



**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)



\* for identification purpose only

Interim Report

Stock Code: 8273

2006

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

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This report, for which the directors of Zhejiang Prospect Company Limited collectively and individually accept full responsibility, includes 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 RMB47.12 million for the six months ended 30 June 2006, representing an increase of 2.9% when compared with that of the corresponding period in 2005.
- Net profit after taxation for the six months ended 30 June 2006 amounted to approximately RMB2.31 million, representing a basic earning per share of RMB0.03.
- The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2006.

# Financial Information

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 2006, respectively, together with the comparative figures for the corresponding period in 2005 are as follows:

## CONDENSED INCOME STATEMENT

	Note	For the three months ended 30 June		For the six months ended 30 June	
		2006 (Unaudited) RMB'000	2005 (Unaudited) RMB'000	2006 (Unaudited) RMB'000	2005 (Unaudited) RMB'000
Turnover	3	<b>26,501</b>	26,320	<b>47,121</b>	45,785
Cost of sales		<b>21,592</b>	(20,984)	<b>39,133</b>	(35,406)
Gross profits		<b>4,909</b>	5,336	<b>7,988</b>	10,379
Other revenue	4	<b>369</b>	386	<b>574</b>	783
Distribution costs		<b>(973)</b>	(714)	<b>(1,377)</b>	(1,118)
Administrative expenses		<b>(1,200)</b>	(975)	<b>(2,164)</b>	(1,792)
Other operating expenses		<b>(130)</b>	(63)	<b>(191)</b>	(88)
Profit from operations	6	<b>2,975</b>	3,970	<b>4,830</b>	8,164
Finance costs	7	<b>(1,047)</b>	(765)	<b>(1,705)</b>	(988)
Profit from ordinary activities before taxation		<b>1,928</b>	3,205	<b>3,125</b>	7,176
Taxation	8	<b>(493)</b>	(1,028)	<b>(819)</b>	(2,262)
Profit after tax		<b>1,435</b>	2,177	<b>2,306</b>	4,914
Dividend	9	—	—	—	—
Earnings per share					
Basic (RMB per share)	10	<b>0.0187</b>	0.028	<b>0.03</b>	0.064

## Financial Information

### CONDENSED BALANCE SHEET

	Note	As at 30 June 2006 (Unaudited) RMB'000	As at 31 December 2005 (Audited) RMB'000
<b>Non current assets</b>			
Property, plant and equipment		51,204	50,372
Land use rights		6,566	6,578
Construction in progress		2,100	2,505
		<b>59,870</b>	59,455
<b>Current assets</b>			
Inventories		34,673	29,656
Trade receivables	11	31,822	28,559
Prepayment, deposits and other receivables	12	5,959	6,104
Cash in hands and at bank		64,794	54,807
		<b>137,248</b>	119,126
<b>Current liabilities</b>			
Trade and other payables	13	27,556	23,795
Amounts due to related companies		1,111	—
Short term bank loans		61,000	49,000
Income tax payable		473	1,114
		<b>90,140</b>	73,909
<i>Net current assets</i>		<b>47,108</b>	45,217
<i>Net assets</i>		<b>106,978</b>	104,672
<b>Capital and reserves</b>			
Paid-in/share capital	14	76,600	76,600
Reserves	15	30,378	28,072
		<b>106,978</b>	104,672

**CONDENSED STATEMENT OF CHANGES IN EQUITY  
FOR THE SIX MONTHS ENDED 30 JUNE 2006**

	<b>Share premium</b> <i>RMB'000</i>	<b>Statutory surplus reserve</b> <i>RMB'000</i>	<b>Statutory public welfare fund</b> <i>RMB'000</i>	<b>Revaluation reserve</b> <i>RMB'000</i>	<b>Retained profit</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
At 1 January 2006	246	2,577	1,940	—	23,309	28,072
Net profit for the period	—	—	—	—	2,306	2,306
Transfer	—	231	115	—	(346)	—
At 30 June 2006	246	2,808	2,055	—	25,269	30,378
At 1 January 2005	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	1,047	3,729	20,887	28,948

