reserves of the Company as at 31 December 2011 amounted to RMB1,885,000.

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 82.

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 on 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 of 2012 or at any time during the year ended 31 December 2012.

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 (including the Directors and Supervisors proposed for re-election at the forthcoming annual general meeting) has an unexpired service contract which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS AND SUPERVISORS

The Directors and Supervisors of the Company during the year ended 31 December 2012 and up to the date of this report are:

Executive Directors

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

Non-executive Directors

Mr. Tang Cheng Fang
Mr. Li Zhang Rui

Report of the Board of Directors

Independent non-executive Directors

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

Supervisors

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

Independent supervisors

Mr. Wang Zhong
Mr. Wang Ye Gang

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

All existing Directors (including executive, non-executive and independent non-executive Directors) are appointed for a term of three years, and are subject to election for appointment by shareholders at the general meeting by end of the three-year period.

In accordance with articles 119 and 120 of the Company's Articles of Association, Supervisors representing the shareholders shall be elected at the shareholders' general meeting and the Supervisor representing the staff members of the Company shall be elected by the staff members of the Company. The term for Supervisors are three years and a Supervisor may serve consecutive terms if re-elected upon the expiration of the term.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Brief biographical details of Directors, Supervisors and senior management are set out on pages 8 to 11.

DIRECTORS' AND SUPERVISORS' EMOLUMENTS

Details of Directors and Supervisors' emoluments for the year are set out in note 12 to the financial statements.

EMOLUMENT POLICY

Details of the emolument policy for the Company's staff are set out in the paragraph headed "Employee Information" in this annual report and details of the basis of determining the emolument payable to the Directors are set out in the paragraph headed "Remuneration Committee" in this annual report.

RELATED PARTY 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. The following related party transactions are connected transaction exempt from reporting, announcement and independent shareholders' approval requirements according to the following applicable GEM Listing Rules:

– Rule 20.31(6) of the GEM Listing Rules in relation to the key management personnel remuneration as disclosed in note 27(c) to the financial statements in this annual report;

– Rule 20.65(4) of the Listing Rules in relation to the amount due to a related party as disclosed in note 27(a)(i), and the provision of guarantee to the Company as disclosed in Note 27(b) to the financial statements in this annual report.

The following related party transaction as disclosed in Note 27 (a)(ii) and Note 27(a)(iii) to the financial statements in this annual report constituted continuing connected transactions under Chapter 20 of the Listing Rules and are subject to the reporting and announcement requirements set out in rules 20.45 to 20.47 of the GEM Listing Rules and are exempt from the independent shareholders' approval requirements.

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 (the "2009 Electricity Agreement"), 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 2009 Electricity Agreement for the financial year ended 31 December 2012 were RMB6.96 million (excluding tax).

Pursuant to the GEM Listing Rules, at the date of signing of 2009 Electricity Agreement, Zhejiang New Synthetic Fibre Company was a connected person of the Company as Mr. Tang Li Min, an executive Director, a promoter and a management shareholder (pursuant to the then GEM Listing Rules) of the Company, held 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 held 57.14% of equity interests in Zhejiang Liyuan Chemical Fibre Limited* (浙江利源化纖有限公司), a company which 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, had an equity interest of 10.84%, 9.97% and 3.68% respectively in Shaoxing Group. Mr. Li Zhang Rui, a Director, was a director of Shaoxing Group and Mr. Hong Chun Qiang, a Director, was a supervisor of Shaoxing Group. Accordingly, the agreement constituted a continuing connected transaction under Chapter 20 of the GEM listing Rules.

For further details of the 2009 Electricity Agreement, please refer to the announcement of the Company dated 3 November 2009.

Report of the Board of Directors

The independent non-executive Directors have examined and confirmed that the continuing connected transaction under the 2009 Electricity Agreement:

(1) has been entered into by the Company in its ordinary and usual course of business;

(2) 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) 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) 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 transaction under the 2009 Electricity Agreement (i) had received the approval from the Board; (ii) had been entered into in accordance with the relevant agreement governing such transactions; and (iii) had not exceeded the relevant cap for the financial year ended 31 December 2012 as disclosed in the announcement of the Company dated 3 November 2009.

Continuing Connected Transactions in 2013

Pursuant to an electricity tariff agency agreement (the "2012 Electricity Agreement") between the Company and Zhejiang New Synthetic Fibre Company dated 12 November 2012, Zhejiang New Synthetic Fibre Company would provide electricity to the Company from 1 January 2013 until 31 December 2013. 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.

Pursuant to the GEM Listing Rules, at the date of signing of the 2012 Electricity Agreement, Zhejiang New Synthetic Fibre Company was a connected person of the Company as Mr. Tang Li Min, an executive Director and a controlling shareholder of the Company, held 70.48% of the equity interests in Shaoxing Group which, in turn held 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, had an equity interest of 10.84%, 9.97% and 3.68% respectively in Shaoxing Group. Mr. Tang Li Min, Mr. Hong Guo Ding and Mr. Fei Guo Yang, three of the Director were directors of Shaoxing Group and Mr. Hong Chun Qiang, a Director, was a supervisor of Shaoxing Group. Accordingly, the 2012 Electricity Agreement constituted a continuing connected transaction under Chapter 20 of the GEM listing Rules.

For further details of the 2012 Electricity Agreement please refer to the announcement of the Company dated 12 November 2012.

The Company confirms it has complied with the disclosure requirements in accordance with Chapter 20 for connected transactions and continuing connected transactions.

COMPETING INTERESTS

None of the Directors and Supervisors 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 2012.

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 2012.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Written 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.

For further details regarding independence of the independent non-executive Directors, please refer to the paragraph headed 'Board of Directors' in this annual report.

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 on 4 January 2004 with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the Audit Committee are to review and provide supervision over the financial reporting process and internal control of the Company.

In compliance with the amendments to the GEM Listing Rules and the Revised Code, which have been effective on 1 April 2012, the written terms of reference of the Audit Committee has been revised on 30 March 2012 in compliance with the Revised Code Provisions.

The Audit Committee comprises three independent non-executive Directors, namely Mr. Wang He Rong, Mr. Lu Guo Qing and Mr. Ma Hong Ming. The Audit Committee had reviewed the Company's annual results and this annual report, including the Company's financial statements for the year ended 31 December 2012 and had provided advice and comments thereon to the Board. The Audit 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.

Report of the Board of Directors

DIRECTORS' AND AUDITORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

All Directors acknowledge their responsibility for preparing the accounts and the financial statements of the Company for the year ended 31 December 2012. The auditor to the Company acknowledge their reporting responsibilities in the independent auditors' report on the financial statements for the year ended 31 December 2012 and the auditor to the Company expresses that without qualifying their opinion, they draw attention to note 2(b)(i) to the financial statements in this annual report which indicates that as at 31 December 2012, the Company had interest-bearing borrowings of RMB26,985,000 of which RMB7,000,000 was overdue as at 31 December 2012 and the remaining balance of RMB19,985,000 shall be repaid before 29 December 2013, the details of which are set out in note 23 to the financial statements in this annual report. These conditions, along with other matters as set forth in note 2(b)(i) to the financial statements in this annual report, indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. For details regarding material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern, please refer to the paragraph headed "Directors' Responsibility for the Financial Statements and Going Concern" in this annual report, the paragraph headed "Emphasis of Matters" in the Independent Auditor's Report, and note 2(b)(i) and note 30(b) to the financial statements in this annual report.

