



展望
ZHANWANG

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)



2005
Interim Report

** for identification purpose only*

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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 RMB45.785 million for the six months ended 30 June 2005, representing an increase of 30.4% when compared with that of the corresponding period in 2004.
- Net profit after taxation for the six months ended 30 June 2005 amounted to approximately RMB4.914 million, representing a basic earning per share of RMB0.064.
- The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2005.

Financial Information

Interim results for the six months ended 30 June 2005

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 2005, respectively, together with the comparative figures for the corresponding period in 2004 are as follows:

CONDENSED INCOME STATEMENT

	<i>Note</i>	For the three months ended 30 June		For the six months ended 30 June	
		2005 (Unaudited) RMB'000	2004 (Unaudited) RMB'000	2005 (Unaudited) RMB'000	2004 (Unaudited) RMB'000
Turnover	3	26,320	20,171	45,785	35,087
Cost of sales		(20,984)	(15,436)	(35,406)	(26,002)
Gross profits		5,336	4,735	10,379	9,088
Other revenue	4	386	244	783	327
Distribution costs		(714)	(102)	(1,118)	(515)
Administrative expenses		(975)	(1,579)	(1,792)	(2,473)
Other operating expenses		(63)	(91)	(88)	(156)
Profit from operations	6	3,970	3,207	8,164	6,268
Finance costs	7	(765)	(660)	(988)	(1,200)
Profit from ordinary activities before taxation		3,205	2,547	7,176	5,068
Taxation	8	(1,028)	(831)	(2,262)	(1,663)
Profit after tax		2,177	1,716	4,914	3,405
Dividend	9	—	—	—	—
Earnings per share					
Basic (RMB per share)	10	0.028	0.022	0.064	0.048

Financial Information

Interim results for the six months ended 30 June 2005

CONDENSED BALANCE SHEET

	<i>Note</i>	As at 30 June 2005 (Unaudited) RMB'000	As at 30 June 2004 (Unaudited) RMB'000
Non current assets			
Property, plant and equipment		37,186	26,217
Land use rights		6,827	7,042
Construction in progress		2,958	3,705
		46,971	36,964
Current assets			
Inventories		25,672	20,430
Trade receivables	11	23,618	20,003
Prepayment, deposits and other receivables	12	7,551	4,550
Cash in hands and at bank		64,143	70,234
		120,984	115,217
Current liabilities			
Trade and other payables	13	15,337	20,332
Amounts due to related companies		483	289
Short term bank loans		45,400	35,400
Income tax payable		1,187	1,040
		62,407	57,061
<i>Net current assets</i>		58,577	58,156
<i>Net assets</i>		105,548	95,120
Capital and reserves			
Paid in share capital	14	76,600	76,600
Reserves	15	28,948	18,520
		105,548	95,120

CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2005

	Share premium <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>	Retained profit <i>RMB'000</i>	Total <i>RMB'000</i>
At 31 December 2003 and 1 January 2004	—	1,201	600	3,729	9,254	14,824
Net profit for the year	—	—	—	—	8,954	8,964
Transfer	—	987	561	—	(1,548)	—
Issue of share upon listing	9,520	—	—	—	—	9,520
Issuing expense	(9,274)	—	—	—	—	(9,274)
At 31 December 2004	246	2,188	1,161	3,729	16,710	24,034
Net profit for the year	—	—	—	—	4,914	4,914
Transfer	—	491	246	—	(737)	—
At 30 June 2005	246	2,679	1,407	3,729	20,887	28,948

Financial Information

Interim results for the six months ended 30 June 2005

CONDENSED CASH FLOW STATEMENT

	For the six months ended 30 June	
	2005 (Unaudited) <i>RMB'000</i>	2004 (Unaudited) <i>RMB'000</i>
Net cash inflow (outflow) from operating activities	531	6,428
Net cash inflow (outflow) from investing activities	(16,622)	(2,330)
Net cash inflow (outflow) from financing activities	10,000	23,291
Increase in cash and cash equivalents	(6,091)	27,389
Cash and cash equivalent at beginning of period	70,234	42,845
Cash and cash equivalent at end of period	64,143	70,234
Analysis of balances of cash and cash equivalents		
Cash at banks and in hand	64,143	70,234

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 ("GEM Listing Rules").

The accounting policies and basis of preparation adopted for the preparation of the unaudited condensed financial statements for the period under review are consistent with those adopted by the Company in its annual financial statements for the year ended 31 December 2004.

The unaudited results of the Company are prepared in accordance with the requirements as set out in GEM Listing Rules and applicable accounting standards issued by the Hong Kong Institute of Certified Public Accountants.

The unaudited condensed interim financial statements have been reviewed by the audit committee of the Board.