## Financial Information

### CONDENSED CASH FLOW STATEMENT

	<b>For the six months ended 30 June</b>	
	<b>2006</b>	2005
	<b>(Unaudited)</b>	(Unaudited)
	<b>RMB'000</b>	RMB'000
Net cash inflow (outflow) from operating activities	<b>(931)</b>	531
Net cash inflow (outflow) from investing activities	<b>(14,018)</b>	(16,622)
Net cash inflow (outflow) from financing activities	<b>15,600</b>	10,000
Increase in cash and cash equivalents	<b>651</b>	(6,091)
Cash and cash equivalent at beginning of period	<b>64,143</b>	70,234
Cash and cash equivalent at end of period	<b>64,794</b>	64,143
Analysis of balances of cash and cash equivalents		
Cash in hand and at banks	<b>64,794</b>	64,143



### 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 Principal Accounting Policies

The Company's financial statements have been prepared under the historical cost convention and in accordance with the Hong Kong Financial Reporting Standard ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the disclosure requirements set out in Chapter 18 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

The accounting policies adopted in preparing the unaudited consolidated interim results are consistent with those adopted in the preparation of the annual audited financial statements for the year ended 31 December 2005.

The unaudited condensed interim financial statements of the Company has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by HKICPA.

The condensed interim financial statements have not been audited by the Company's auditors, but have been reviewed by the Company's audit committee.

#### 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.

## Financial Information

### 4. Other Revenue

	For the three months ended 30 June 2006 (Unaudited) RMB'000		For the six months ended 30 June 2006 (Unaudited) RMB'000	
		2005 (Unaudited) RMB'000		2005 (Unaudited) RMB'000
Sales of work-in-progress and scrap material	241	174	379	249
Bank interest income	128	212	195	534
	<b>369</b>	386	<b>574</b>	783

### 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.

	<b>For the six months ended 30 June</b>	
	<b>2006</b>	2005
	<b>(Unaudited)</b>	(Unaudited)
	<b>RMB'000</b>	<b>RMB'000</b>
<hr/>		
<b>Revenue from external customers</b>		
– PRC		
Domestic sales	<b>11,879</b>	13,586
Import and export corporations	<b>21,984</b>	20,755
– Overseas	<b>13,258</b>	11,444
<b>Total revenue from external customers</b>	<b>47,121</b>	45,785

At 30 June 2006 and 30 June 2005, all the Company's assets were located in the PRC.

## Financial Information

### 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	
	2006 (Unaudited) RMB'000	2005 (Unaudited) RMB'000	2006 (Unaudited) RMB'000	2005 (Unaudited) RMB'000
Cost of inventories sold	<b>21,592</b>	20,984	<b>39,133</b>	35,406
Staff costs	<b>3,286</b>	2,301	<b>5,412</b>	4,299
Staff welfare costs	<b>253</b>	278	<b>601</b>	689
Directors' emoluments	<b>52</b>	52	<b>104</b>	103
Research and development	<b>45</b>	36	<b>87</b>	78
Depreciation of property, plant and equipment	<b>995</b>	706	<b>1,952</b>	1,190
Amortisation of land use rights	<b>27</b>	35	<b>54</b>	71
Auditors' remuneration	<b>—</b>	—	<b>—</b>	—
Loss on disposal of property, plant and equipment	<b>47</b>	13	<b>75</b>	13

**7. Finance Costs**

	For the three months ended 30 June 2006 (Unaudited) RMB'000		For the six months ended 30 June 2006 (Unaudited) RMB'000	
		2005 (Unaudited) RMB'000		2005 (Unaudited) RMB'000
Interest expense on bank loans, repayable within one year	<b>814</b>	748	<b>1,587</b>	887

**8. Taxation**

(a) Taxation in the income statements represents:

	For the three months ended 30 June 2006 (Unaudited) RMB'000		For the six months ended 30 June 2006 (Unaudited) RMB'000	
		2005 (Unaudited) RMB'000		2005 (Unaudited) RMB'000
Provision for PRC enterprise income tax	<b>493</b>	1,208	<b>819</b>	2,262

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 2006 as determined in accordance with the relevant income tax rules and regulations of the PRC.