INTERNAL CONTROL ADVISER

In October 2012, the Company appointed Zenith Risk Management Advisory Limited to be the internal control adviser of the Company ("Zenith").

Zenith conducted a review on the relevant internal control system of the Company (the "Internal Control Review"), including internal control policies, manual and guidelines, which was relevant to the occurrence of the Company's breaches of Rules 19.34, 19.36, 19.38, 19.40 and 19.49 of the GEM Listing Rules. Based on the results of the Internal Control Review, Zenith considered that the Company was required to strengthen and formalise its existing control system in relation to the compliance with the requirements under Chapters 19 and 20 and Appendix 15 of the GEM Listing Rules, in particular, Rules 19.34, 19.36, 19.38, 19.40 and 19.49 of the GEM Listing Rules.

The Directors agreed with Zenith that the above findings as stated in the report issued by Zenith (the "First Report") were significant weaknesses in the Company's internal controls including its procedures and compliance systems in relation to its compliance with (i) the obligations under Chapters 19 and 20 and (ii) Appendix 15 of the GEM Listing Rules. The Directors were also aware of and agreed with the recommendations as stated in the First Report. The Directors together with the senior management of Company agreed to follow such recommendations and take all appropriate actions to implement all the recommended procedures and incorporate them into the Company's internal control system including the compliance manuals.

Zenith conducted a follow-up review based on the First Report and the as stated in the follow-up report issued by Zenith (the "Follow-up Report"), the follow-up review conducted by Zenith aims to review on the progress of implementation of the recommendations relating to the weaknesses identified and documented in the First Report (the "First Recommendations"). The follow-up review included conducting interviews with relevant management and staff members relating to their progress in addressing the internal controls weaknesses identified in the First Report; reviewing relevant documentation on site; and discussing with the Company on steps taken to implement the First Recommendations.

As stated in the Follow-up Report, all the First Recommendations have been fully implemented. The board of Directors believed that by adopting the First Recommendations, the Company's internal controls, including its procedures and compliance systems to ensure compliance with (i) the obligations under Chapters 19 and 20 and (ii) Appendix 15 of the GEM Listing Rules, had been in place.

For further details regarding the Internal Control Review, please refer to the announcements of the Company dated 22 October 2012, 30 November 2012 and 5 February 2013.

COMPLIANCE ADVISER

The Company has appointed Octal Capital Limited to be the compliance adviser of the Company (the "Compliance Adviser") for a term of two years commencing on 10 October 2012. The Compliance Adviser shall be accountable to the Audit Committee. The scope of retainer of the Compliance Adviser includes, but is not limited to, the requirements that during the two-year retainer period, the Compliance Adviser is to, as part of its responsibilities and obligations, attend every Board meeting proposed to be held by the Company, and actively advise the Company and its Directors on compliance with GEM Listing Rules.

For further details regarding the appointment of Compliance Adviser, please refer to the announcements of the Company dated 22 October 2012.

INTERESTS OF THE COMPLIANCE ADVISER

None of the Group's compliance adviser, Octal Capital Limited, its directors, employees or associates (as defined under the GEM Listing Rules) had any interest in the share capital of the Company from the date of its appointment to 31 December 2012 pursuant to Rule 6A.32 of the GEM Listing Rules.

Interest bearing borrowings

Particulars of interest bearing borrowings as at 31 December 2012 are set out in note 23 to the financial statements.

In 2006, the Company borrowed two entrusted loans through a bank in the PRC. The Company made partial repayments of the loans and renewed the loans upon maturity. The outstanding balances of the entrusted loans as at 31 December 2011 consisted of a loan of RMB15,000,000 which was due for repayment on 28 July 2011 and another loan of RMB11,985,000 which was due for repayment on 5 August 2010. Since the outstanding loans were overdue as at 31 December 2011, the Company was in breach of the relevant loan agreements. On 27 February 2012, the lender agreed with the Company to repay the outstanding loans by two installments of which RMB7,000,000 should be repaid before 30 December 2012 and the balance of RMB19,985,000 should be repaid before 29 December 2013. Notwithstanding the fact that the Company extended the repayment schedules of the entrusted loans on 27 February 2012, the Company restated the entrusted loan of RMB20,000,000 as at 31 December 2011 from non-current liabilities to current liabilities to reflect that the entrusted loan was overdue as at 31 December 2011. As at 31 December 2012, the Company failed to repay the outstanding loan of RMB7,000,000 which was due for repayment before 30 December 2012. Subsequent to the end of the reporting period on 15 March 2013, the Company repaid the said overdue loan of RMB7,000,000 to the lender. Up to the date of approval of these financial statements, the lender has not made any demand for immediate repayment of the remaining balances of the entrusted loans of RMB19,985,000. For further details, please refer to 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.

CORPORATE GOVERNANCE CODE

During the period from 1 January 2012 to 31 March 2012, the Directors considered that the Company had complied with the previous code provisions set out in the Code on Corporate Governance Practices as stated in the former Appendix 15 to GEM Listing Rules, which was effective before 1 April 2012.

Report of the Board of Directors

During the period from 1 April 2012 to 31 December 2012, the Directors considered that the Company had complied with the revised code provisions set out in the revised Corporate Governance Code effective from 1 April 2012 and set out in the revised Appendix 15 to the GEM Listing Rules.

POST BALANCE SHEET EVENTS

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

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Company for the five years ended 31 December 2012 is set out on page 82.

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 2012 up to the date of this annual report.

CLOSURE OF SHARE REGISTER

The H Share register of members of the Company will be closed from Saturday, 20 April 2013 to Tuesday, 21 May 2013 (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, 21 May 2013, 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, 19 April 2013.

AUDITOR

The financial statements for the year ended 31 December 2012 have been audited by CCIF CPA Limited ("CCIF"). CCIF will retire as the auditor of the Company at the conclusion of the forthcoming Annual General Meeting and will not offer themselves for re-appointment because of its merger of business with PCP CPA Limited resulting in Crowe Horwath (HK) CPA Limited operating as the merged firm. Crowe Horwath (HK) CPA Limited is a member firm in Hong Kong for Crowe Horwath International. As a result of these changes, a resolution for the appointment of Crowe Horwath (HK) CPA Limited as the new auditor of the Company 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
27 March 2013

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, undertook their 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. 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.

The Supervisory Committee 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 2012 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
27 March 2013

Independent Auditor's Report

CCIF
CCIF CPA LIMITED
9/F Leighton Centre
77 Leighton Road
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 38 to 81, which comprise the statement of financial position as at 31 December 2012, and the statement of comprehensive income, the statement of changes in equity and the 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 of the Company 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.

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 2012, 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.