The adoption of the new HKFRSs has had no material effect on how the results for the current or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

Financial Information

Interim results for the six months ended 30 June 2005

The Company has not early applied the following new standards or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the financial statements of the Company.

HKAS 19 (Amendment) Actuarial Gains and Losses, Group Plans and Disclosures

HKFRS 6 Exploration for and Evaluation of Mineral Resources

HKFRS — Int 4 Determining whether an Arrangement Contains a Lease

HKFRS — Int 5 Rights to Interest Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

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	
	2005 (Unaudited) RMB'000	2004 (Unaudited) RMB'000	2005 (Unaudited) RMB'000	2004 (Unaudited) RMB'000
Sales of work-in-progress and scrap material	174	139	249	193
Bank interest income	212	105	534	134
	386	244	783	327

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	
	2005 (Unaudited) RMB'000	2004 (Unaudited) RMB'000
Revenue from external customers		
— PRC		
Domestic sales	13,586	11,964
Import and export corporations	20,755	16,428
— Overseas	11,444	6,695
Total revenue from external customers	45,785	35,087

At 30 June 2005 and 30 June 2004, all the Company's assets were located in the PRC.

Financial Information

Interim results for the six months ended 30 June 2005

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	
	2005 (Unaudited) RMB'000	2004 (Unaudited) RMB'000	2005 (Unaudited) RMB'000	2004 (Unaudited) RMB'000
Cost of inventories sold	20,984	15,436	35,406	26,002
Staff costs	2,301	1,941	4,299	3,434
Staff welfare costs	278	124	689	430
Directors' emoluments	52	52	103	103
Research and development	36	42	78	97
Depreciation of property, plant and equipment	706	404	1,190	821
Amortisation of land use rights	35	27	71	54
Auditors' remuneration	—	—	—	—
Loss on disposal of property, plant and equipment	13	25	13	25

7. Finance Costs

	For the three months ended 30 June		For the six months ended 30 June	
	2005 (Unaudited) RMB'000	2004 (Unaudited) RMB'000	2005 (Unaudited) RMB'000	2004 (Unaudited) RMB'000
Interest expense on bank loans, repayable within one year	748	660	887	1,200

8. Taxation

(a) Taxation in the income statements represents:

	For the three months ended 30 June		For the six months ended 30 June	
	2005	2004	2005	2004
	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000
Provision for PRC enterprise income tax	1,208	831	2,262	1,663

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 2005 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	
	2005	2004	2005	2004
	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000
Profit before taxation	3,205	2,547	7,176	5,068
Calculated at a taxation rate of 33%	1,208	831	2,262	1,663
Income not subject to taxation	—	—	—	—
Expenses not deductible for taxation purposes	—	—	—	—
Tax allowance given by PRC authority	—	—	—	—
Taxation charge	1,208	831	2,262	1,663

Financial Information

Interim results for the six months ended 30 June 2005

- (b) Taxation in the balance sheet represents:

	30 June (Unaudited) 2005 RMB'000	30 June (Unaudited) 2004 RMB'000
Provision for PRC enterprise income tax	2,262	1,663
Balance of PRC enterprise income tax provision relating to prior years	1,846	1,910
Payment of PRC enterprise income tax	(2,921)	(2,407)
Tax refund relating to prior year	—	(127)

- (c) There was no material un-provided deferred taxation for the period ended 30 June 2005.

9. Dividend

The Board resolved not to declare an interim dividend in respect of the period ended 30 June 2005. (2004: Nil)

10. Earnings Per Share

The calculations of basic earnings per share for the period ended 30 June 2005 and 30 June 2004 are based on the un-audited net profit attributable to shareholders for the period ended 30 June 2005 and 30 June 2004 of approximately RMB4,914,000 and RMB3,405,000 respectively and the 76,600,000 shares and the weighted average number of 70,500,553 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 2005 and 30 June 2004.

11. Trade Receivables

The aging analysis of trade receivables is as follows:

	30 June (Unaudited) 2005 <i>RMB'000</i>	30 June (Unaudited) 2004 <i>RMB'000</i>
1-30 days	8,590	6,707
31-60 days	6,234	6,058
61-90 days	5,116	2,532
91-180 day	2,524	2,637
More than 180 days	4,276	5,191
	26,740	23,125
Less: Provision for bad and doubtful debts	(3,122)	(3,122)
	23,618	20,003

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) 2005 <i>RMB'000</i>	30 June (Unaudited) 2004 <i>RMB'000</i>
Bill receivables	755	205
Prepayments and other receivables	1,496	734
Deposits paid to suppliers for machineries	5,300	3,611
	7,551	4,550

Financial Information

Interim results for the six months ended 30 June 2005

13. Trade and Other Payables

	30 June (Unaudited) 2005 <i>RMB'000</i>	30 June (Unaudited) 2004 <i>RMB'000</i>
Trade payables	8,932	15,498
Other payables	6,066	5,209
Value added tax, business tax and other taxes payable	36	(592)
Dividend payable	37	37
Accruals	266	180
	15,337	20,332

