



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)



Interim Report 2004

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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

- Achieved a turnover of approximately RMB35.09 million for the six months ended 30 June 2004, representing an increase of 6.36% when compared with that of the corresponding period in 2003.
- Net profit after taxation for the six months ended 30 June 2004 amounted to approximately RMB3.41 million, representing a basic earning per share of RMB0.044.
- The Board of Directors does not recommend the payment of an interim dividend for the six months ended 30 June 2004.

Financial Information

Interim results for the six months ended 30 June 2004

The board of Directors (the “Board”) of Zhejiang Prospect Company Limited (the “Company”) is pleased to announce the unaudited financial results of the Company for the three months and six months ended 30 June 2004, respectively, together with the comparative figures for the corresponding period in 2003 are as follows:

UNAUDITED CONDENSED INCOME STATEMENT

| | <i>Note</i> | Three Months Ended 30 June | | Six Months Ended 30 June | |
|--|-------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | | 2004 (Unaudited) RMB'000 | 2003 (Unaudited) RMB'000 | 2004 (Unaudited) RMB'000 | 2003 (Unaudited) RMB'000 |
| Turnover | 3 | 20,171 | 20,851 | 35,087 | 32,989 |
| Cost of sales | | (15,436) | (14,015) | (26,002) | (22,311) |
| Gross profits | | 4,735 | 6,836 | 9,085 | 10,678 |
| Other revenue | 4 | 244 | 285 | 327 | 392 |
| Distribution costs | | (102) | (221) | (515) | (585) |
| Administrative expenses | | (1,579) | (433) | (2,473) | (1,130) |
| Other operating expenses | | (91) | (58) | (156) | (153) |
| Profits from operations | 6 | 3,207 | 6,409 | 6,268 | 9,202 |
| Finance costs | 7 | (660) | (418) | (1,200) | (871) |
| Profits from ordinary activities before taxation | | 2,547 | 5,991 | 5,068 | 8,331 |
| Taxation | 8 | (831) | (1,976) | (1,663) | (2,749) |
| Profits after tax | | 1,716 | 4,015 | 3,405 | 5,582 |
| Dividends | 9 | — | — | — | — |
| Earnings per share | | | | | |
| Basic (RMB per share) | 10 | 0.022 | 0.075 | 0.044 | 0.104 |

Financial Information

Interim results for the six months ended 30 June 2004

CONDENSED BALANCE SHEET

| | | 30 June 2004 (Unaudited) RMB'000 | 31 December 2003 (Audited) RMB'000 |
|---|-------------|---|---|
| | <i>Note</i> | | |
| Non current assets | | | |
| Property, plant and equipment | | 26,217 | 24,389 |
| Land use rights | | 7,042 | 7,042 |
| Construction in progress | | 3,705 | 78 |
| | | 36,964 | 31,509 |
| Current assets | | | |
| Inventories | | 20,430 | 15,134 |
| Trade receivables | 11 | 20,003 | 20,589 |
| Prepayment, deposits and other receivables | 12 | 4,550 | 8,465 |
| Cash in hands and at bank | | 70,234 | 42,845 |
| | | 115,217 | 87,033 |
| Current liabilities | | | |
| Trade and other payables | 13 | 20,332 | 12,584 |
| Amounts due to related companies | | 289 | 224 |
| Short term bank loans | | 35,400 | 35,400 |
| Income tax payable | | 1,040 | 1,910 |
| | | 57,061 | 50,118 |
| <i>Net current assets</i> | | 58,156 | 36,915 |
| <i>Net assets</i> | | 95,120 | 68,424 |
| Capital and reserves | | | |
| Paid in share capital | 14 | 76,600 | 53,600 |
| Reserves | 15 | 18,520 | 14,824 |
| | | 95,120 | 68,424 |

CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2004

| | Paid-in/ share capital <i>RMB'000</i> | Statutory surplus reserve <i>RMB'000</i> | Statutory public welfare fund <i>RMB'000</i> | Revaluation Reserve <i>RMB'000</i> | Capital Reserve <i>RMB'000</i> | Retained Profit <i>RMB'000</i> | Total <i>RMB'000</i> |
|---|--|---|---|--|--------------------------------------|--------------------------------------|-------------------------|
| At 1 January 2003 | 53,600 | 195 | 97 | — | — | 1,623 | 55,515 |
| Net profit for the period | — | — | — | — | — | 9,180 | 9,180 |
| Transfer | — | 1,006 | 503 | — | — | (1,509) | — |
| Revaluation surplus | — | — | — | 3,729 | — | — | 3,729 |
| At 31 December 2003 and 1 January 2004 (audited) | 53,600 | 1,201 | 600 | 3,729 | — | 9,294 | 68,424 |
| Net profit for the period | — | — | — | — | — | 3,405 | 3,405 |
| Transfer | — | 340 | 170 | — | — | (510) | — |
| Issue of new shares | 23,000 | — | — | — | 9,520 | — | 32,520 |
| Write off listing expenses | — | — | — | — | (9,229) | — | (9,229) |
| At 30 June 2004 | 76,600 | 1,541 | 770 | 3,729 | 291 | 12,189 | 95,120 |

Financial Information

Interim results for the six months ended 30 June 2004

CONDENSED CASH FLOW STATEMENT (UNAUDITED)

| | For the six months ended 30 June | |
|---|---------------------------------------|---------------------------------------|
| | 2004 (Unaudited) <i>RMB'000</i> | 2003 (Unaudited) <i>RMB'000</i> |
| Net cash inflow (outflow) from operating activities | 6,428 | 28 |
| Net cash inflow (outflow) from investing activities | (2,330) | (16,143) |
| Net cash inflow (outflow) from financing activities | 23,291 | 14,000 |
| Increase in cash and cash equivalents | 27,389 | (2,115) |
| Cash and cash equivalent at beginning of period | 42,845 | 50,652 |
| Cash and cash equivalent at end of period | 70,234 | 48,537 |
| Analysis of balances of cash and cash equivalents | | |
| Cash at banks and in hand | 70,234 | 48,537 |

NOTES TO FINANCIAL STATEMENTS

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 9 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 18 February 2004. The Company is principally engaged in the manufacturing and sale of universal joints for automobiles.

2. Basis of Preparation and Principle 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 accounting policies and basis of preparation adopted for the preparation of the interim financial report are consistent with those adopted by the Company in its annual financial statements for the year ended 31 December 2003.

The unaudited results of the Company are prepared in accordance with the requirements as set out in GEM Listing Rules and the Statement of Standard Accounting Practice 25 "Interim Financial Reporting" as issued by the Hong Kong Society of Accountants.

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 deducting all goods returns and trade discounts.

4. Other Revenue

| | For the three months ended 30 June | | For the six months ended 30 June | |
|--|---------------------------------------|--------------------------------|-------------------------------------|--------------------------------|
| | 2004 (Unaudited) RMB'000 | 2003 (Unaudited) RMB'000 | 2004 (Unaudited) RMB'000 | 2003 (Unaudited) RMB'000 |
| Sales of work-in-progress and scrap material | 139 | 72 | 193 | 68 |
| Bank interest income | 105 | 212 | 134 | 323 |
| Sundries | 0 | 1 | 0 | 1 |
| | 244 | 285 | 327 | 392 |

Financial Information

Interim results for the six months ended 30 June 2004

5. Segmental Information

Segmental information is presented in respect of the Company's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Company's internal financial reporting.

Primary reporting format — business segments

The Company has been operating in one single business segment, i.e. manufacturing and sale of universal joints and automotive components for automobiles including cardan universal joints, wing bearing universal joints and differential spiders.