EMPHASIS OF MATTERS

Without qualifying our opinion, we draw attention to note 2(b)(i) to the financial statements which indicates that as at 31 December 2012, the Company had interest-bearing borrowings of RMB26,985,000 of which RMB7,000,000 was overdue as at 31 December 2012 and the remaining balance of RMB19,985,000 shall be repaid before 29 December 2013, the details of which are set out in note 23 to the financial statements. These conditions, along with other matters as set forth in note 2(b)(i) to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 27 March 2013

Lam Cheung Shing
Practising Certificate Number P03552

Statement of Comprehensive Income

For the year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Turnover	4	**100,219**	114,757
Cost of sales		**(89,463)**	(102,167)
Gross profit		**10,756**	12,590
Other revenue	5	**956**	1,267
Other net income	5	**919**	1,045
Distribution costs		**(2,290)**	(2,791)
Administrative expenses		**(13,464)**	(18,655)
Other operating expenses		**(1,725)**	(235)
Loss from operations	6	**(4,848)**	(6,779)
Finance costs	7	**(2,616)**	(2,727)
Loss before taxation		**(7,464)**	(9,506)
Income tax	8	**–**	–
Loss for the year attributable to owners of the Company		**(7,464)**	(9,506)
Other comprehensive income for the year, net of nil tax		**–**	–
Total comprehensive loss for the year attributable to owners of the Company		**(7,464)**	(9,506)
Loss per share			
Basic and diluted	10	**(RMB0.097)**	(RMB0.124)

The notes on pages 42 to 81 form part of these financial statements.

Statement of Financial Position

As at 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000 (Restated)
Non-current assets			
Property, plant and equipment	15	**39,940**	43,465
Prepaid lease payments	16	**5,466**	5,605
Intangible assets	17	**–**	5,000
		45,406	54,070
Current assets			
Prepaid lease payments	16	**139**	139
Inventories	18	**27,481**	41,278
Trade and other receivables	19	**35,660**	33,548
Amount due from a related party	20	**1,419**	1,432
Cash and cash equivalents	21	**19,506**	9,843
		84,205	86,240
Current liabilities			
Trade and other payables	22	**25,600**	28,835
Amount due to a related party	27(a)	**50**	50
Interest-bearing borrowings	23	**26,985**	26,985
		52,635	55,870
Net current assets		**31,570**	30,370
NET ASSETS		**76,976**	84,440
EQUITY			
Equity attributable to owners of the Company			
Share capital	24	**76,600**	76,600
Reserves	25	**376**	7,840
TOTAL EQUITY		**76,976**	84,440

Approved and authorised for issue by the board of directors on 27 March 2013.

Tang Li Min
Director

Hong Guo Ding
Director

The notes on pages 42 to 81 form part of these financial statements.

Statement of Changes in Equity

For the year ended 31 December 2012

	Attributable to owners of the Company				
	Share capital	**Share premium**	**Statutory surplus reserve**	**Retained profits/ (accumulated losses)**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 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 and 1 January 2012	**76,600**	**246**	**5,709**	**1,885**	**84,440**
Loss and total comprehensive loss for the year	**–**	**–**	**–**	**(7,464)**	**(7,464)**
At 31 December 2012	**76,600**	**246**	**5,709**	**(5,579)**	**76,976**

The notes on pages 42 to 81 form part of these financial statements.

Statement of Cash Flows

For the year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
Operating activities			
Loss before taxation		**(7,464)**	(9,506)
Adjustments for:			
Depreciation of property, plant and equipment	15	**4,946**	4,969
Amortisation of intangible assets	17	**1,324**	4,115
Amortisation of prepaid lease payments	16	**139**	139
Interest income	5	**(185)**	(309)
Finance costs	7	**2,616**	2,727
(Gain)/loss on disposal of property, plant and equipment	6	**(163)**	7
Impairment loss on trade receivables	19(b)	**1,585**	716
Reversal of impairment loss on trade receivables	19(b)	**(604)**	(1,035)
Write-down of inventories		**2,000**	–
Impairment loss on intangible assets	17	**3,676**	6,885
		7,870	8,708
Changes in working capital			
Decrease/(increase) in inventories		**11,797**	(8,287)
(Increase)/decrease in trade and other receivables		**(3,093)**	16,225
(Decrease)/increase in trade and other payables		**(4,488)**	1,907
Decrease/(increase) in amount due from a related party		**13**	(792)
Net cash generated from operating activities		**12,099**	17,761
Investing activities			
Purchase of property, plant and equipment	15	**(1,666)**	(5,644)
Proceeds from disposal of property, plant and equipment		**408**	90
Interest received	5	**185**	309
Net cash used in investing activities		**(1,073)**	(5,245)
Financing activities			
Repayment of interest-bearing borrowings		**–**	(29,192)
Interest paid		**(1,363)**	(2,727)
Net cash used in financing activities		**(1,363)**	(31,919)
Net increase/(decrease) in cash and cash equivalents		**9,663**	(19,403)
Cash and cash equivalents at beginning of year		**9,843**	29,246
Cash and cash equivalents at end of year	21	**19,506**	9,843

The notes on pages 42 to 81 form part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2012

1. CORPORATE INFORMATION

a) General

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

The address of its registered office is Zhanwang Village, Yangxunqiao Town, Shaoxing County, Zhejiang Province, the 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 the initial application of these developments to the extent that they are relevant to the Company for the current and prior accounting periods reflected in these financial statements.

b) Basis of preparation of the financial statements

(i) Going concern

The Company incurred a loss attributable to the owners of the Company of RMB7,464,000 for the year ended 31 December 2012 and had interest-bearing borrowings of RMB26,985,000 and net debt of RMB7,479,000 as at 31 December 2012 respectively. As detailed in note 23 to the financial statements, the Company failed to repay the entrusted loan of RMB7,000,000 which was due for repayment before 30 December 2012. Subsequent to the reporting period on 15 March 2013, the Company repaid the said overdue loan of RMB7,000,000 to the lender. In addition, the balance of the entrusted loan of RMB19,985,000 is due for repayment before 29 December 2013. In preparing these financial statements, the directors of the Company have given careful consideration to the impact of the current and anticipated future liquidity of the Company and the ability of the Company to attain profitable and positive cash flow operations in the immediate and longer term.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

b) Basis of preparation of the financial statements *(Continued)*

(i) Going concern (Continued)

Based on the cash flow projections of the Company and having taken into account the available financial resources of the Company, the directors have concluded that the Company is able to continue as a going concern and to meet their financial obligations as and when they fall due in the foreseeable future, having regards to the Company had cash and cash equivalents of RMB19,506,000 and net current assets of RMB31,570,000 as at 31 December 2012.

In order to strengthen the Company's capital base and liquidity in the foreseeable future, the Company will take the following measures:

- Obtain banking facilities from banks in the PRC for repayment of the entrusted loan which is due for repayment before 29 December 2013; and

- Negotiate with the lender to extend the repayment date of the entrusted loan of RMB19,985,000

Should the Company be unable to continue as a going concern, adjustments would have to be made to restate the values of assets to their immediate recoverable amounts, to provide for any further liabilities which might arise and to classify non-current assets as current assets. The effects of these potential adjustments have not been reflected in these financial statements.

(ii) Basis of measurement

The measurement basis used in the preparation of the financial statements is the historical cost conversion. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except where otherwise indicated.