## Financial Information

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	
	2006 (Unaudited) RMB'000	2005 (Unaudited) RMB'000	2006 (Unaudited) RMB'000	2005 (Unaudited) RMB'000
Profit before taxation	<b>1,928</b>	3,205	<b>3,125</b>	7,176
Calculated at a taxation rate of 33%	<b>493</b>	1,208	<b>819</b>	2,262
Income not subject to taxation	—	—	—	—
Expenses not deductible for taxation purposes	—	—	—	—
Tax allowance given by PRC authority	—	—	—	—
Taxation charge	<b>493</b>	1,208	<b>819</b>	2,262

- (b) Taxation in the balance sheet represents:

	30 June (Unaudited) 2006 RMB'000	30 June (Unaudited) 2005 RMB'000
Provision for PRC enterprise income tax	<b>819</b>	2,262
Balance of PRC enterprise income tax provision relating to prior years	<b>1,006</b>	1,846
Payment of PRC enterprise income tax	<b>(1,352)</b>	(2,921)
Tax refund relating to prior year	—	—

- (c) There was no material un-provided deferred taxation for the period ended 30 June 2006.

### 9. Dividend

The Board resolved not to declare an interim dividend in respect of the period ended 30 June 2006. (2005: Nil)

### 10. Earnings Per Share

The calculations of basic earnings per share for the period ended 30 June 2006 and 30 June 2005 are based on the unaudited net profit attributable to shareholders for the period ended 30 June 2006 and 30 June 2005 of approximately RMB2,306,000 and RMB4,914,000 respectively and the 76,600,000 shares and the weighted average number of 76,600,000 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 2006 and 30 June 2005.

### 11. Trade Receivables

The aging analysis of trade receivables is as follows:

	<b>30 June 2006 (Unaudited) RMB'000</b>	31 December 2005 (Audited) RMB'000
1–30 days	<b>8,346</b>	9,824
31–60 days	<b>9,374</b>	6,223
61–90 days	<b>5,413</b>	4,891
91–180 day	<b>5,789</b>	4,165
More than 180 days	<b>6,291</b>	6,847
	<b>35,213</b>	31,950
Less: Provision for bad and doubtful debts	<b>(3,391)</b>	(3,391)
	<b>31,822</b>	28,559

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.

## Financial Information

### 12. Prepayments, Deposits, Deposits and Other Receivables

	<b>30 June 2006 (Unaudited) RMB'000</b>	31 December 2005 (Audited) RMB'000
Bill receivables	<b>2,435</b>	2,558
Prepayments and other receivables	<b>712</b>	1,069
Deposits paid to suppliers for machineries	<b>2,812</b>	2,477
	<b>5,959</b>	6,104

### 13. Trade and Other Payables

	<b>30 June 2006 (Unaudited) RMB'000</b>	31 December 2005 (Audited) RMB'000
Trade payables	<b>12,601</b>	14,206
Bills payable	<b>4,750</b>	—
Other payables	<b>9,258</b>	8,364
Value added tax, business tax and other taxes payable	<b>268</b>	268
Dividend payable	<b>37</b>	37
Accruals	<b>642</b>	617
Trade deposits from customers	<b>—</b>	303
	<b>27,556</b>	23,795

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:

	<b>30 June 2006 (Unaudited) RMB'000</b>	31 December 2005 (Audited) RMB'000
Due within 3 months	<b>10,921</b>	12,315
Due after 3 months but within 6 months	<b>928</b>	1,684
Due after 6 months but within 12 months	<b>281</b>	160
Due after 12 months	<b>471</b>	47
	<b>12,601</b>	14,206

#### 14. Paid-in/Share Capital

	<b>Number of shares</b>	<b>Paid-in capital RMB'000</b>	<b>Share capital RMB'000</b>
At 30 June 2005	76,600,000	—	76,600
Addition for the period	—	—	—
At 30 June 2006	76,600,000	—	76,600

## Financial Information

### 15. Reserves

	Share premium RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Revaluation reserve RMB'000	Retained profit RMB'000	Total RMB'000
At 31 December 2005	246	2,577	1,940	—	23,309	28,072
Net profit for the year	—	—	—	—	2,306	2,306
Transfer	—	231	115	—	(346)	—
At 30 June 2006	246	2,808	2,055	—	25,269	30,378

#### (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 2005 and 30 June 2006 amounted to approximately RMB20,887,000 and approximately RMB22,847,000 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.