Secondary reporting format — geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

| | For the six months ended 30 June | |
|--|-------------------------------------|--------------------------------|
| | 2004 (Unaudited) RMB'000 | 2003 (Unaudited) RMB'000 |
| Revenue from external customers | | |
| — PRC | | |
| Domestic sales | 11,964 | 17,425 |
| Import and export corporations | 16,428 | 14,261 |
| — Overseas | 6,695 | 1,303 |
| Total revenue from external customers | 35,087 | 32,989 |

At 30 June 2004 and 30 June 2003, all the Company's assets were located in the PRC.

6. Profit from Operations

Profit from ordinary activities before taxation is stated after (crediting)/charging the followings:

| | For the three months ended 30 June | | For the six months ended 30 June | |
|---|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| | 2004 (Unaudited) <i>RMB'000</i> | 2003 (Unaudited) <i>RMB'000</i> | 2004 (Unaudited) <i>RMB'000</i> | 2003 (Unaudited) <i>RMB'000</i> |
| Cost of inventories sold | 15,436 | 14,015 | 26,002 | 22,311 |
| Staff costs | 1,941 | 1,913 | 3,434 | 2,474 |
| Staff welfare costs | 124 | 197 | 430 | 394 |
| Directors' emoluments | 52 | 4 | 103 | 8 |
| Research and development | 42 | 79 | 97 | 114 |
| Depreciation of property, plant and equipment | 404 | 382 | 821 | 668 |
| Amortisation of land use rights | 27 | 14 | 54 | 27 |
| Auditors' remuneration | — | — | — | — |
| Loss on disposal of property, plant and equipment | 25 | — | 25 | — |

7. Finance Costs

| | For the three months ended 30 June | | For the six months ended 30 June | |
|---|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| | 2004 (Unaudited) <i>RMB'000</i> | 2003 (Unaudited) <i>RMB'000</i> | 2004 (Unaudited) <i>RMB'000</i> | 2003 (Unaudited) <i>RMB'000</i> |
| Interest expense on bank loans, repayable within one year | 660 | 418 | 1,200 | 871 |

Financial Information

Interim results for the six months ended 30 June 2004

8. Taxation

(a) Taxation in the income statements represents:

| | For the three months ended 30 June | | For the six months ended 30 June | |
|---|---------------------------------------|--------------------------------|-------------------------------------|--------------------------------|
| | 2004 (Unaudited) RMB'000 | 2003 (Unaudited) RMB'000 | 2004 (Unaudited) RMB'000 | 2003 (Unaudited) RMB'000 |
| Provision for PRC enterprise income tax | 831 | 1,976 | 1,663 | 2,471 |

The provision for PRC enterprise income tax is calculated at a standard rate of 33% of the estimated assessable income for the period ended 30 June 2004 as determined in accordance with the relevant income tax rules and regulations of the PRC.

The taxation on the Company's profit before taxation differs from the theoretical amount is as follows:

| | For the three months ended 30 June | | For the six months ended 30 June | |
|---|---------------------------------------|--------------------------------|-------------------------------------|--------------------------------|
| | 2004 (Unaudited) RMB'000 | 2003 (Unaudited) RMB'000 | 2004 (Unaudited) RMB'000 | 2003 (Unaudited) RMB'000 |
| Profit before taxation | 2,547 | 5,991 | 5,068 | 8,331 |
| Calculated at a taxation rate of 33% | 832 | 1,976 | 1,663 | 2,749 |
| Income not subject to taxation | — | — | — | — |
| Expenses not deductible for taxation purposes | — | — | — | — |
| Tax allowance given by PRC authority | — | — | — | — |
| Taxation charge | 1,715 | 4,015 | 1,663 | 2,749 |

- (b) Taxation in the balance sheets represents:

| | 30 June (Unaudited) 2004 RMB'000 | 31 December (Audited) 2003 RMB'000 |
|--|---|---|
| Provision for PRC enterprise income tax | 1,663 | 5,671 |
| Balance of PRC enterprise income tax provision relating to prior years | 1,910 | 3,975 |
| Payment of PRC enterprise income tax | (2,407) | (1,910) |
| Tax refund relating to prior year | (127) | — |

- (c) There was no material un-provided deferred taxation for the period ended 30 June 2004.