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only 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.

Notes to the Financial Statements

For the year ended 31 December 2012

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

c) Property, plant and equipment

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

Depreciation is calculated to write off the cost 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.

d) Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

d) Intangible assets *(Continued)*

Intangible assets acquired separately (Continued)

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.

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 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

e) Leased assets *(Continued)*

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. Specifically, the minimum lease payments (including any lump sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the 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;

– 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

f) Impairment of assets *(Continued)*

ii) Impairment of other assets

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 and bills receivables 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 and bills receivables 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.

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

– prepaid interests in leasehold land classified as being held under an operating lease

– intangible assets

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

– Calculation of recoverable amount

Notes to the Financial Statements

For the year ended 31 December 2012

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

f) Impairment of assets *(Continued)*

ii) Impairment of other assets (Continued)

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e., a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated 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)).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

Notes to the Financial Statements

For the year ended 31 December 2012

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

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 that 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).

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.

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) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

n) 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.

o) 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.

Notes to the Financial Statements

For the year ended 31 December 2012

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

o) Revenue recognition *(Continued)*

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.

p) 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.

q) 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

r) Research and development costs

Expenditure on research activities 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 group 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 and borrowing costs, where applicable (see note 2(q)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 2(f)). Other development expenditure is recognised as an expense in the period in which it is incurred.

s) 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.

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.

Notes to the Financial Statements

For the year ended 31 December 2012

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

t) 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 maker ("CODM") for the purposes of allocating resources to, and assessing the performance of, the Company's various lines of business and geographical locations.

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

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

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Company. Of these, Amendments to HKFRS 7, *Financial instruments: Disclosures – Transfer of financial assets* is relevant to the Company's financial statements.

The amendments to HKFRS 7 require certain disclosures to be included in the financial statements in respect of transferred financial assets that are not derecognised in their entirety and for any continuing involvement in transferred financial assets that are derecognised in their entirety, irrespective of when the related transfer transaction occurred. However, an entity need not provide the disclosures for the comparative period in the first year of adoption. The Company did not have any significant transfers of financial assets in previous periods or the current period which require disclosure in the current accounting period under the amendments.

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

4. TURNOVER

The principal activities of the Company are manufacture and sale of universal joints for automobiles.

Turnover represents the sales value of goods supplied to 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

	2012	2011
	RMB'000	*RMB'000*
Other revenue		
Bank interest income, being total interest income on financial assets not at fair value through profit or loss	**185**	309
Government grants *(Note)*	**391**	274
Sales of scrap materials	**380**	684
	956	1,267
Other net income		
Gain on disposal of property, plant and equipment	**163**	–
Insurance claim	**152**	10
Reversal of impairment loss on trade receivables	**604**	1,035
	919	1,045

Note: The government grants received represent subsidies of social insurance from the Yangxunqiao Town Ministry of Finance to stabilise the labour market.

Notes to the Financial Statements

For the year ended 31 December 2012

6. LOSS FROM OPERATIONS

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

	2012	2011
	RMB'000	*RMB'000*
Cost of inventories recognised as expenses *(Note)*	**89,463**	102,167
Staff costs		
– Salaries, wages and other benefits (including directors' emoluments – note 12)	**12,405**	13,171
– Contributions to defined contribution retirement plans	**719**	858
Research and development costs	**220**	193
Depreciation of property, plant and equipment	**4,946**	4,969
Amortisation of prepaid lease payments	**139**	139
Amortisation of intangible assets	**1,324**	4,115
Auditor's remuneration	**356**	359
Impairment loss on trade receivables	**1,585**	716
Impairment loss on intangible assets	**3,676**	6,885
Write-down of inventories	**2,000**	–
(Gain)/loss on disposal of property, plant and equipment	**(163)**	7
Exchange loss, net	**82**	805

Note: Cost of inventories sold includes RMB14,453,000 (2011: RMB16,180,000) 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

	2012	2011
	RMB'000	*RMB'000*
Interest expenses on entrusted loans repayable within five years, being total interest expense on financial liabilities not at fair value through profit or loss	**2,616**	2,727

8. INCOME TAX

a) No provision for the PRC enterprise income tax has been made in the financial statements as the Company has no assessable profits for the years ended 31 December 2012 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 the years ended 31 December 2012 and 2011.

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

	2012	2011
	RMB'000	*RMB'000*
Loss before taxation	**(7,464)**	(9,506)
Calculated at the tax rate of 25% (2011: 25%)	**(1,866)**	(2,377)
Tax effect of non-deductible expenses	**1,108**	245
Tax effect of unused tax losses not recognised	**909**	2,391
Tax effect of non-taxable income	**(151)**	(259)
Actual tax expense	**–**	–

c) No provision for deferred taxation has been made for the years ended 31 December 2012 and 2011 as the effect of all temporary differences is not material. In accordance with the accounting policy set out in note 2(l), the Company has not recognised deferred tax assets in respect of cumulative tax losses of RMB13,575,000 (2011: RMB9,938,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses expire within 5 years under the current tax legislation.

9. DIVIDENDS

The directors resolved not to declare any dividend in respect of the year ended 31 December 2012 (2011: Nil).

10. LOSS PER SHARE

The basic loss per share was calculated based on the loss attributable to owners of the Company of RMB7,464,000 (2011: RMB9,506,000) and the weighted average of 76,600,000 shares in issue during the years ended 31 December 2012 and 2011.

Diluted loss per share equals to basic loss per share as there were no potential dilutive ordinary share outstanding for the years ended 31 December 2012 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 the years ended 31 December 2012 and 2011 amounted to RMB719,000 and RMB858,000 respectively.

Notes to the Financial Statements

For the year ended 31 December 2012

12. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The details of emoluments payable to directors and supervisors of the Company are as follows:

Year ended 31 December 2012

	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	5	59
Hong Chun Qiang	–	50	3	53
	–	154	8	162
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
	90	–	–	90
Supervisors				
Hong Jin Shui	–	50	5	55
Feng Yun Lin	–	–	–	–
Chen Jin Long	–	–	–	–
	–	50	5	55
Independent supervisors				
Wang Zhong	–	–	–	–
Wang Ye Gang	–	–	–	–
	–	–	–	–
	90	204	13	307

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

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
	–	154	6	160
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
	90	–	–	90
Supervisors				
Hong Jin Shui	–	50	4	54
Feng Yun Lin	–	–	–	–
Chen Jin Long	–	–	–	–
	–	50	4	54
Independent supervisors				
Wang Zhong	–	–	–	–
Wang Ye Gang	–	–	–	–
	–	–	–	–
	90	204	10	304

None of the directors and supervisors waived any emoluments during the years ended 31 December 2012 and 2011.

During the year, no emoluments were paid by the Company to the directors or supervisors as an inducement to join or upon joining the Company or as compensations for loss of the office (2011: RMB Nil).

13. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five individuals whose emoluments were the highest in the Company for the year include zero (2011: two) directors whose emoluments are disclosed in note 12 to the financial statements. The emoluments of the remaining five (2011: three) individuals were as follows:

	2012	2011
	RMB'000	*RMB'000*
Salaries and other emoluments	**492**	211
Pension scheme contributions	**11**	7
	503	218

Their emoluments of each of these individuals were below RMB810,000 and RMB820,000 (equivalent to HK$1,000,000) for the years ended 31 December 2012 and 2011 respectively.

