



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
Third Quarterly Report

** for identification purpose only*

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

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

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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 turnover of approximately RMB68.64 million for the nine months ended 30th September, 2005, representing an approximately 23.2% increase as compared with that of the corresponding period in 2004.
- Accomplished profit attributable to shareholders of approximately RMB7.04 million for the nine months ended 30th September, 2005.
- The Directors do not recommend the payment of an interim dividend for the nine months ended 30th September, 2005.

Financial Information

The board (“the Board”) of directors (the “Directors”) of Zhejiang Prospect Company Limited (the “Company”) is pleased to announce the unaudited results of the Company for the three months and the nine months ended 30th September, 2005, together with the unaudited comparative figures for the corresponding period in 2004 as follows:

QUARTERLY RESULTS (UNAUDITED)

| | Note | For the three months ended | | For the nine months ended | |
|--|------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| | | 30th September, 2005 RMB'000 | 30th September, 2004 RMB'000 | 30th September, 2005 RMB'000 | 30th September, 2004 RMB'000 |
| Turnover | 3 | 19,465 | 14,916 | 68,637 | 55,701 |
| Cost of sales | | (14,422) | (10,566) | (52,705) | (41,190) |
| Gross profit | | 5,043 | 4,350 | 15,932 | 14,511 |
| Other revenue | | 397 | 83 | 406 | 669 |
| Distribution costs | | (404) | (413) | (1,442) | (882) |
| Administrative expenses | | (747) | (894) | (2,662) | (3,100) |
| Other operating expenses | | (25) | (65) | (127) | (142) |
| Profit from operations | | 4,264 | 3,061 | 12,107 | 11,056 |
| Finance costs | | (223) | (540) | (1,799) | (1,822) |
| Profit from ordinary activities before taxation | | 4,041 | 2,521 | 10,308 | 9,234 |
| Taxation | 4 | (1,234) | (832) | (3,273) | (3,048) |
| Profit attributable to shareholders | | 2,807 | 1,689 | 7,035 | 6,187 |
| Dividend | 5 | – | – | – | – |
| Earnings per share | | | | | |
| Basic (RMB per share) | 7 | 0.037 | 0.026 | 0.091 | 0.085 |

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 Institute of Certified Public Accountants. The accounting policies have been consistently applied by the Company and are consistent with those used in the 2004 Annual Report. 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.

3. TURNOVER

Turnover represents the aggregate of invoiced value of goods supplied to 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, 2005 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, 2005 (2004: Nil).

5. DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 30th September, 2005 (2004: Nil).

6. RESERVES

There has been no movement of reserves, other than retained earnings, transfer to statutory surplus reserves and statutory public welfare fund, during the nine months ended 30th September, 2005. (2004: Excess of issue price of 23,000,000 new H shares at HK\$1.33 per share to nominal price of RMB1.00 per share after deduction of related expenses was credited to share premium account on 18th February, 2004, i.e. the date of listing of the H shares of the Company on GEM.)

7. EARNINGS PER SHARE

The calculations of basic earnings per share for the quarter ended 30th September, 2005 and 30th September, 2004 are based on the unaudited net profit attributable to shareholders for the quarter ended 30th September, 2005 and 30th September, 2004 of approximately RMB7,035,000 and RMB6,187,000 respectively over the 76,600,000 shares and the weighted average number of 72,471,795 shares issued and outstanding during these two periods respectively.

No diluted earnings per share has been disclosed as there were no diluting events existed during the quarter ended 30th September, 2005 and 30th September, 2004.

Management Discussion and Analysis

BUSINESS REVIEW AND FINANCIAL REVIEW

The Company's principal business objectives are to enhance "Zhanwang" as a leading brand name in the PRC automotive parts and components market and become a major player in the global market for the procurement and supply of universal joints. During the third quarter of 2005, 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 2005 amounted to approximately RMB68.64 million (2004: RMB55.70 million) representing approximately 23.2% increase as compared to that of previous period in 2004. The increase in turnover was mainly attributable to the increase in direct export of universal joints.

The profit attributable to shareholders for the nine months ended 30th September, 2005 amounted to approximately RMB7.04 million (2004: profit attributable to shareholders of approximately RMB6.19 million) representing approximately 13.7% increase than that of the previous period in 2004. 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 2.8% from 26% in the first nine months of 2004 to 23.2% in the nine months to 30th September, 2005. Apart from the above, other expenses of the Company remain fairly stable.

PROSPECTS

In order to meet the increasing demand for universal joints, a new production plant, with an area of approximately 10,000 square meters, is being constructed next to the existing production facilities in the Company's premise. The new production plant will be equipped with machineries and equipment which is similar to that of the existing production plants of the Company. The first building, with an area of approximately 3,000 square meters, was in operation 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.

The Company is also actively developing new customers and markets and has successfully developed overseas markets in USA, Japan, Italy, Malaysia, Korea, India, South Africa and Middle East. The Company will continue to participate in overseas trade shows and promotion activities in order to increase direct exports. During the period, the Company had developed 39 new products according to customers' requests and had manufactured more than four million pieces of universal joints.

OTHER INFORMATION

Purchase, sale or redemption of listed securities

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

Directors' and supervisors' interests in shares of the Company

As at 30th September, 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 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 | 6.00% | 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 were under the age of 18 as at 30 September, 2005, 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 30th September, 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 30th September, 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 Jin | 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 30th September, 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 (including the non-executive Directors) and supervisors of the Company has entered into a service contract with the Company. Each service contract is for an initial term of three years commencing on the respective date of appointment 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, supervisors and management shareholders of the Company and their respective associates (as defined under the GEM Listing Rules) had any interest in any businesses which directly or indirectly compete with the business of the Company for the nine months period ended 30th September, 2005.

Interests of sponsor

Neither South China Capital Limited (the "Sponsor") nor its directors or employees or associates (as referred to Rule 6.35 of the GEM Listing Rules) had any interests in the share capital of the Company as at 30th September, 2005. Pursuant to an agreement dated 9th February, 2004 entered into between the Company and the Sponsor, the Sponsor will receive a fee for acting as the Company's continuing sponsor for the period from 18th February, 2004, the date

Management Discussion and Analysis

on which the shares of the Company were listed on GEM, to 31st December, 2006. Save as disclosed above, the Sponsor has no other interest in the Company as at 30th September, 2005.

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 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, 2005 have been reviewed by the Committee, which was of the opinion that such statement complied with the applicable accounting standards, the GEM Listing Rules and other legal requirements, and that adequate disclosure has been made.

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

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

Zhejiang Province, the PRC
14th November, 2005

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