9. Dividends

The Company resolved not to declare an interim dividend in respect of the period ended 30 June 2004. (2003: Nil)

10. Earnings Per Share

The calculations of basic earnings per share for the period ended 30 June 2004 and 30 June 2003 are based on the un-audited net profits attributable to shareholders for the period ended 30 June 2004 and 30 June 2003 of approximately RMB3,405,000 and RMB5,582,000 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 period ended 30 June 2004 and 30 June 2003.

Financial Information

Interim results for the six months ended 30 June 2004

11. Trade Receivables

The aging analysis of trade receivables is as follows:

| | 30 June (Unaudited) 2004 RMB'000 | 31 December (Audited) 2003 RMB'000 |
|--|---|---|
| 1-30 days | 6,707 | 6,538 |
| 31-60 days | 6,058 | 5,256 |
| 61-90 days | 2,532 | 3,397 |
| 91-180 day | 2,637 | 3,794 |
| More than 180 days | 5,191 | 4,726 |
| | 23,125 | 23,711 |
| Less: Provision for bad and doubtful debts | (3,122) | (3,122) |
| | 20,003 | 20,589 |

The Company has a policy of allowing credit period ranging from 30 days to 120 days to its trade customers. However, for certain customers with long established relationship and good past payment histories, a longer credit period may be granted.

12. Prepayments, Deposits, Deposits and Other Receivables

| | 30 June (Unaudited) 2004 RMB'000 | 31 December (Audited) 2003 RMB'000 |
|-----------------------------------|---|---|
| Bill receivables | 205 | 350 |
| Prepayments and other receivables | 734 | 6,917 |
| Trade deposits paid to suppliers | 3,611 | 1,198 |
| | 4,550 | 8,465 |

13. Trade and Other Payables

| | 30 June (Unaudited) 2004 <i>RMB'000</i> | 31 December (Audited) 2003 <i>RMB'000</i> |
|---|--|--|
| Trade payables | 15,498 | 7,065 |
| Other payables | 5,209 | 3,714 |
| Value added tax, business tax and other taxes payable | (592) | 138 |
| Dividend payable | 37 | 37 |
| Accruals | 180 | 1,588 |
| Trade deposits received from customers | — | 42 |
| | 20,332 | 12,584 |

All of the trade and other payables are expected to be settled within one year.

Included in trade and other payables are trade payables with the following aging analysis:

| | 30 June (Unaudited) 2004 <i>RMB'000</i> | 31 December (Audited) 2003 <i>RMB'000</i> |
|---|--|--|
| Due within 3 months | 13,173 | 6,346 |
| Due after 3 months but within 6 months | 898 | 358 |
| Due after 6 months but within 12 months | 775 | 208 |
| Due after 12 months | 652 | 153 |
| | 15,498 | 7,065 |

Financial Information

Interim results for the six months ended 30 June 2004

14. Paid-in/Share Capital

| | Number of shares | Paid-in capital RMB'000 | Share capital RMB'000 |
|--|---------------------|-------------------------------|-----------------------------|
| At 1 January 2004 | 53,600,000 | — | 53,600 |
| Issued capital 23,000,000 new H shares with a nominal value of RMB1.00 each | 23,000,000 | 23,000 | 23,000* |
| At 30 June 2004 | 76,600,000 | 23,000 | 76,600 |

* On 18 February 2004, the Company became listed on GEM board of The Stock Exchange of Hong Kong Limited and a total of 23,000,000 new H shares with a nominal value of RMB1.00 each were issued at a price of HK\$1.33 per H share.

