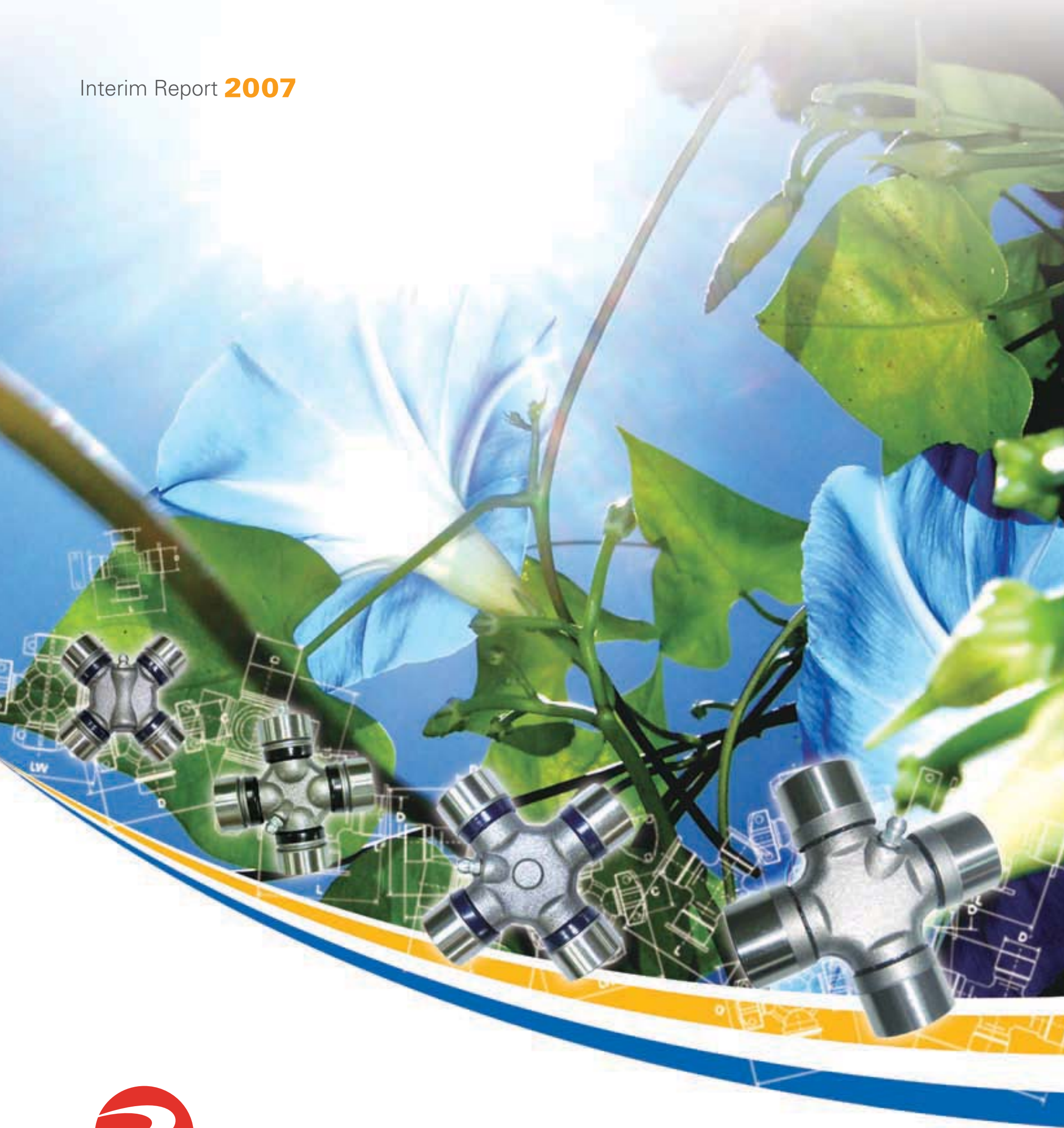
Interim Report **2007**



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)

(Stock Code : 8273)

*for identification purpose only

## CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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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.*

## HIGHLIGHTS

- Achieved a turnover of approximately RMB63.56 million for the six months ended 30 June 2007, representing an increase of approximately 34.9% when compared with that of the corresponding period in 2006.
- Net profit after taxation for the six months ended 30 June 2007 amounted to approximately RMB2.69 million, representing a basic earning per share of approximately RMB0.035.
- The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2007.