During the years ended 31 December 2012 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

For the purpose of resources allocation and performance assessment, the chief operating decision maker, the board of directors (the "Board"), regularly reviews turnover based on domestic and overseas customers on a geographical basis (see note 14(b)). However, the financial information provided to the Board does not contain profit or loss information for each location and the Board reviewed the operating results of the Company on a combined basis. Therefore, the operation of the Company constitutes one single reportable segment, being manufacture and sales of universal joints for automobiles.

a) Segment revenue, results, assets and liabilities

The financial information presented to the Board is consistent with the statement of comprehensive information and statement of financial position.

The Board considers the Company's loss for the year as the measurement of segment's results.

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.

14. SEGMENT INFORMATION *(Continued)*

b) Geographical information *(Continued)*

	Revenue from external customers	
	2012	2011
	RMB'000	*RMB'000*
The PRC (place of domicile), excluding Hong Kong	**41,179**	56,990
Europe	**32,328**	28,335
Asia other than the PRC	**17,272**	18,862
Other countries	**9,440**	10,570
	100,219	114,757

All of the Company's non-current assets are located in the PRC, no analysis on non-current assets by location is presented.

c) Information about major customers

Revenues from customers contributing 10% or more of the total revenues of the Group are as follows:

	2012	2011
	RMB'000	*RMB'000*
Customer A	**16,977**	23,376
Customer B	**14,619**	17,418
	31,596	40,794

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For the year ended 31 December 2012

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 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 and 1 January 2012	26,916	46,674	1,170	1,203	75,963
Additions	–	728	10	928	1,666
Disposals	–	(731)	–	(133)	(864)
At 31 December 2012	**26,916**	**46,671**	**1,180**	**1,998**	**76,765**
Accumulated depreciation and impairment losses					
At 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 and 1 January 2012	7,951	22,585	1,159	803	32,498
Charge for the year	919	3,920	12	95	4,946
Written back on disposal	–	(503)	–	(116)	(619)
At 31 December 2012	**8,870**	**26,002**	**1,171**	**782**	**36,825**
Carrying amount					
At 31 December 2012	**18,046**	**20,669**	**9**	**1,216**	**39,940**
At 31 December 2011	18,965	24,089	11	400	43,465

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

16. PREPAID LEASE PAYMENTS

	2012 RMB'000	2011 RMB'000
Net carrying amount		
At 1 January	**5,744**	5,883
Amortisation for the year	**(139)**	(139)
At 31 December	**5,605**	5,744
Analysed for reporting purposes as:		
Current assets	**139**	139
Non-current assets	**5,466**	5,605
	5,605	5,744

The Company's prepaid lease payments comprise land use rights in the PRC held under medium-term lease.

17. INTANGIBLE ASSETS

	Patents	
	2012 RMB'000	2011 RMB'000
Cost		
At 31 January and 31 December	**35,000**	35,000
Accumulated amortisation and impairment		
At 1 January	**30,000**	19,000
Charge for the year	**1,324**	4,115
Impairment loss recognised for the year	**3,676**	6,885
At 31 December	**35,000**	30,000
Carrying amount		
At 31 December	**–**	5,000

The patents have finite life and will expire in 2015 to 2017.

Notes to the Financial Statements

For the Year ended 31 December 2012

17. INTANGIBLE ASSETS *(Continued)*

Amortisation has been provided on a straight-line basis over the remaining useful life of approximately 2 to 7 years. The amortisation charge for the year is included in administrative expenses in the statement of comprehensive income.

As at 31 December 2012, the Company made full impairment of RMB3,676,000 (2011: RMB6,885,000) on the intangible assets. The factors contributing to the impairment of the patents is the continuous economic down turn in Europe market which affected the sales and business plan of the Company.

18. INVENTORIES

	2012	2011
	RMB'000	*RMB'000*
Raw materials	**5,580**	7,859
Work-in-progress	**11,648**	19,336
Finished goods	**10,253**	14,083
	27,481	41,278

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

	2012	2011
	RMB'000	*RMB'000*
Carrying amount of inventories sold	**87,463**	102,167
Write-down of inventories	**2,000**	–
	89,463	102,167

19. TRADE AND OTHER RECEIVABLES

	2012	2011
	RMB'000	*RMB'000*
Trade receivables	**36,024**	36,623
Bills receivables	**1,979**	832
	38,003	37,455
Less: allowance for doubtful debts	**(7,969)**	(6,988)
	30,034	30,467
Other receivables	**156**	139
Loans and receivables	**30,190**	30,606
Deposits and prepayments	**916**	893
Prepayments to suppliers	**4,542**	1,682
Value added tax recoverable	**12**	367
	35,660	33,548

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

a) The ageing analysis of trade and bills receivables presented based on the date of goods delivered is as follows:

	2012	2011
	RMB'000	*RMB'000*
Within 30 days	**9,391**	7,947
31-60 days	**4,703**	6,789
61-90 days	**2,996**	4,722
91-180 days	**10,587**	7,265
More than 180 days	**10,326**	10,732
	38,003	37,455
Less: allowance for doubtful debts	**(7,969)**	(6,988)
	30,034	30,467

The normal credit period granted to the customers of the Company is 30 to 120 days (2011: 30 to 120 days). Further details on the Company's credit policy are set out in note 29(a).

Notes to the Financial Statements

For the Year ended 31 December 2012

19. TRADE AND OTHER RECEIVABLES *(Continued)*

b) Allowance for doubtful debts

Impairment losses in respect of trade receivables 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 receivables directly.

Movements of allowance for doubtful debts is as follows:

	2012	2011
	RMB'000	*RMB'000*
At 1 January	**6,988**	7,307
Allowance for doubtful debts recognised during the year *(Note)*	**1,585**	716
Reversal of allowance for doubtful debts	**(604)**	(1,035)
At 31 December	**7,969**	6,988

Note

As at 31 December 2012, trade receivables of the Company amounting to RMB7,969,000 (2011: RMB6,988,000) were individually determined to be impaired. These individually impaired receivables were outstanding over the credit period as at the end of the reporting period without subsequent repayment record or were due from companies with financial difficulties. Accordingly, specific allowances for doubtful debts of approximately RMB1,585,000 (2011: RMB716,000) were recognised. The Company does not hold any collateral over these balances.

c) Trade and bills receivables that are not impaired

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

	2012	2011
	RMB'000	*RMB'000*
Neither past due nor impaired	**23,310**	24,259
Less than 2 months past due	**3,236**	1,937
2 months to 1 year past due	**2,194**	2,788
Over 1 year past due	**1,294**	1,483
	6,724	6,208
	30,034	30,467

19. TRADE AND OTHER RECEIVABLES *(Continued)*

c) Trade debtors and bills receivables that are not impaired *(Continued)*

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.

