



**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

**Third Quarterly 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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The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors of Zhejiang Prospect Company Limited collectively and individually accept full responsibility, 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 turnover of approximately RMB80.62 million for the nine months ended 30th September, 2006, representing an approximately 17.5% increase as compared with that of the corresponding period in 2005.
- Accomplished profit attributable to shareholders of approximately RMB4.52 million for the nine months ended 30th September, 2006.
- The Directors do not recommend the payment of an interim dividend for the nine months ended 30th September, 2006.

# 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, 2006, together with the unaudited comparative figures for the corresponding period in 2005 as follows:

## QUARTERLY RESULTS (UNAUDITED)

	Note	For the three months ended 30th September,		For the nine months ended 30th September,	
		2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Turnover	3	<b>33,494</b>	19,465	<b>80,615</b>	68,637
Cost of sales		<b>(27,613)</b>	(14,422)	<b>(66,746)</b>	(52,705)
Gross profit		<b>5,881</b>	5,043	<b>13,869</b>	15,932
Other revenue		—	397	<b>574</b>	406
Distribution costs		<b>(638)</b>	(404)	<b>(2,015)</b>	(1,442)
Administrative expenses		<b>(1,501)</b>	(747)	<b>(3,219)</b>	(2,662)
Other operating expenses		<b>(233)</b>	(25)	<b>(424)</b>	(127)
Profit from operations		<b>3,509</b>	4,264	<b>8,785</b>	12,107
Finance costs		<b>(268)</b>	(223)	<b>(1,973)</b>	(1,799)
Profit from ordinary activities before taxation		<b>3,241</b>	4,041	<b>6,812</b>	10,308
Taxation	4	<b>(1,473)</b>	(1,234)	<b>(2,292)</b>	(3,273)
Profit attributable to shareholders		<b>1,768</b>	2,807	<b>4,520</b>	7,035
Dividend	5	—	—	—	—
Earnings per share					
Basic (RMB per share)	7	<b>0.023</b>	0.037	<b>0.059</b>	0.091

### 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 9th August, 2002. The H shares of the Company were listed on the GEM 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 GEM Listing Rules.

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 2005 Annual Report. The unaudited results are prepared under the historical cost convention.

The quarterly results 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 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, 2006 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, 2006 (2005: Nil).

### **5. Dividend**

The Board does not recommend the payment of an interim dividend for the nine months ended 30th September, 2006 (2005: Nil).

### **6. Reserves**

Same as the period during the nine months ended 30th September, 2005, there had 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, 2006.

### **7. Earnings per share**

The calculations of basic earnings per share for the nine months ended 30th September, 2006 and 30th September, 2005 are based on the unaudited net profit attributable to shareholders for the nine months ended 30th September, 2006 and 30th September, 2005 of approximately RMB4,520,000 and RMB7,035,000 respectively over the 76,600,000 shares in issue during these two periods respectively.

No diluted earnings per share has been disclosed as there were no diluting events existed during the nine months ended 30th September, 2006 and 30th September, 2005.

# 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 2006, 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 nine months ended 30th September, 2006 amounted to approximately RMB80.62 million (2005: RMB68.64 million) representing approximately 17.5% increase as compared to that of previous period in 2005. 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, 2006 amounted to approximately RMB4.52 million (2005: profit attributable to shareholders of approximately RMB7.04 million) representing approximately 36% decrease than that of the previous period in 2005. The drop in net profit and gross profit margin was primarily attributable to increase in depreciation and electrical charge as the new production facility being fully operational during the period. Increase in finance cost is mainly attributable to the fact that no reimbursement of interest expenses were received by the Company during the reporting period, while an amount of RMB390,000 was received by the Company from Ministry of Finance as an incentive to enterprises which invest in high technology equipment and machinery in the corresponding period of 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 has been completed next to the existing production facilities in the Company's premise. The new production plant is equipped with machineries and equipment which are similar to that of the existing production plants of the Company. The Directors anticipate that the overall production capacity of universal joints will increase to approximately 8.5 million units per annum upon full operation of the new production plant by 2006.

The Company is also actively developing new customers and markets and has successfully secured 28 new customers in China and overseas markets including Korea, India, Italy, Thailand, South Africa and Middle East. During the period, the Company had developed 48 new products according to customers' requests and had manufactured more than six 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, 2006.

## Management Discussion and Analysis

### Directors' and supervisors' interests in shares of the Company

As at 30th September, 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 referred to in Rules 5.46 of 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 his child 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 as at 30th September, 2006, 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.

## Management Discussion and Analysis

Saved as disclosed above, as at 30th September, 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 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.

## Management Discussion and Analysis

### 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, 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%

Saved as disclosed above, as at 30th September, 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.

### **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, 2006.

### **INTERESTS OF SPONSOR**

Neither South China Capital Limited (the "Sponsor") nor its directors or employees or associates (as defined in Note 3 of Rule 6.35 of the GEM Listing Rules) had any interests in the share capital of the Company as at 30th September, 2006. 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 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, 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 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 Committee has reviewed the unaudited results for the nine months ended 30th September, 2006 of the Company and has provided advice and comments thereon to the Board. The Committee is of the opinion that such results comply with applicable accounting standards, GEM Listing Rules, and that adequate disclosures have been made.

As at the date hereof, 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  
10th November, 2006

\* *For identification purpose only*