The board (the "Board") of directors (the "Directors") of Zhejiang Prospect Company Limited (the "Company") is pleased to announce the unaudited financial results of the Company and its subsidiary (collectively the "Group") for the three months and six months ended 30 June 2007, respectively, together with the comparative figures for the corresponding periods in 2006 as follows:

## CONDENSED INCOME STATEMENT

| | | For the three months ended 30 June | | For the six months ended 30 June | |
|---|---|---|---|---|---|
| | | **2007** | 2006 | **2007** | 2006 |
| | | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) |
| | *Note* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Turnover | *3* | **38,857** | 26,501 | **63,563** | 47,121 |
| Cost of sales | | **(32,303)** | (21,592) | **(53,594)** | (39,133) |
| Gross profits | | **6,554** | 4,909 | **9,969** | 7,988 |
| Other revenue | *4* | **648** | 369 | **1,166** | 574 |
| Distribution costs | | **(1,057)** | (973) | **(1,742)** | (1,377) |
| Administrative expenses | | **(1,824)** | (1,200) | **(3,028)** | (2,164) |
| Other operating expenses | | **(107)** | (130) | **(135)** | (191) |
| Profit from operations | *6* | **4,214** | 2,975 | **6,230** | 4,830 |
| Finance costs | *7* | **(1,188)** | (1,047) | **(1,909)** | (1,705) |
| Profit from ordinary activities before taxation | | **3,026** | 1,928 | **4,321** | 3,125 |
| Taxation | *8* | **(1,064)** | (493) | **(1,628)** | (819) |
| Profit after tax | | **1,962** | 1,435 | **2,693** | 2,306 |
| Dividend | *9* | **–** | – | **–** | – |
| Earnings per share | | | | | |
| Basic (RMB per share) | *10* | **0.025** | 0.0187 | **0.035** | 0.03 |

# CONDENSED BALANCE SHEET

| | Note | As at 30 June 2007 (Unaudited) *RMB'000* | As at 31 December 2006 (Audited) *RMB'000* |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **55,869** | 54,290 |
| Land use rights | | **6,385** | 6,439 |
| | | **62,254** | 60,729 |
| **Current assets** | | | |
| Inventories | | **33,783** | 29,575 |
| Trade receivables | *11* | **42,308** | 37,699 |
| Prepayments, deposits and other receivables | *12* | **28,774** | 22,113 |
| Cash and cash equivalents | | **47,308** | 45,629 |
| | | **152,173** | 135,016 |
| **Current liabilities** | | | |
| Trade and other payables | *13* | **27,235** | 24,498 |
| Amount due to a related company | | **2,767** | 310 |
| Short-term bank loans – secured | | **45,000** | 49,000 |
| Income tax payable | *8(b)* | **999** | 1,204 |
| | | **76,001** | 75,012 |
| **Net current assets** | | **76,172** | 60,004 |
| **Total assets less current liabilities** | | **138,426** | 120,733 |
| **Non-current liabilities** | | | |
| Long term bank loan – secured | | **(27,000)** | (12,000) |
| **Net assets** | | **111,426** | 108,733 |
| **Capital and reserves** | | | |
| Share capital | *14* | **76,600** | 76,600 |
| Reserves | *15* | **34,826** | 32,133 |
| **Total equity** | | **111,426** | 108,733 |

# CONDENSED STATEMENT OF CHANGES IN EQUITY

*FOR THE SIX MONTHS ENDED 30 JUNE 2007*

| | 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 1 January 2007 | 246 | 5,044 | – | – | 26,843 | 32,133 |
| Net profit for the period | – | – | – | – | 2,693 | 2,693 |
| Transfer | – | 365 | – | – | (365) | – |
| At 30 June 2007 | 246 | 5,409 | – | – | 29,171 | 34,826 |
| At 1 January 2006 | 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 |