20. AMOUNT DUE FROM A RELATED PARTY

Particulars of the amount due from a related party are as follows:

	2012	2011	**Maximum amount outstanding during the year**
	RMB'000	*RMB'000*	*RMB'000*
浙江展望新合纖有限公司("新合纖")	**1,419**	1,432	1,432

The amount is unsecured, interest-free and repayable on demand. For further details, please refer to note 27(a) to the financial statements.

21. CASH AND CASH EQUIVALENTS

	2012	2011
	RMB'000	*RMB'000*
Fixed deposits	**4,000**	–
Cash and bank balances	**15,506**	9,843
Cash and cash equivalents in the statement of financial position and the statement of cash flows	**19,506**	9,843

At 31 December 2012, the fixed deposits and cash and bank balances of the Company denominated in Renminbi ("RMB") amounted to RMB17,551,000 (2011: RMB8,042,000). The RMB is not freely convertible into other currencies. However, under the PRC's Foreign Exchange Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Company is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

The fixed deposits carry interest at market rate of 1.49% per annum. The bank balances carry interest at 0.35% (2011: 0.5%) per annum.

Notes to the Financial Statements

For the Year ended 31 December 2012

22. TRADE AND OTHER PAYABLES

	2012	2011
	RMB'000	*RMB'000*
Trade payables	**9,349**	12,503
Other payables and accruals	**14,660**	14,325
Financial liabilities measured at amortised cost	**24,009**	26,828
Trade deposits received from customers	**810**	1,598
Other taxes payable	**781**	409
	25,600	28,835

All the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

The following is an ageing analysis of trade payables presented based on the date of goods received as at the end of the reporting period:

	2012	2011
	RMB'000	*RMB'000*
Within 90 days	**6,835**	10,851
91 – 180 days	**1,965**	923
181 – 365 days	**183**	628
Over 365 days	**366**	101
	9,349	12,503

23. INTEREST-BEARING BORROWINGS

The analysis of the carrying amount of interest-bearing borrowings is as follows:

	2012	2011
	RMB'000	*RMB'000*
Entrusted loans	**26,985**	26,985

23. INTEREST BEARING BORROWINGS *(Continued)*

In 2006, the Company borrowed two entrusted loans through a bank in the PRC. The Company made partial repayments of the loans and renewed the loans upon maturity. The outstanding balances of the entrusted loans as at 31 December 2011 consisted of a loan of RMB15,000,000 which was due for repayment on 28 July 2011 and another loan of RMB11,985,000 which was due for repayment on 5 August 2010. Since the outstanding loans were overdue as at 31 December 2011, the Company was in breach of the relevant loan agreements. On 27 February 2012, the lender agreed with the Company to repay the outstanding loans by two installments of which RMB7,000,000 should be repaid before 30 December 2012 and the balance of RMB19,985,000 should be repaid before 29 December 2013. Notwithstanding the fact that the Company extended the repayment schedules of the entrusted loans on 27 February 2012, the Company restated the entrusted loan of RMB20,000,000 as at 31 December 2011 from non-current liabilities to current liabilities to reflect that the entrusted loan was overdue as at 31 December 2011. As at 31 December 2012, the Company failed to repay the outstanding loan of RMB7,000,000 which was due for repayment before 30 December 2012. Subsequent to the end of the reporting period on 15 March 2013, the Company repaid the said overdue loan of RMB7,000,000 to the lender. Up to the date of approval of these financial statements, the lender has not made any demand for immediate repayment of the remaining balances of the entrusted loans of RMB19,985,000.

The entrusted loans are guaranteed by a related party, the details of which are set out in note 27(b) to the financial statements.

As at 31 December 2012, the effective interest rate of the entrusted loans (which also equals to contracted interest rates) was 7.47% (2011: 7.47%) per annum.

24. SHARE CAPITAL

	2012 and 2011	
	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 RMB1 each	23,000,000	23,000
	76,600,000	76,600

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

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For the Year ended 31 December 2012

25. RESERVES

	Share premium	Statutory surplus reserve	Retained profits/ (accumulated losses)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 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 and 1 January 2012	**246**	**5,709**	**1,885**	**7,840**
Loss and total comprehensive loss for the year	**–**	**–**	**(7,464)**	**(7,464)**
At 31 December 2012	**246**	**5,709**	**(5,579)**	**376**

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.

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.

As at 31 December 2012, the Company did not have distributable reserves. The distributable reserves of the Company as at 31 December 2011 amounted to RMB1,885,000.

26. CAPITAL COMMITMENTS

The Company's authorised capital commitments outstanding at 31 December 2012 and 2011 not provided for in the financial statements are as follows:

	2012	2011
	RMB'000	*RMB'000*
Contracted but not provided for		
– Property, plant and equipment	**830**	772

Notes to the Financial Statements

For the Year ended 31 December 2012

27. RELATED PARTY TRANSACTIONS

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

a) Financing arrangement

	Note	**2012 RMB'000**	2011 RMB'000
Amount due to a related party	(i)	(50)	(50)
Amount due from a related party	(ii)	1,419	1,432
Electricity charges, net of value added tax of RMB1,183,000 (2011: RMB1,111,000)	(iii)	6,957	6,533

Notes:

i) This represents cash advance received from 浙江展望控股集團有限公司 ("浙江展望控股"). Mr. Tang Li Min, a director and controlling owner of the Company, has 70.48% equity interest in 浙江展望控股. Mr. Hong Guo Ding, Mr. Tang Cheng Fang and Mr. Fei Guo Yang, the directors of the Company, have an equity interest of 10.84%, 9.97% and 3.68% in 浙江展望控股 respectively. The amount is unsecured interest free and has no fixed terms of repayment.

ii) This represents amount due from 浙江展望新合纖有限公司 ("新合纖"), an indirect subsidiary of 浙江展望控股. The amount is unsecured, interest free and has no fixed terms of repayment.

iii) This represents the electricity fees to 新合纖. During the years ended 31 December 2012 and 2011, electricity fees paid to 新合纖 were charged in the normal course of business as the Company shared the electricity expense with 新合纖. The electricity charges were calculated based on actual electricity consumed by the Company at the rate charged by the power company. The aggregate annual value of the continuing connected transactions has not exceeded the maximum annual value of RMB7,200,000 (2011: RMB6,600,000) disclosed in previous announcement dated 4 December 2009 made by the Company in respect of the continuing connected transaction.

b) As at 31 December 2012 and 2011, 浙江嘉利蛋白纖維有限公司 ("浙江嘉利") has given guarantees in respect of the interest-bearing borrowings of the Company amounting to RMB26,985,000. 浙江嘉利 is a company incorporated in the PRC, in which 浙江展望控股 holds 47% equity interest.

27. RELATED PARTY TRANSACTIONS *(Continued)*

c) Key management personnel remuneration

Remuneration for key management personnel of the Company represents amounts paid to the Company's directors and supervisors as disclosed in note 12, are as follows:

	2012	2011
	RMB'000	*RMB'000*
Salaries, wages and other benefits	**294**	294
Pension scheme contributions	**13**	10
	307	304

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 interest-bearing borrowings. 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 and 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.

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

a) Credit risk *(Continued)*

ii) As at 31 December 2012, 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 26% (2011: 28%) and 42% (2011: 35%) 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 borrowings as a significant source of liquidity.

