



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)*



First Quarterly Report 2004

## CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks rising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors 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 means that it is a market more suited to professional and other sophisticated investors.

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The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors of Zhejiang Prospect Company Limited collectively and individually accept full responsibility, include particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Zhejiang Prospect Company Limited. The directors, having made all reasonable enquiries, confirmed that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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## Highlights

- Turnover increased by approximately 22.89% over the corresponding period in the previous year to approximately RMB14.92 million for the three months ended 31st March 2004.
- Profits increased by approximately 7.79% over the corresponding period in the previous year to approximately RMB1.69 million for the three months ended 31st March 2004.
- The Board does not recommend the payment of dividend for the three months ended 31st March 2004.

## Financial Result (Unaudited)

The board (“the Board”) of directors (the “Directors”) of Zhejiang Prospect Company Limited (the “Company”) is pleased to announce the unaudited results of the Company for the three months period ended 31st March 2004, together with the comparative figures for the corresponding period in 2003 as follows:

	<i>Note</i>	Three months ended	
		31st March 2004 <i>RMB'000</i>	31st March 2003 <i>RMB'000</i>
Turnover	3	14,916	12,138
Cost of sales		(10,566)	(8,296)
Gross profits		4,350	3,842
Other revenue		83	107
Distribution costs		(413)	(364)
Administrative expenses		(894)	(697)
Other operating expenses		(65)	(95)
Profits from operations		3,061	2,793
Finance costs		(540)	(453)
Profits from ordinary activities before taxation		2,521	2,340
Taxation	4	(832)	(773)
Profits after tax		1,689	1,567
Dividend	5	—	—
Earnings per share			
Basic (RMB per share)	7	0.022	0.029

*Notes:*

### 1. GENERAL

The Company was established in the People's Republic of China ("PRC") under the Company Law of the PRC as a joint stock limited company on 9th August 2002. The H shares of the Company were listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 18th February 2004. The Company is principally engaged in the manufacturing and sale of universal joints for automobiles.

### 2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited results have been prepared in accordance with the applicable disclosure requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

The unaudited results have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. The accounting policies have been consistently applied by the Company and are consistent with those used in the 2003 annual financial statement. The unaudited results are prepared under the historical cost convention.

### 3. TURNOVER

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

### 4. TAXATION

The provision for PRC enterprise income tax is calculated at a standard rate of 33% of the estimated assessable income for the three months ended 31st March 2004 as determined in accordance with the relevant income tax rules and regulations of the PRC.

There was no material unprovided deferred taxation for the quarter ended 31st March, 2004 (2003: Nil).

### 5. DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 31st March 2004.

### 6. RESERVES

There has been no movement of reserves, other than retained earnings, during the three months ended 31st March 2004 (2003: Nil).

### 7. EARNINGS PER SHARE

The calculations of basic earnings per share for the quarter ended 31st March 2004 and 31st March 2003 are based on the unaudited net profits attributable to shareholders for the quarter ended 31st March 2004 and 31st March 2003 of approximately RMB1,689,000 and RMB1,567,000 respectively and the 76,600,000 and 53,600,000 shares issued and outstanding during these periods respectively.

No diluted earnings per share has been disclosed as there were no diluting events existed during the quarter ended 31st March 2004 and 31st March 2003.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business review and financial review

The Company's principal business objectives are to enhance "Zhanwang" as a leading brand name in the PRC automotive parts and components market and become a major player in the global market for the procurement and supply of universal joints. During the first three months of 2004, the Company followed the business strategies in expanding the production capacity of primary production, strengthening product research and development, expanding PRC and international markets and continually improving product quality.

Turnover for the first quarter of 2004 amounted to approximately RMB14.92 million (2003: RMB12.14 million) representing approximately 22.89% increase as compared to that of previous period in 2003. The increase in turnover was mainly attributable to the increase in direct export of universal joints.

The profit attributable to shareholders for the three months ended 31st March 2004 amounted to approximately RMB1.69 million (2003: profit attributable to shareholders of approximately RMB1.57 million) representing 7.79% increase than that of the previous period in 2003. However, the gross profit margin for the period decreased by approximately 7.86% compared to that of the corresponding period in 2003. The drop in gross profit margin was primarily attributable to high steel price in the market. Administrative expenses increased by approximately 28.26% during the period due to additional salaries paid to newly appointed directors and supervisors as well as audit fee unprovided for in 2003. Apart from the above, other expenses of the Company remain stable.

### Prospects

In order to meet the increasing demand for universal joints, a new production plant, with an area of approximately 10,000 square meters, is being constructed next to the existing production facilities in the Company's premise. The new production plant



will be equipped with machineries and equipment which is similar to that of the existing production plants of the Company. Construction of the foundation work of the new production plant is expected to be completed by May 2004, the Directors anticipate that the overall production capacity of universal joints will increase from the existing 4.5 million units per annum to approximately 6.5 million units per annum upon the operation of the new production plant by the end of 2004.