# CONDENSED CASH FLOW STATEMENT

| | For the six months ended 30 June | |
|---|---|---|
| | **2007** | 2006 |
| | **(Unaudited)** | (Unaudited) |
| | ***RMB'000*** | *RMB'000* |
| **Net cash inflow (outflow) from operating activities** | **(4,218)** | (931) |
| **Net cash inflow (outflow) from investing activities** | **(5,103)** | (14,018) |
| **Net cash inflow (outflow) from financing activities** | **11,000** | 15,600 |
| **Increase in cash and cash equivalents** | **1,679** | 651 |
| **Cash and cash equivalent at beginning of period** | **45,629** | 64,143 |
| **Cash and cash equivalent at end of period** | **47,308** | 64,794 |
| **Analysis of balances of cash and cash equivalents** | | |
| **Cash in hand and at banks** | **47,308** | 64,794 |

# 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 Group is principally engaged in the manufacturing and sale of universal joints for automobiles.

## 2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The Group's financial statements have been prepared under the historical cost convention and in accordance with the Hong Kong Financial Reporting Standards ("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 2006.

The unaudited condensed interim financial statements of the Group 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 Group's auditors, but have been reviewed by the Group'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.

## 4. OTHER REVENUE

| | **For the three months ended 30 June** | | **For the six months ended 30 June** | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Sales of work-in-progress and scrap material | **373** | 241 | **431** | 379 |
| Bank interest income | **275** | 128 | **735** | 195 |
| | **648** | 369 | **1,166** | 574 |

## 5. SEGMENTAL INFORMATION

Segmental information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

**Primary reporting format – business segments**

The Group 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** | |
|---|---|---|
| | **2007** | 2006 |
| | **(Unaudited)** | (Unaudited) |
| | ***RMB'000*** | *RMB'000* |
| Revenue from external customers | | |
| – PRC | | |
| Domestic sales | **14,910** | 11,879 |
| Import and export corporations | **27,893** | 21,984 |
| – Overseas | **20,760** | 13,258 |
| Total revenue from external customers | **63,563** | 47,121 |

As at 30 June 2007 and 30 June 2006, all the Group's assets were located in the PRC.

## 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 | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Cost of inventories sold | **32,303** | 21,592 | **53,594** | 39,133 |
| Staff costs | **3,321** | 3,286 | **6,648** | 5,412 |
| Staff welfare costs | **515** | 253 | **842** | 601 |
| Directors' emoluments | **59** | 52 | **115** | 104 |
| Research and development | **58** | 45 | **103** | 87 |
| Depreciation of property, plant and equipment | **1,147** | 995 | **2,241** | 1,952 |
| Amortisation of land use rights | **27** | 27 | **54** | 54 |
| Auditors' remuneration | **–** | – | **–** | – |
| Loss on disposal of property, plant and equipment | **67** | 47 | **68** | 75 |

## 7. FINANCE COSTS

| | For the three months ended 30 June | | For the six months ended 30 June | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Interest expense on bank loans, repayable within one year | **815** | 814 | **1,594** | 1,587 |

## 8. TAXATION

(a) Taxation in the income statements represents:

| | For the three months ended 30 June | | For the six months ended 30 June | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Provision for PRC enterprise income tax | **1,064** | 493 | **1,628** | 819 |

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 2007 as determined in accordance with the relevant income tax rules and regulations of the PRC.

The taxation on the Group'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 | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Profit before taxation | **3,026** | 1,928 | **4,321** | 3,125 |
| Calculated at a taxation rate of 33% | **912** | 493 | **1,476** | 819 |
| Under provision for prior year | **152** | – | **152** | – |
| Taxation charge | **1,064** | 493 | **1,628** | 819 |

(b) Taxation in the balance sheet represents:

| | **30 June 2007** | 30 June 2006 |
|---|---|---|
| | **(Unaudited)** | (Unaudited) |
| | ***RMB'000*** | *RMB'000* |
| Provision for PRC enterprise income tax | **1,476** | 819 |
| Balance of PRC enterprise income tax provision relating to prior years | **1,004** | 1,006 |
| Payment of PRC enterprise income tax | **(1,481)** | (1,352) |
| Tax refund relating to prior year | **–** | – |

(c) There was no material un-provided deferred taxation for the six months ended 30 June 2007.