15. Reserves

| | Statutory surplus reserve RMB'000 | Statutory public welfare fund RMB'000 | Revaluation Reserve RMB'000 | Capital Reserve RMB'000 | Retained Profit RMB'000 | Total RMB'000 |
|--|--|---|-----------------------------------|-------------------------------|-------------------------------|------------------|
| At 1 January 2003 | 195 | 97 | — | — | 1,623 | 1,915 |
| Net profit for the period | — | — | — | — | 9,180 | 9,180 |
| Transfer | 1,006 | 503 | — | — | (1,509) | — |
| Revaluation surplus | — | — | 3,729 | — | — | 3,729 |
| At 31 December 2003 and 1 January 2004 | 1,201 | 600 | 3,729 | — | 9,294 | 14,824 |
| Net profit for the year | — | — | — | — | 3,405 | 3,405 |
| Transfer | 340 | 170 | — | — | (510) | — |
| Issue of new shares | — | — | — | 9,520 | — | 9,520 |
| Write off listing expenses | — | — | — | (9,229) | — | (9,229) |
| At 30 June 2004 | 1,541 | 770 | 3,729 | 291 | 12,189 | 18,520 |

(a) 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 the capital in proportion to their existing shareholdings, provided that the balance after such conversion is not less than 25% of the registered capital.

(b) Statutory public welfare fund

According to the Company's articles of association, the Company is required to transfer 5% to 10% of its net profit after tax, as determined in accordance with the PRC accounting rules and regulations, to the statutory public welfare fund. This fund can only be utilised on capital items for the collective benefits of the Company's employees such as the construction of dormitories, canteen and other staff welfare facilities. This fund is non-distributable other than on liquidation. The transfer to this fund must be made before distribution of a dividend to shareholders.

(c) Distributable reserves

Pursuant to the Company's articles of association, the net profit after tax of the Company for the purpose of profit distribution to shareholders will deem to be lesser of (i) the net 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.

Financial Information

Interim results for the six months ended 30 June 2004

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

- (i) making up cumulative prior years' losses, if any;
- (ii) allocations of 10% of net 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) allocations of 5% to 10% of net profit after tax, as determined in accordance with the PRC accounting rules and regulations, to the Company's statutory public welfare fund; and
- (iv) allocations to the discretionary surplus reserve, if approved by the shareholders.

The distributable reserves of the Company as at 31 December 2003 and 30 June 2004 amounted to approximately RMB9,294,000 and approximately RMB12,188,711 respectively.

- (d) Upon the transformation of the Company into a joint stock limited company on 9 August 2002, the Company transferred all the retaining profit, statutory surplus reserve and statutory public welfare fund as at 30 June 2002 of approximately RMB2,940,000 to capital in accordance with Article 99 of the PRC Company Law.

FINANCIAL REVIEW

For the half-year ended 30 June 2004, the Company recorded turnover of approximately RMB35,087,000 (as at 30 June 2003: approximately RMB32,989,000) representing an increase of approximately 6.36% as compared with the corresponding period in last year. Profits attributable to shareholders amounted to approximately RMB3,405,000 (as at 30 June 2003: net profits of approximately RMB5,581,000) representing a decrease of approximately 39.00%.

As compared with the corresponding period in 2003, the increase in the Company's turnover during the first half year of 2004 was mainly attributable to higher income arising from the direct overseas sale. During the first half of 2004, the Company was able to broaden its overseas client base further and hence achieved a significant increase of more than a four times in turnover in direct overseas sales as compared to the corresponding period in the previous financial year. The Company has been actively establishing its sales network in various overseas markets such as Japan, South Africa and Middle East in the first half of 2004. The Company also believed that the quality of the Company's products had increased the sales demand from both its overseas and local customers.