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.

As at 31 December 2012

	Within 1 year or on demand *RMB'000*	**Total contractual undiscounted cash flows** *RMB'000*	**Carrying amount** *RMB'000*
Interest-bearing borrowings	**28,470**	**28,470**	**26,985**
Trade and other payables	**24,009**	**24,009**	**24,009**
	52,479	**52,479**	**50,994**

As at 31 December 2011

	Within 1 year or on demand *RMB'000*	Total contractual undiscounted cash flows *RMB'000*	Carrying amount *RMB'000*
Interest-bearing borrowings	26,985	26,985	26,985
Trade and other payables	26,828	26,828	26,828
	53,813	53,813	53,813

c) Interest rate risk

The Company's fair value interest rate risk arises primarily from interest-bearing borrowings carried at fixed rate. The Company currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management will consider hedging significant interest rate exposures should the need arises.

Notes to the Financial Statements

For the Year ended 31 December 2012

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:

	2012		2011	
	Effective interest rate		Effective interest rate	
	%	***RMB'000***	%	*RMB'000*
Fixed rate borrowings:				
Entrusted loans	**7.47%**	**26,985**	7.47%	26,985

ii) *Sensitivity analysis*

The increase or decrease in interest rate has no impact on the Company's loss after taxation and accumulated losses as the interest on the interest-bearing borrowings is at fixed rate. The fair value interest rate risk in relation to the financial liabilities at fair value through profit or loss is immaterial.

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.

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.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND FAIR VALUES

(Continued)

d) Currency risk *(Continued)*

ii) *Sensitivity analysis*

	Exposure to foreign currencies (expressed in RMB)	
	2012	2011
	RMB'000	*RMB'000*
Trade and other receivables – USD	**8,210**	9,084
Cash and cash equivalents – USD	**1,955**	1,801
Overall exposure to currency risk	**10,165**	10,885

At 31 December 2012, if USD had strengthened by 3% against RMB, loss for the year would have been RMB305,000 (2011: RMB327,000) lower and accumulated losses as at 31 December 2012 would have been RMB305,000 lower (2011: retained profits RMB327,000 higher). If USD had weakened by 3% against RMB, loss for the year would have been RMB305,000 (2011: RMB327,000) higher and accumulated losses as at 31 December 2012 would have been RMB305,000 higher (2011: retained profits RMB327,000 lower).

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

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the end of the next annual reporting period. Results of the analysis as presented in the above table represent the exposure to currency risk on the Company's loss after tax and 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 2011.

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.

Notes to the Financial Statements

For the Year ended 31 December 2012

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND FAIR VALUES

(Continued)

e) Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise owner 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 owners, 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 ratio, which is calculated as net debt divided by total equity. Net debt is calculated as interest-bearing borrowings less cash and cash equivalents. The net debt to equity ratio at 31 December 2012 and 2011 are as follows:

	2012	2011
	RMB'000	*RMB'000*
Interest-bearing borrowings	**26,985**	26,985
Less: cash and cash equivalents	**(19,506)**	(9,843)
Net debt	**7,479**	17,142
Total equity	**76,976**	84,440
Net debt to equity ratio	**9.7%**	20.3%

f) Fair value measurements

The fair values of cash and cash equivalents, deposits, trade and other receivables, trade and other payables and interest bearing borrowings are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments.

g) Estimation of fair values

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

30 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a) Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(i) Write-down for obsolescence of inventories

The Company determines the write-down for obsolescence of inventories. These estimates are based on the current market condition and the historical experience on selling goods of similar nature. It could change significantly as a result of changes in market conditions. As at 31 December 2012, the carrying amount of inventories is RMB27,481,000 (2011: RMB41,278,000).

(ii) Depreciation and impairment loss of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Company reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recovered during the year. The useful lives are based on the Company's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

Internal and external sources of information are reviewed at each of the end of the reporting period to identify indications that assets may be impaired. The Company will review the estimated future cash flows of the assets regularly in order to determine whether impairment loss is required. An impairment loss is recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amount.

As at 31 December 2012, the carrying amount of property, plant and equipment is RMB39,940,000 (2011: RMB43,465,000).

(iii) Impairment of trade receivables

The Company evaluates whether there is any objective evidence that trade receivables are impaired, and determine the amount of impairment loss as a result of the inability of the debtors to make required payments. The Company bases the estimates on the ageing of the trade receivables balance, credit-worthiness, and historical write-off experience. If the financial condition of the debtors were to deteriorate, actual write-offs would be higher than estimated.

As at 31 December 2012, the carrying amount of trade receivables is RMB30,034,000 (2011: RMB30,467,000).

Notes to the Financial Statements

For the Year ended 31 December 2012

30 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

a) Critical accounting estimates and assumptions *(Continued)*

(iv) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Company carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered. The Company has not recognised deferred income tax assets in respect of estimated tax losses carried forward disclosed in note 8(c) as there is no evidence that future taxable income will be available.

(v) Impairment of intangible assets

The Company determines whether an asset is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the asset is allocated. Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. A change in the estimated future cash flows and/or the discount rate applied will result in an adjustment to the estimated impairment previously made. At 31 December 2012, the carrying amount of intangible assets was nil (2011: RMB5,000,000).

(b) Critical accounting judgements in applying the Company's accounting policies

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

Going concern

As mentioned in note 2(b)(i) to the financial statements, the directors are satisfied that the Company will be able to meet its financial obligations in full as and when they fall due in the foreseeable future. As the directors are confident that the Company will be able to continue in operational existence in the foreseeable future, the financial statements have been prepared on a going concern basis.

If the going concern basis is not appropriate, adjustment would have to be made to provide for any further liabilities which might arise. Such adjustments may have a significant consequential effect on the loss for the year and net assets of the Company.

31. POSSIBLE IMPACT OF NEW AND REVISED STANDARDS, AMENDMENTS OR INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2012

Up to the date of issuance of these financial statements, the HKICPA has issued a number of amendments and five new standards which are not yet effective for the year ended 31 December 2012 and which have not been adopted in these financial statements. These include the following which may be relevant to the Company.

	Effective for accounting periods beginning on or after
Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*	1 July 2012
HKFRS 10, *Consolidated financial statements*	1 January 2013
HKFRS 11, *Joint arrangements*	1 January 2013
HKFRS 12, *Disclosure of interests in other entities*	1 January 2013
HKFRS 13, *Fair value measurement*	1 January 2013
HKAS 27, *Separate financial statements (2011)*	1 January 2013
HKAS 28, *Investments in associates and joint ventures*	1 January 2013
Revised HKAS 19, *Employee benefits*	1 January 2013
Annual improvements to HKFRSs 2009-2011 Cycle	1 January 2013
Amendments to HKFRS 7, *Financial instruments: Disclosures – Disclosures – Offsetting financial assets and financial liabilities*	1 January 2013
Amendments to HKAS 32, *Financial instruments: Presentation – Offsetting financial assets and financial liabilities*	1 January 2014
HKFRS 9, *Financial instruments*	1 January 2015

The Company is in the process of making an assessment of what the impact of these new standards, amendments and interpretations is expected to be in the period of initial application but is not yet in a position to state whether these new standards, amendments and interpretations would have a significant impact on the financial statements.