## 9. DIVIDEND

The Board resolved not to declare an interim dividend in respect of the period ended 30 June 2007. (2006: Nil)

## 10. EARNINGS PER SHARE

The calculations of basic earnings per share for the periods ended 30 June 2007 and 30 June 2006 are based on the unaudited net profit attributable to shareholders for the periods ended 30 June 2007 and 30 June 2006 of approximately RMB2,693,000 and RMB2,306,000 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 periods ended 30 June 2007 and 30 June 2006.

## 11. TRADE RECEIVABLES

The aging analysis of trade receivables is as follows:

| | **30 June 2007 (Unaudited)** ***RMB'000*** | 31 December 2006 (Audited) *RMB'000* |
|---|---|---|
| 1-30 days | **11,245** | 14,127 |
| 31-60 days | **14,942** | 8,293 |
| 61-90 days | **9,036** | 7,693 |
| 91-180 days | **5,519** | 5,039 |
| More than 180 days | **4,957** | 7,963 |
| | **45,699** | 37,699 |
| Less: Provision for bad and doubtful debts | **(3,391)** | (4,916) |
| | **42,308** | 37,699 |

The Group 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 AND OTHER RECEIVABLES

| | **30 June 2007 (Unaudited)** ***RMB'000*** | 31 December 2006 (Audited) *RMB'000* |
|---|---|---|
| Bill receivables | **1,172** | 2,790 |
| Prepayments and other receivables | **25,402** | 15,662 |
| Deposits paid to suppliers for machineries | **2,200** | 3,661 |
| | **28,774** | 22,113 |

## 13. TRADE AND OTHER PAYABLES

| | **30 June 2007 (Unaudited)** ***RMB'000*** | 31 December 2006 (Audited) *RMB'000* |
|---|---|---|
| Trade payables | **15,538** | 14,492 |
| Bills payable | **11,413** | 8,368 |
| Other payables | **–** | 349 |
| Value added tax, business tax and other taxes payable | **148** | 37 |
| Dividend payable | **37** | 825 |
| Accruals | **99** | 427 |
| Trade deposits from customers | **–** | – |
| | **27,235** | 24,498 |

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 2007 (Unaudited)** ***RMB'000*** | 31 December 2006 (Audited) *RMB'000* |
|---|---|---|
| Due within 3 months | **15,283** | 13,413 |
| Due after 3 months but within 6 months | **68** | 593 |
| Due after 6 months but within 12 months | **187** | 318 |
| Due after 12 months | **–** | 168 |
| | **15,538** | 14,492 |

## 14. PAID-IN/SHARE CAPITAL

| | Number of shares | Paid-in capital *RMB'000* | Share capital *RMB'000* |
|---|---|---|---|
| At 30 June 2006 | 76,600,000 | – | 76,600 |
| Addition for the period | – | – | – |
| At 30 June 2007 | 76,600,000 | – | 76,600 |

## 15. RESERVES

| | Share premium *RMB'000* | Statutory surplus reserve *RMB'000* | Revaluation reserve *RMB'000* | Retained profit *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|
| At 31 December 2006 | 246 | 5,044 | – | 26,843 | 32,133 |
| Net profit for the year | – | – | – | 2,693 | 2,693 |
| Transfer | – | 365 | – | (365) | – |
| At 30 June 2007 | 246 | 5,409 | – | 29,171 | 34,826 |

### (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. However, according to the announcement number 67 of the Ministry of Finance of the PRC on 15 March 2006, pursuant to the Company Law of PRC Sec 167, the reserves previously allocated to statutory public welfare fund will be transferred to the statutory surplus reserve on 1 January 2006. According to the announcement, no subsequent profit distribution to the statutory public welfare fund was needed.

**(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 to the discretionary surplus reserve, if approved by the shareholders.

The distributable reserves of the Company as at 30 June 2006 and 30 June 2007 amounted to approximately RMB25,269,000 and approximately RMB29,171,000 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 2007, the Group recorded turnover of approximately RMB63,562,580 (2006: approximately RMB47,120,580) representing an increase of approximately 34.9% as compared with the corresponding period in last year. Profit attributable to shareholders amounted to approximately RMB2,693,000 (2006: approximately RMB2,306,300) representing an increase of approximately 16.3%.