The increase in steel prices in 2004 had a knock-on effect on the prices of the Company's raw materials. During the first half year of 2004, the Company was affected by the prices of steel, which increased sharply by more than 50% as compared to the corresponding period in the previous financial year. Since steel and accessories raw materials made up about 12–15% of cost, accordingly, the gross profit margin of the Company suffered a reduction from 32% to 26%.

In spite of the difficulties, the Company had managed to effectively monitor and control the operating and conversion costs by agreeing on a lower price with the suppliers before further price increase in steel. The Company was also able to pass part of the increased cost to its customers. As a result of the implementation of such preventive measures, the loss of profit margin is less than expected.

Distribution expenses of the Company principally comprised transportation expenses which increased as a result of increase export sales. Promotion expenses also increased as a result of increase in sales. The significant increase in administrative expenses for the six months ended 30 June 2004 was mainly attributable to additional salaries and retirement benefits paid to newly appointed directors, supervisors and staff. Net profit margin decreased to 9.70% for the period ended 30 June 2004 from 16.92% for the same period last year. This is mainly attributable to the decrease in gross profits margin and the aforesaid increase in administrative expenses.

BUSINESS REVIEW AND PROSPECTS

The Company continued to experience growth in first half of 2004. In order to develop new markets and new customers, new products were tailored for customers' needs and special efforts were made to develop new overseas markets. Nineteen new customers were acquired during the period including customers in the PRC, Japan, Korea, India, South Africa and Middle East. The Company offered an additional sixty-six new products during the period upon customers' request and total production amounted to more than 2.8 million units of universal joints.

The PRC automotive industry continued to grow at tremendous pace during the first half of 2004. The Directors believe that such an upward trend will continue in the near future. The Directors further believe that demand for universal joint products will rise steadily in the PRC as well as the rest of the world throughout 2004. With its planned enlarged-production facilities and high quality products, the Company is well positioned to capture additional market share in the PRC as well as overseas universal joint market.

On the other hand, in view of the implementation of macro economic adjustment policy, prices of raw materials such as steel has steadied in July 2004. The Directors believe that the prices of steel will stabilize and subsequently reduce in the third and fourth quarters of 2004. It is hopeful that the Company's gross profit margin will improve gradually towards the end of 2004.

In order to meet the increasing demand for universal joint products, three new production buildings, 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 similar machineries and equipment as in the existing production plants of the Company. The first building, with an area of approximately 3,000 square meters, is anticipated to be in operation by this October while the other two buildings, with an area of approximately 7,000 square meters, are expected to be completed by the end of this year. Upon such new production plant coming into full operation, the Directors anticipate that the overall production capacity will increase from the existing 4.5 million units per annum to 6.5 million units per annum.

LIQUIDITY AND FINANCIAL RESOURCES

The Company continues to be in a healthy financial position with shareholders equity amounted to approximately RMB95.12 million as at 30 June 2004 (as at 31 December 2003: approximately RMB68.42 million). Current assets amounted to approximately RMB115.22 million as at 30 June 2004 (as at 31 December 2003: approximately RMB87.03 million), of which approximately RMB70.23 million were cash and bank balances (as at 31 December 2003: approximately RMB42.85 million). As at 30 June 2004, the Company had short-term bank loans of about RMB35.40 million (as at 31 December 2003: approximately RMB35.40 million). The short term bank loans were repayable within one year.

GEARING RATIO

As at 30 June 2004, the gearing ratio of the Company on total liabilities over total assets was approximately 0.37 (as at 31 December 2003: approximately 0.42).

FOREIGN EXCHANGE EXPOSURE

Since the Company's sales are principally in Renminbi, fluctuation of the exchange rates of Renminbi against foreign currencies would not have a material effect to the operating results of the Company.

CHARGES ON COMPANY ASSETS

As at 30 June 2004, the short-term bank loans of RMB35.40 million were secured by the Company's land use rights and buildings at net book value of RMB23.30 million (as at 31 December 2003: RMB23.30 million).