# Management Discussion and Analysis

## **FINANCIAL REVIEW**

For the half-year ended 30 June 2006, the Company recorded turnover of approximately RMB47,120,580 (2005: approximately RMB45,785,000) representing an increase of approximately 2.9% as compared with the corresponding period in last year. Profit attributable to shareholders amounted to approximately RMB2,306,300 (2005: approximately RMB4,914,000) representing a decrease of approximately 53%.

As compared with the corresponding period in 2005, the increase in the Company's turnover during the first half year of 2006 was mainly attributable to higher turnover derived from the direct overseas sale. During the first half of 2006, the Company was able to broaden its overseas client base further and hence achieved an increase of 16% in turnover in direct overseas sales as compared to the corresponding period in 2005. 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 2006. 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. The Company has successfully applied for TS16949 certification, an internationally recognised quality certification for automobile spare parts industry in 2006.

Gross profit margin of the Company suffered a reduction of 5.6% from 22.67% in the first half of 2005 to 17% in the first half of 2006. The drop in gross profit margin was primarily attributable to increase in depreciation and electricity charge due to new facility fully operation during the period.

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. Administrative expenses for the six months ended

30 June 2006 remained the same as last year. Substantial increase 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 in 2005, but in 2006, there is no such reimbursement. Apart from the above, other expenses of the Company remain fairly stable.

### **BUSINESS REVIEW AND PROSPECTS**

The Company continued to experience growth in first half of 2006. 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. Eighteen new customers were acquired during the period including customers in the PRC, Korea, India, Italy, Thailand, South Africa and Middle East. The Company offered an additional thirty-eight products during the period upon customers' request and total production amounted to more than 3.60 million units of universal joints.

The PRC automotive industry continued to grow at tremendous pace during the first half of 2006. 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 2006. 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 2006. The Directors believe that the prices of steel will stabilize and subsequently reduce in the third and fourth quarter of 2006. The Directors believe that the Company's gross profit margin may improve gradually towards the end of 2006.

### **LIQUIDITY AND FINANCIAL RESOURCES**

The Company continues to be in a healthy financial position with shareholders equity amounted to approximately RMB106.98 million as at 30 June 2006 (30 June 2005: approximately RMB105.55 million). Current assets amounted to approximately RMB137.25 million as at 30 June 2006 (30 June 2005: approximately RMB120.98 million), of which approximately RMB64.79 million were cash and bank balances (30 June 2005: approximately RMB64.14 million). As at 30 June 2006, the Company had short-term bank loans of about RMB61.0 million (30 June 2005: approximately RMB45.4 million). The short term bank loans were repayable within one year.

### **GEARING RATIO**

As at 30 June 2006, the gearing ratio of the Company on total liabilities over total assets remains the same as the same period last year of approximately 0.46 (30 June 2005: approximately 0.37).

### **FOREIGN EXCHANGE EXPOSURE**

For the first half of 2006 the Company's sales were principally in Renminbi which comprised about 75% total sales for the first half of 2006, 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 2006, the short-term bank loans of RMB61.0 million were secured by the Company's land use rights and buildings at net book value of RMB23.30 million (30 June 2005: RMB23.30 million).

### **CONTINGENT LIABILITIES**

The Company had no significant contingent liabilities as at 30 June 2006 (30 June 2005: nil)

### **CAPITAL STRUCTURE**

There were no changes in the capital structure of the Company during the six months ended 30 June 2006 and 2005.

### **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 2006, the Group had 670 employees (as at 30 June 2005: 625). Company will also pay employees remuneration according to market practice, working experiences and performances. Other benefits available to eligible employees including retirement benefits.