As compared with the corresponding period in 2006, the increase in the Group's turnover during the first half year of 2007 was mainly attributable to higher turnover derived from the direct overseas sale. During the first half of 2007, the Group was able to broaden its overseas client base further and hence achieved an increase of 56% in turnover in direct overseas sales as compared to the corresponding period in 2006. The Group has been actively establishing its sales network in various overseas markets such as Japan, South Africa and Middle East in the first half of 2007. The Group also believed that the participation in international trade fairs as well as the goodwill and quality of the Group's products had increased the sales demand from both its overseas and local customers. The Group has successfully applied for TS16949 certification, an internationally recognised quality certification for automobile spare parts industry in 2007.

Gross profit margin of the Group is 15.7% in the first half of 2007 (17% in the first half of 2006) which is slightly lower than previous year.

Distribution expenses of the Group principally comprised transportation expenses which increased as a result of increase in 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 2007 remained the same as last year. Apart from the above, other expenses of the Group remain fairly stable.

# BUSINESS REVIEW AND PROSPECTS

The Company continued to experience growth in first half of 2007. 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 Group offered an additional thirty-eight products during the period upon customers' request and total production amounted to more than 4.80 million units of universal joints.

The PRC automotive industry continued to grow at tremendous pace during the first half of 2007. 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 2007. With its planned enlarged-production facilities and high quality products, the Group 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 2007. The Directors believe that the prices of steel will stabilize and subsequently reduce in the third and fourth quarter of 2007. The Directors believe that the Company's gross profit margin may improve gradually towards the end of 2007.

The Company also intends to diversify its business, details of which are set out below.

## LIQUIDITY AND FINANCIAL RESOURCES

The Company continues to be in a healthy financial position with shareholders equity amounted to approximately RMB111.43 million as at 30 June 2007 (30 June 2006: approximately RMB106.98 million). Current assets amounted to approximately RMB152.17 million as at 30 June 2007 (30 June 2006: approximately RMB137.25 million), of which approximately RMB47.31 million were cash and bank balances (30 June 2006: approximately RMB64.79 million). As at 30 June 2007, the Company had short-term bank loans of about RMB45.0 million (30 June 2006: approximately RMB61 million) which were repayable within one year.

## GEARING RATIO

As at 30 June 2007, the gearing ratio of the Company on total liabilities over total assets remains the same as the same period last year of approximately 0.48 (30 June 2006: approximately 0.46).

## FOREIGN EXCHANGE EXPOSURE

For the first half of 2007, the Group's sales were principally denominated in Renminbi which comprised about 67% of the total sales for the first half of 2007. Fluctuation of the exchange rates of Renminbi against foreign currencies would not have a material effect to the operating results of the Group. 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 2007, the bank loans of RMB72.0 million were secured by the Group's land use rights and buildings at net book value of RMB23.30 million (30 June 2006: RMB23.30 million).

## CONTINGENT LIABILITIES

The Group's had no significant contingent liabilities as at 30 June 2007 (30 June 2006: nil).

## CAPITAL STRUCTURE

There were no changes in the capital structure of the Company during the six months ended 30 June 2007 and 2006.

## ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENT

As disclosed in the announcement of the Company dated 23 May 2007, the Company proposed to set up a wholly-owned subsidiary ("Subsidiary") in the PRC for the purpose of engaging in the sales of chemicals (excluding dangerous and easy-made drugs), purified terephthalic acid, polyster chips, polyster films, light textile raw material, textile, ironware products, automobile parts, steel products and electronics products with an expected registered capital of RMB20 million. As at the date of this report, the Subsidiary was incorporated with a registered capital of RMB20 million though no substantial operation has been commenced yet.

Save as disclosed above, the Group did not have any significant acquisitions, disposals and investment during the reporting period.