The Company is also actively developing new markets and has successfully opened the Japanese market by signing a contract with a new customer in Japan in March 2004. The Company will continue to participate in overseas trade shows and promotion activities in order to increase direct exports.

## Other Information

### PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Other than the placing of 23,000,000 H Shares of the Company in connection with the Company's initial public offering on the GEM in February 2004, the Company has not purchased, sold or redeemed any of its listed securities during the three months ended 31st March 2004.

### DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES OF THE COMPANY

As at 31st March 2004, 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")) as recorded in the register required to be kept under Section 352 of the SFO 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 Rules Governing the Listing of Securities on the GEM (the "GEM Listing Rules"), were as follows:

#### Long position in shares

The Company Director/Supervisor	Capacity	No. and class of securities	Approximate percentage of domestic shares	Approximate percentage of total registered share capital
Mr. Tang Li Min ( <i>Note</i> )	Beneficial owner	36,626,666 Domestic shares	68.33%	47.82%
	Interest of children Under 18	8,933,334 Domestic shares	16.66%	11.66%
Mr. Hong Guo Ding	Beneficial owner	3,216,000 Domestic shares	6.00%	4.20%
Mr. Tang Cheng Fang	Beneficial owner	2,680,000 Domestic shares	5.00%	3.50%
Mr. Fei Guo Yang	Beneficial owner	1,072,000 Domestic shares	2.00%	1.40%
Mr. Feng Yun Lin	Beneficial owner	1,072,000 Domestic shares	2.00%	1.40%

*Note:* As Mr. Tang Li Min is the father of Mr. Tang Liu Jun and Ms. Tang Jing Jing, both of whom are under the age of 18, Mr. Tang Li Min shall, apart from the 36,626,666 Shares beneficially owned by him, be deemed under the provisions of the SFO to be interested in the 8,933,334 Shares in aggregate owned by Mr. Tang Liu Jun and Ms. Tang Jing Jing.

Saved as disclosed above, as at 31st March 2004, none of the Directors, chief executives and supervisors of the Company has any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO 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.

## SUBSTANTIAL SHAREHOLDERS

As of 31st March 2004, the following persons (other than the Directors, chief executives and supervisors of the Company as disclosed in the paragraph headed “Directors’ and Supervisors’ interests in Shares of the Company” above) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

### Long position in shares

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

Saved as disclosed above, as at 31st March 2004, 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.

### **SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS**

Each of the Directors and supervisors of the Company has entered into a service contract with the Company. Each service contract is for an initial term of three years commencing on the respective date of appointment by the shareholder’s meeting. Save as disclosed above, no Director and supervisor has an unexpired service contract which is not determinable by the Company within one year without payment of compensation, other than normal statutory obligations.

### **COMPETING INTERESTS**

None of the Directors or management shareholders of the Company and their respective associates has any interest in any businesses which directly or indirectly compete with the business of the Company for the three months ended 31st March 2004.

### **SPONSOR’S INTERESTS**

Pursuant to the agreement dated 9th February 2004 entered into between the Company and South China Capital Limited (the “Sponsor”), the Sponsor will receive a fee for acting as the Company’s continuing sponsor for the period from 18th February 2004 to 31st December 2006.

Neither the Sponsor nor its directors or employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in any class of securities of the Company (including options or rights to subscribe for such securities) as at 31st March 2004.

### **CORPORATE GOVERNANCE**

The Company has complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules since the listing of its shares on GEM on 18th February 2004.

### **AUDIT COMMITTEE**

The Company set up an audit committee (“the Committee”) on 14th January 2004 with written terms of reference in compliance with the requirements as set out in Rules 5.23 to 5.25 of the GEM Listing Rules effective at that time. The primary duties of the Committee are to review and provide supervision over the financial reporting process and internal control of the Company. The Committee comprises two independent non-executive directors, Mr. Wang He Rong and Mr. Lu Guo Qing.

The Company’s unaudited results for the three months ended 31st March 2004 have been reviewed by the audit committee, which was of the opinion that such statement complied with the applicable accounting standards, GEM Listing Rules and other legal requirements, and that adequate disclosure has been made.

## Other Information

As at the date thereof, the executive Directors are Mr. Tang Li Min, Mr. Hong Guo Ding, Mr. Fei Guo Yang; the non-executive Directors are Mr. Tang Cheng Fang and Mr. Li Zheng Rui; the independent non-executive Directors are Mr. Wang He Rong and Mr. Lu Guo Qing.

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

Zhejiang Province, the PRC  
10th May 2004

\* *For identification purpose only*