CONTINGENT LIABILITIES

The Company had no significant contingent liabilities as at 30 June 2004 (as at 31 December 2003: nil)

ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENT

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

FUTURE PLANS FOR INVESTMENTS OR CAPITAL ASSETS AND SOURCES OF FUNDING

The Company has no future plan for investment or capital assets and sources of funding other than that stated in the prospectus of the Company dated 9 February 2004 (the "Prospectus"). The Company will finance its operation and growth with its internally generated cash and remaining net proceeds from the placing of H shares upon listing on 18 February 2004 in the foreseeable future.

EMPLOYEE INFORMATION

As at 30 June 2004, the Group had 494 employees (as at 31 December 2003: 429). The Company will increase its workforce when the new plant is ready for operation by the end of this year. Company will also pay employees remuneration according to market practice, working experiences and performances. Other benefits available to eligible employees including retirement benefits.

COMPARISON ON BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is the comparison of the implementation plan of the Company's business objectives for the period ended 30 June 2004 and its actual progress. The Directors consider that the Company has followed its implementation plan as disclosed in the Prospectus. Nevertheless, in order to attain long-term business goals, the Company will review its business objectives and strategies on an on-going basis and makes adjustments as necessary.

Business objectives stated

in the Prospectus

Actual progress as at 30 June 2004

Expansion of production capacity

- Renovate the bottleneck craftsmanship to further expand existing production facilities
- Complete construction of factories

Expansion work of existing of production facilities commenced and was in progress

First phase of construction on approximately 3,000 square meters of production plant was in progress (note 1)

- Purchase of equipment for technical renovation project

Purchase of equipment as planned

Research and development

- Purchase computers and product development software to diversify and refine the means of product development
- Purchase performance testing devices and trial devices in order to improve product examination standard

Purchase of computers and software as planned

Purchase of equipment as planned

Business objectives stated in the Prospectus

Actual progress as at 30 June 2004

- | | |
|---|--|
| <ul style="list-style-type: none"> — Enter into cooperative agreement with Automobile Motor Parts and Components Quality Testing Center of Zhejiang Province and commence construction of a testing center | <p>The cooperative agreement was under negotiation and the construction work of a testing center has not been commenced (note 2)</p> |
|---|--|

Expansion of PRC and overseas market

- | | |
|---|---|
| <ul style="list-style-type: none"> — Set up sales outlets in Wuhan and Chengdu in PRC — Participate in exhibitions of automobiles and related parts — Promote the corporate image by advertisement etc | <p>Set up sales outlets in Jinan, Shandong Province, the PRC (note 3)</p> <p>Had already participated in Beijing, Middle East trade fairs</p> <p>Completed production of promotional materials and distributed the promotional material</p> |
|---|---|

Human resources

- | | |
|--|---|
| <ul style="list-style-type: none"> — Recruit technical experts for research and development, and personnel for technology and quality control, sales and marketing, production and administration — Provide training to staff responsible for renovation project — Provide training to existing staff | <p>Recruit 2 technical staff for research and development, one for quality control, one for sales and marketing, 70 additional workers and 4 for administration</p> <p>Completed</p> <p>Completed</p> |
|--|---|

Note:

- (1) The commencement of construction of factory was delayed because the processing time of obtaining the government's approval regarding the construction was longer than expected. The construction of the factory is expected to be completed by the end of this year.
- (2) The Company intends to enter into cooperative agreement with Automobile Motor Parts and Components Quality Testing Center once the construction work of new production plant and testing center is completed. As the new production plant was still under construction, the construction work of testing center had not been commenced as at 30 June 2004.

- (3) After reviewing the business plan of the Company, the Directors decided to set up sales outlet in Jinan rather than in Wuhan and Chengdu in order to attract more customers.