## FUTURE PLANS FOR INVESTMENTS OR CAPITAL ASSETS AND SOURCES OF FUNDING

As disclosed in the Company's announcement dated 20 July 2007 and the circular dated 10 August 2007, the Company proposed to convene an extraordinary general meeting and the respective class meetings of the holders of H shares and holders of domestic shares of the Company on 25 September 2007 for the grant of the proposed specific mandates by the independent shareholders to the Board to issue not more than 100,000,000 new H shares and not more than 40,000,000 new domestic shares respectively. Upon the grant of the proposed specific mandates, the Directors may proceed to place not more than 100,000,000 new H shares and not more than 40,000,000 new domestic shares pursuant to such specific mandates ("Possible Placing").

**Investors should be aware that the proposed specific mandates may or may not be approved by the shareholders at the extraordinary general meeting and the respective class meetings. Even if the proposed specific mandates are granted to the Board, the Possible Placing may or may not be proceeded with. If the Possible Placing is proceeded with, it is subject to the satisfaction of a number of conditions. There is no assurance that any of the conditions to the Possible Placing will be fulfilled. Therefore, the Possible Placing may or may not proceed. Investors should therefore exercise caution when dealing in the shares of the Company.**

For details, please refer to the Company's announcement dated 20 July 2007 and the circular dated 10 August 2007.

The Directors propose to use the net proceeds from the Possible Placing to fund the proposed acquisition (as set out in the paragraph headed "Proposed Acquisition" below), if materialize, and as general working capital.

## EMPLOYEE INFORMATION

As at 30 June 2007, the Group had 685 employees (as at 30 June 2006: 670). The Group will also pay employees remuneration according to market practice, working experiences and performances. Other benefits available to eligible employees including retirement benefits.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has not purchased its own listed shares during the reporting period. During the reporting period, the Company or any of its subsidiaries has also not purchased or sold any of the listed shares in the Company.

## DIRECTOR'S AND SUPERVISORS' INTEREST IN SHARES OF THE COMPANY

As at 30 June 2007, 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 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 | 4,466,667 domestic shares | 8.33% | 5.83% |
| Mr. Hong Guo Ding | Beneficial owner | 3,216,000 domestic shares | 6.00% | 4.2% |
| Mr. Tang Cheng Fang | Beneficial owner | 2,680,000 domestic shares | 5.00% | 3.5% |
| Mr. Fei Guo Yang | Beneficial owner | 1,072,000 domestic shares | 2.00% | 1.4% |
| Mr. Feng Yun Lin | Beneficial owner | 1,072,000 domestic shares | 2.00% | 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 2007, 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 IN THE SHARES OF THE COMPANY

So far as was known to any Director or chief executive of the Company, as at 30 June 2007, the following persons (other than the Directors, chief executives and supervisors of the Company as disclosed in the paragraph headed "Directors' and Supervisors' interests in shares of the Company" above) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

### *Long position in shares*

| 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 *(Note)* | Beneficial owner | 4,466,667 domestic shares | 8.33% | 5.83% |
| Ms. Tang Jing Jing *(Note)* | Beneficial owner | 4,466,667 domestic shares | 8.33% | 5.83% |
| Greater China I Private Placement Fund | Investment Manager | 1,360,000 H shares | 5.91% | 1.77% |

*Note:* Mr. Tang Liu Jun is the son of Mr. Tang Li Min. Ms. Tang Jing Jing is the daughter of Mr. Tang Li Min.

Saved as disclosed above, as at 30 June 2007, 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 2007.

## 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 2007 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 2007 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 2007.

## REQUIRED STANDARD OF SECURITIES DEALINGS BY DIRECTORS

During the six months ended 30 June 2007, 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 had complied with the required standard of dealings and the code of conduct for directors' securities transactions during the six months ended 30 June 2007.

# PROPOSED ACQUISITION

On 16 July 2007, the Company and Zhejiang Tianhao Industrial Company Limited (浙江天昊實業有限公司) and Creative Wave Holdings Limited (啓濤集團有限公司) (collectively the "Vendors") entered into a letter of intent, under which, the Company intends to acquire, directly or indirectly, the controlling shareholding interest in two companies incorporated in the PRC which are principally engaged in the disposal, management and recycling of medical and industrial sewage and wastes in Shaoxing City, the PRC ("Target Companies"). The proposed acquisition is subject to further negotiation and may or may not materialize.

Details of the proposed acquisition had been set out in the announcement of the Company dated 20 July 2007.

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
13th August, 2007

* *For identification purpose only*