32. COMPARATIVE FIGURES

Certain comparative figures have been adjusted to conform to the current year's presentation.

Five Year Summary

RESULTS

	For the year ended 31 December				
	2012	2011	2010	2009	2008
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	**100,219**	114,757	106,832	88,162	130,113
(Loss)/profit for the year	**(7,464)**	(9,506)	(11,759)	(9,899)	1,302

ASSETS AND LIABILITIES

	As at 31 December				
	2012	2011	2010	2009	2008
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	**129,611**	140,310	177,101	187,377	230,802
Total liabilities	**(52,635)**	(55,870)	(83,155)	(81,672)	(115,198)
Total equity	**76,976**	84,440	93,946	105,705	115,604

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 2012 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, 21 May 2013 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 2012.

2. To consider and approve the audited financial statements and the report of the auditors of the Company for the year ended 31 December 2012.

3. To consider and approve the report of the supervisory committee of the Company for the year ended 31 December 2012.

4. To consider and approve the remuneration proposals for the directors and supervisors of the Company for the financial year ended 31 December 2013.

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

6. To appoint Crowe Horwath (HK) CPA Limited as the new auditors of the Company to fill the vacancy arising from the retirement of CCIF CPA Limited and to hold office until the conclusion of the next annual general meeting of the Company and to authorize the board of directors of the Company to fix the auditor's remuneration.

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

Zhejiang Province, the People's Republic of China
27 March 2013

* *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 Saturday, 20 April 2013 to Tuesday, 21 May 2013 (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, 19 April 2013.

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, 19 April 2013 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 Tuesday, 30 April 2013. The reply slip can be delivered in person or by mail.

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

8. To propose an ordinary resolution in respect of the re-election of Mr. Hong Chun Qiang (executive director) and Mr. Ma Hong Ming (independent non-executive director) as directors of the Company and Mr. Hong Jin Shui as supervisor of the Company. The biographical profiles of the retiring directors and supervisors set out below in accordance with Chapter 7 of Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"), so that the directors of the Company can make informed decision regarding re-electing the above retiring directors and supervisors:

   Mr. Hong Chun Qiang, executive director

   Mr. Hong Chun Qiang (洪春強先生), aged 36, is an executive director of the Company. He is responsible for the administration and management of the Company. From July 1996 to December 1997, he worked at the finance department of Zhejiang Prospect Industrial Group Limited* (浙江展望實業集團有限公司); from January 1999 to March 2000, he was secretary to chairman of Zhejiang Prospect Industrial Group Limited* (浙江展望實業集團有限公司); and from April 2000 to February 2003, he was the deputy head of the general office of Zhejiang Prospect Industrial Group Limited* (浙江展望實業集團有限公司). From March 2003 onwards, he has been a department manager of the Company. He completed his tertiary education in economics and management at Shaoxing School of Arts and Science (紹興文理學院). He was appointed as a supervisor of the Company in February 2000, and was appointed as an executive director of the Company in May 2004.

Notice of Annual General Meeting

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

Mr. Ma Hong Ming, independent non-executive director

Mr. Ma Hong Ming (馬洪明先生), aged 50, is the principal of Shaoxing Zhong Xing Accounting Firm* (紹興中興會計師事務所所長). He obtained his master degree in management from Shanghai Financial and Economic Studies University* (上海財經大學管理學碩士學位). From December 1981 to March 1992, he worked for Shaoxing Xing Hong Chemical Fibre Company Limited* (紹興興虹化纖公司) as finance manager; from March 1992 to December 1999, he was the assistant principal of Shaoxing County Audit Firm* (紹興縣審計事務所); and from January 2000 onwards, he served as the principal of Shaoxing Zhong Xing Accounting Firm* (紹興中興會計師事務所). He is the general manager of Shaoxing Zhong Xing Assets Valuation Company* (紹興中興資產評估公司) and Shaoxing Zhong Xing Tax Consultants* (紹興中興稅務師事務所). He was an independent director of Zhejiang Jing Gong Technology Company Limited* (浙江精功科技股份有限公司), a company whose shares are listed on the Shenzhen Stock Exchange. He has been appointed as an independent non-executive director of the Company in May 2004.

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

Although Mr. Ma has been serving as an independent non-executive director of the Company for more than nine years, the board of directors of the Company considers that Mr. Ma is a person of integrity and independent in judgement and character. He is independent of management and free from any business or other relationships or circumstances which could materially interfere with the exercise of his independent judgement. The board of directors of the Company considers that Mr. Ma meets the independent guidelines set out in Rule 5.09 of the GEM Listing Rules, and is of the view that his independence is not affected by his long service with the Company. Hence, the board of directors of the Company considers Mr. Ma as independent and should be re-elected at the AGM.

Notice of Annual General Meeting

Mr. Hong Jin Shui, supervisor

Mr. Hong Jin Shui (洪金水先生), aged 49, is the accountant of the Company since 1996. From October 1986 to October 1989, he worked for the sales department of Shanghai Qian Jiang branch of Shaoxing County Qian Qing Supplier* (紹興縣錢清供銷社上海錢江經營部) as cashier; from November 1989 to 1990, he was the salesman of the Yangxunqiao branch of Shaoxing County Qian Qing Supplier* (紹興縣錢清供銷社楊汛橋分社); from 1991 to 1994, he was the salesman of the retail department of Qian Qing Association* (錢清聯購分銷服務部); from 1995 to 1996, he served as the cashier of Shaoxing Prospect Universal Joint Company Limited* (紹興展望萬向節有限公司), the predecessor of the Company. He was appointed as a supervisor of the Company in May 2004.

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

9. Reference is made to the announcement of the Company dated 27 March 2013 in relation to the proposed change of auditors. CCIF CPA Limited, the Company's auditors for the financial year ended 31 December 2012, will retire at the conclusion of the AGM and will not offer themselves for re-appointment. CCIF CPA Limited had merged its business with PCP CPA Limited in October 2009 and resulting in Crowe Horwath (HK) CPA Limited operating as the merged firm. The board of directors of the Company considers that it is in the best interests of the Company and the shareholders of the Company as a whole if the auditor is able to continue to serve the Company under the more internationally renowned name of Crowe Horwath (HK) CPA Limited, a member of Crowe Horwath International, and has therefore recommended the shareholders of the Company to vote in favour of the resolution to be proposed at the AGM to appoint Crowe Horwath (HK) CPA Limited as the new auditors of the Company to fill the vacancy arising from the retirement of CCIF CPA Limited. Both CCIF CPA Limited and Crowe Horwath (HK) CPA Limited have confirmed that there are no matters that need to be brought to the attention of the shareholders of the Company and the creditors of the Company in connection with their respective retirement and appointment as the auditor of the Company. Neither the board of directors of the Company nor the audit committee of the Company is aware of any matters in relation to the proposed change of auditors that need to be brought to the attention of the Shareholders and the creditors of the Company.

10. Poll

    Pursuant to Rule 17.47(4) of the GEM Listing Rules, save for certain procedural or administrative matter to be decided by the chairmen of the general meetings, 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.