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) 2005 <i>RMB'000</i>	30 June (Unaudited) 2004 <i>RMB'000</i>
Due within 3 months	8,193	13,173
Due after 3 months but within 6 months	435	898
Due after 6 months but within 12 months	304	775
Due after 12 months	—	652
	8,932	15,498

14. Paid-in/Share Capital

	Number of shares	Paid-in capital <i>RMB'000</i>	Share capital <i>RMB'000</i>
At 30 June 2004	76,600,000	—	76,600
Addition for the period	—	—	—
At 30 June 2005	76,600,000	—	76,600

15. Reserves

	Share premium <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>	Retained profit <i>RMB'000</i>	Total <i>RMB'000</i>
At 31 December 2003 and 1 January 2004	—	1,201	600	3,729	9,254	14,824
Net profit for the year	—	—	—	—	8,954	8,964
Transfer	—	987	561	—	(1,548)	—
Issue of share upon listing	9,520	—	—	—	—	9,520
Issuing expense	(9,274)	—	—	—	—	(9,274)
At 31 December 2004	246	2,188	1,161	3,729	16,710	24,034
Net profit for the year	—	—	—	—	4,914	4,914
Transfer	—	491	246	—	(737)	—
At 30 June 2005	246	2,679	1,407	3,729	20,887	28,948

(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.

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 2004 and 30 June 2005 amounted to approximately RMB16,710,000 and approximately RMB20,887,000 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 2005, the Company recorded turnover of approximately RMB45,785,000 (2004: approximately RMB35,087,000) representing an increase of approximately 30.4% as compared with the corresponding period in last year. Profit attributable to shareholders amounted to approximately RMB4,914,000 (2004: approximately RMB3,405,000) representing an increase of approximately 44.3%.

As compared with the corresponding period in 2004, the increase in the Company's turnover during the first half year of 2005 was mainly attributable to higher turnover derived from the direct overseas sale. During the first half of 2005, the Company was able to broaden its overseas client base further and hence achieved a significant increase of 71% in turnover in direct overseas sales as compared to the corresponding period in 2004. 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 2005. The Company also believed that the participation in international trade fairs as well as the goodwill and quality of the Company's products had increased the sales demand from both its overseas and local customers. During the first half of 2005, the Company applied for TS1699 certification, an internationally recognised quality certification for automobile spare parts industry. The application is expected to be completed by the end of 2005.

As a result of macro economic adjustment policy, the rise in steel price has steadied in 2005 but still has a marginal effect on the prices of the Company's raw materials. Steel and accessories raw materials made up about 12%–15% of cost. This, together with the payment of additional construction tax on direct export in 2005 (exempted in 2004), made the gross profit margin of the Company suffered a slight reduction of 3.23% from 25.90% in the first half of 2004 to 22.67% in the first half of 2005.

Distribution expenses of the Company principally comprised transportation expenses which increased as a result of increase export sales. Promotion expenses also increased due to more exhibition expenses were incurred to promote direct sales

overseas. The decrease in administrative expenses for the six months ended 30 June 2005 was mainly attributable to less legal and accounting fee incurred during the period as compared to same period last year when the Company was newly listed. The Company also managed to effectively monitor and control expenses. Most administrative expenses remained the same as last year. Substantial decrease in finance cost is mainly attributable to reimbursement of interest expenses in the amount of RMB390,000 by Ministry of Finance as an incentive to enterprises which invest in high technology equipment and machinery. Apart from the above, other expenses of the Company remain fairly stable.

Net profit margin increased by 1.03% to 10.73% for the period ended 30 June 2005 from the same period last year.

BUSINESS REVIEW AND PROSPECTS

The Company continued to experience growth in first half of 2005. 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. Twenty-one 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 one hundred and eight new products during the period upon customers' request and total production amounted to more than 3.02 million units of universal joints.

The PRC automotive industry continued to grow at tremendous pace during the first half of 2005. 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 2005. 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 early 2005. The Directors believe that the prices of steel will stabilize and subsequently reduce in the third and fourth quarter of 2005. The Directors believe that the Company's gross profit margin may improve gradually towards the end of 2005.

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, was in operation by last year while the other two buildings, with an area of approximately 6,000 square meters, has been put into operation stage by stage this year. Upon such new production plant coming into full operation, the Directors anticipate that the overall production capacity of the Company will increase from the existing 6.5 million units per annum to 8.0 million units per annum.