USE OF PROCEEDS

Up to 30 June 2004, the net proceeds from the initial placing of the H shares of the Company had been utilized in line with the terms stipulated in the Prospectus, particulars of which are set out as follows:

| | <i>Note</i> | Proposed amount to be used up to 30 June 2004 as per Prospectus <i>RMB million</i> | Actual amount used up to 30 June 2004 <i>RMB million</i> |
|---|-------------|--|--|
| Technical renovation for universal joint production lines | | | |
| — purchase of equipment | | 4 | 4.38 |
| — construction of factories | | 3 | 2.29 |
| Research and development | | | |
| — purchase of computer and product development software | | 0.05 | 0.06 |
| — purchase of equipment | | 0.2 | 0.28 |
| — construction of testing center | 1 | 0.05 | — |
| — cooperative arrangements | 2 | 0.05 | — |
| Marketing and promotional activities | | 0.2 | 0.33 |
| Staff recruitment and training | | 0.05 | 0.03 |
| Expansion of sales and distribution network | | 0.2 | 0.2 |
| General working capital | | 0.05 | 0.05 |
| Total | | 7.85 | 7.62 |

Note:

- (1) The construction work of the testing center has not been commenced as the new production plant was still under construction.
- (2) Save as mentioned in note (2) to the section headed "Comparison on Business Objectives with Actual Business Progress" above, the other cooperation arrangements were still under negotiation.

The Directors consider that there is no significant deviation of its implementation plan from the business plan as disclosed in the Prospectus, except that the amount of use of proceed is slightly different from those as planned in the Prospectus under the actual course of business, and the construction work of the production plant was delayed due to the longer than expected time required for obtaining the necessary government approval. The remaining proceeds were placed with banks and financial institutions in PRC.

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 six months ended 30 June 2004.

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES OF THE COMPANY

As at 30 June 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")) 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 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 (Note) | 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% | 4.2% |
| Mr. Tang Cheng Fang | Beneficial owner | 2,680,000 domestic shares | 5% | 3.5% |
| Mr. Fei Guo Yang | Beneficial owner | 1,072,000 domestic shares | 2% | 1.4% |
| Mr. Feng Yun Lin | Beneficial owner | 1,072,000 domestic shares | 2% | 1.4% |

Note: As Mr. Tang Li Min is the father of Mr. Tang Liu Jun 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 30 June 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) 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.

SUBSTANTIAL SHAREHOLDERS

So far as was known to any Director or Chief Executive of the Company, as at 30 June 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 30 June 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 (as defined under the GEM Listing Rules) has any interest in any businesses which directly or indirectly compete with the business of the Company for the half year ended 30 June 2004.

SPONSOR'S INTERESTS

Pursuant to the agreement dated 9 February 2004 entered into between the Company and South China Capital Limited (the "Sponsor"), the Sponsor has received and will receive a fee for acting as the Company's continuing sponsor for the period from 18 February 2004 to 31 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 30 June 2004.

REQUIRED STANDARD OF SECURITIES DEALINGS BY DIRECTORS

During the six months ended 30 June 2004, the Company had adopted a code of conduct for directors' securities transactions on terms no less exacting than the required standards of dealings set out in Rules 5.48 to 5.67 of the GEM Listing

Rules. Having made specific enquiry with all the directors, the directors of the Company had complied with the required standard of dealings and the code of conduct for directors' securities transactions during the six months ended 30 June 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 18 February 2004.

AUDIT COMMITTEE

The Company set up an audit committee ("the Committee") on 14 January 2004 with written terms of reference in compliance with the requirements as set out in Rules 5.28 to 5.30 of the GEM Listing Rules. The primary duties of the Committee are to review and provide supervision over the financial reporting process and internal control of the Company. The Committee comprises three independent non-executive directors, Mr. Wang He Rong, Mr. Lu Guo Qing and Mr. Ma Hong Ming.

The Company's unaudited results for the half year ended 30 June 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.

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

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

Zhejiang Province, the PRC
6 August 2004

* *For identification purpose only*