## Management Discussion and Analysis

### **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 2006 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 2006**

#### **Expansion of production capacity/ upgrading of its production facilities**

- |  |           |
|--|-----------|
| – Commence feasibility studies on the production of other parts and components | Commenced |
|--|-----------|

#### **Research and development**

- |  |   |
|--|---|
| – Develop new specifications and types of universal joint products according to the market demands           | Develop new products according to customers' requests |
| – Continue to purchase computers and product development software to refine the means of product development | Purchase of computers and software as planned         |



### **Business objectives stated in the Prospectus**

### **Actual progress as at 30 June 2006**

#### **Expansion of the PRC and overseas markets**

- |  |  |
|--|--|
| – Set up overseas offices  | In progress  |
| – Participate in exhibitions of automobiles and related parts and components                           | Participated in various related trade fairs in India and Middle East                   |
| – Promote the corporate image of the Company by means of advertisement and other promotional campaigns | Completed production of promotional materials and distributed the promotional material |

#### **Human resources**

- |   |   |
|---|---|
| – Recruit approximately 5 technical experts for research and development; 1 person for sales and marketing; 1 person for technology and quality control; 15 persons for production; | Recruit 3 technical staff for research and development, one for quality control, one for sales and marketing, 43 additional workers |
| – Provide training to existing staff  | Completed   |

## Management Discussion and Analysis

### USE OF PROCEEDS

Up to 30 June 2006, 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:

	<b>Proposed amount to be used up to 30 June 2006 as per Prospectus</b>	<b>Actual amount used up to 30 June 2006</b>
<i>Note</i>	<i>RMB million</i>	<i>RMB million</i>
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	0.26	0.26
– purchase of equipment	0.36	0.36
– construction of testing center	0.11	0.11
– cooperative arrangements	0.05	0.0
Marketing and promotional activities	0.94	0.94
Staff recruitment and training	0.26	0.26
Expansion of sales and distribution network	0.94	0.94
General working capital	0.20	0.2
<b>Total</b>	<b>22.72</b>	<b>23.19</b>

*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 2006.

### **Director's and supervisors' interest in shares of the Company**

As at 30 June 2006, 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

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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*

<b>The Company Director/ Supervisor</b>	<b>Capacity</b>	<b>No. and class of securities</b>	<b>Approximate percentage of domestic shares</b>	<b>Approximate percentage of total registered share capital</b>
Mr. Tang Li Min (Note)	Beneficial owner	36,626,666 domestic shares	68.33%	47.82%
	Interest of children under 18	4,466,667 domestic shares	8.33%	5.83%
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, who is 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 4,466,667 Shares owned by Mr. Tang Liu Jun.

Saved as disclosed above, as at 30 June 2006, 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

## Management Discussion and Analysis

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 2006, 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*

<b>Names of Shareholders</b>	<b>Capacity</b>	<b>No. and class of securities</b>	<b>Approximate percentage of shareholding in the same class of securities</b>	<b>Approximate percentage of shareholding in the total registered share capital</b>
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%

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Saved as disclosed above, as at 30 June 2006, 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.

### **Competing interests**

None of the Directors, supervisors and management shareholders of the Company and their respective associates has any interest in any businesses which directly or indirectly compete with the business of the Company for the period ended 30 June 2006.

### **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 30 June 2006. Pursuant to an agreement dated 9 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 18 February 2004, the date on which the shares of the Company were listed on GEM, to 31 December 2006. Save as disclosed above, the Sponsor has no other interest in the Company as at 30 June 2006.

### **Audit committee**

The Company set up an audit committee (the "Committee") on 14th January, 2004 with written terms of reference in compliance with 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 Committee has reviewed the half year report of 2006 of the Company and has provided advice and comments thereon to the Board. The Committee is of the opinion that the first half year report of 2006 of the Company comply with applicable accounting standards, GEM Listing Rules, and that adequate disclosures have been made.

### **Corporate governance**

The Directors consider that the Company complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules during the six months ended 30 June 2006.

### **Required standard of securities dealings by Directors**

During the six months ended 30 June 2006, 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 2006.

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As at the date hereof, Mr. Tang Li Man, 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  
11th August, 2006

\* *For identification purpose only*