LIQUIDITY AND FINANCIAL RESOURCES

The Company continues to be in a healthy financial position with shareholders equity amounted to approximately RMB105.55 million as at 30 June 2005 (30 June 2004: approximately RMB95.12 million). Current assets amounted to approximately RMB120.98 million as at 30 June 2005 (30 June 2004: approximately RMB115.22 million), of which approximately RMB64.14 million were cash and bank balances (30 June 2004: approximately RMB70.23 million). As at 30 June 2005, the Company had short-term bank loans of about RMB45.40 million (30 June 2005: approximately RMB35.40 million). The short term bank loans were repayable within one year.

GEARING RATIO

As at 30 June 2005, the gearing ratio of the Company on total liabilities over total assets remains the same as the same period last year of approximately 0.37 (30 June 2004: approximately 0.37).

FOREIGN EXCHANGE EXPOSURE

For the first half of 2005 the Company's sales were principally in Renminbi which comprised about 75% total sales for the first half of 2005, fluctuation of the exchange rates of Renminbi against foreign currencies would not have a material effect to the operating results of the Company. However, as percentage of direct overseas sales denominated in U.S. dollars increases over the course of year, it is expected that the current revaluation in yuan may have a slightly negative impact on the turnover in the coming period.

CHARGES ON COMPANY ASSETS

As at 30 June 2005, the short-term bank loans of RMB45.40 million were secured by the Company's land use rights and buildings at net book value of RMB23.30 million (30 June 2004: RMB23.30 million).

CONTINGENT LIABILITIES

The Company had no significant contingent liabilities as at 30 June 2005 (30 June 2004: 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 2005, the Group had 625 employees (as at 30 June 2004: 494). 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 2005 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 2005

Expansion of production capacity

- Formally launch the technical renovation project and gradually attain the designed production capacity

Technical renovation project has been launched

Research and development

- Continue to purchase computers and product development software to diversify the means of product development
- Purchase testing devices
- Continue the construction work of the testing centre
- Commence the preparation of the technical research and development centre

Purchase of computers and software as planned

Purchase of equipment as planned

Construction work of a testing centre was completed

Commencement work in progress

Expansion of PRC and overseas market

- Set up offices in other regions of the PRC
- Participate in exhibitions of automobiles and related parts and components

Set up sales outlets in Jinan, Shandong Province, the PRC (*note 1*)

Participated in various related trade fairs

Business objectives stated in the Prospectus

- Promote the corporate image of the Company by means of advertisement and other promotional campaigns

Actual progress as at 30 June 2005

Completed production of promotional materials and distributed the promotional material

Human resources

- Recruit approximately 3–4 technical experts for research and development; 10 persons for production and 3–4 persons for administration
- Provide training to existing staff

Recruit 2 technical staff for research and development, one for quality control, one for sales and marketing, 103 additional workers and 4 for administration (*Note 2*)

Completed

Note:

- (1) After reviewing the business plan of the Company, the Directors decided to set up sales outlet in Jinan in order to attract more customers.
- (2) Additional workers were hired due to expanded production facilities. Workers were hired in advance since training period was needed for these new workers.
- (3) Completion of the construction of factories, being the business objective for the six months ended 31 December 2004, was delayed due to the longer than expected time required for obtaining the necessary government approval. All construction work is expected to be completed by end of August 2005.

USE OF PROCEEDS

Up to 30 June 2005, 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 2005 as per Prospectus RMB million	Actual amount used up to 30 June 2005 RMB million
Technical renovation for universal joint production lines			
— purchase of equipment		14.65	15.12
— construction of factories		4.28	4.28
— installation of testing devices		0.67	0.67
Research and development			
— purchase of computer and product development software		0.16	0.16
— purchase of equipment		0.32	0.32
— construction of testing center		0.11	0.11
— cooperative arrangements	<i>1</i>	0.05	—
Marketing and promotional activities		0.64	0.64
Staff recruitment and training		0.16	0.16
Expansion of sales and distribution network		0.64	0.64
General working capital		0.16	0.16
Total		21.84	22.26

Note:

- (1) 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

The Company has not purchased, sold or redeemed any of its listed securities during the six months ended 30 June 2005.

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES OF THE COMPANY

As at 30 June 2005, 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 Rule 5.46 of 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 2005, 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.

INTEREST OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

So far as was known to any Director or Chief Executive of the Company, as at 30 June 2005, 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:

Other Persons

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 2005, 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 2005.

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 2005.

REQUIRED STANDARD OF SECURITIES DEALINGS BY DIRECTORS

During the six months ended 30 June 2005, 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 2005.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has yet to nominate members of remuneration committee. The Board estimates that it will take two or three months to identify and confirm the most suitable candidates and will ensure that such appointment will be completed within a few months. Save as disclosed above, throughout the period, the Board is of the opinion that the Company was in compliance with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules.

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 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 2005 have been reviewed by the 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
12 August 2005

* *For identification purpose only*