



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)



Third 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.

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 of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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.

Contents

Zhejiang Prospect Company Limited

- 2 Highlights
- 3 Financial Information
- 6 Management Discussion and Analysis

Highlights

- Achieved turnover of approximately RMB55.70 million for the nine months ended 30th September 2004, representing an approximately 16.92% increase as compared with that of the corresponding period in 2003.
- Accomplished profit attributable to shareholders of approximately RMB6.19 million for the nine months ended 30th September 2004.
- The Directors do not recommend the payment of an interim dividend for the nine months ended 30th September 2004.

Financial Information

Third quarter results for the nine months ended 30th September 2004

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 nine months ended 30th September 2004, together with the unaudited comparative figures for the corresponding period in 2003 as follows:

Quarterly Results (Unaudited)

	<i>Note</i>	Nine months ended	
		30th September 2004 <i>RMB'000</i>	30th September 2003 <i>RMB'000</i>
Turnover	3	55,701	47,643
Cost of sales		(41,190)	(32,520)
Gross profit		14,511	15,123
Other revenue		669	563
Distribution costs		(882)	(739)
Administrative expenses		(3,100)	(2,694)
Other operating expenses		(142)	(67)
Profit from operations		11,056	12,186
Finance costs		(1,822)	(1,399)
Profit from ordinary activities before taxation		9,234	10,787
Taxation	4	(3,048)	(3,933)
Profit after tax		6,187	6,854
Dividend	5	—	—
Earnings per share			
Basic (RMB per share)	7	0.081	0.129

Financial Information

Third quarter results for the nine months ended 30th September 2004

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 nine months ended 30th September 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 30th September 2004 (2003: Nil).

5. Dividend

The Board does not recommend the payment of an interim dividend for the nine months ended 30th September 2004.

6. Reserves

There has been no movement of reserves, other than retained earnings, during the nine months ended 30th September 2004 (2003: Nil).

7. Earnings Per Share

The calculations of basic earnings per share for the nine months ended 30th September 2004 and 30th September 2003 are based on the unaudited net profit attributable to shareholders for the nine months ended 30th September 2004 and the audited net profit attributable to shareholders for the nine months ended 30th September 2003 of approximately RMB6,187,000 and RMB6,854,000 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 nine months ended 30th September 2004 and 30th September 2003.

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 nine 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 third quarter of 2004 amounted to approximately RMB55.70 million (2003: RMB47.64 million) representing approximately 16.92% 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.

Profit attributable to shareholders for the nine months ended 30th September 2004 amounted to approximately RMB6.19 million (2003: profit attributable to shareholders of approximately RMB6.85 million) representing approximately 9.64% decrease than that of the previous period in 2003. Gross profit margin for the period also decreased by approximately 4.05% 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 15.07% during the period due to additional salaries paid to newly appointed directors and supervisors as well as audit fees 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 premises. The new production plant will be equipped with machinery and equipment which are similar to that of the existing production plants of the Company. Construction of approximately 3,343 square meters of plant has been completed, refurbishment is underway and is anticipated to be in operation by October, while 6,657 square meters of plant is expected to be completed by the end of this year. 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.

The Company continued to experience growth in the third quarter 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. Thirty-five new customers were acquired during the period including customers from the PRC, the United States of America, Japan, the Philippines, India, South Africa and the Middle East. The Company offered an additional one hundred and twenty-six new products during the period upon customers' request and total production amounted to more than 4.2 million units of universal joints.

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 nine months ended 30th September 2004.

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES OF THE COMPANY

As at 30th September 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 <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.

Save as disclosed above, as at 30th September 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 30th September 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

Name 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%

Save as disclosed above, as at 30th September 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 shareholders in general 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 interests in any businesses which directly or indirectly compete with the business of the Company for the nine months ended 30th September 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 30th September 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 5.28 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 nine months ended 30th September 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 Zhang 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
9th November 2004

* *For identification purpose only*