

First Quarterly Report **2008**



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)
(Stock Code : 8273)

*for identification purpose only

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This report, for which the directors of Zhejiang Prospect Company Limited collectively and individually accept full responsibility, 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 RMB24.92 million for the three months ended 31st March, 2008, approximately the same as compared with that of the corresponding period in 2007.
- Recorded a loss attributable to shareholders of approximately RMB0.50 million for the three months ended 31st March, 2008, representing an approximately 157% decrease as compared with that of the corresponding period in 2007.
- The Board does not recommend the payment of an interim dividend for the three months ended 31st March, 2008.

FINANCIAL RESULT (UNAUDITED)

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 ended 31st March, 2008 together with the unaudited comparative figures for the corresponding period in 2007, as follows:

	Note	For the three months ended 31st March,	
		2008 RMB'000	2007 RMB'000
Turnover	3	24,915	24,706
Cost of sales		(22,305)	(21,129)
Gross profits		2,610	3,577
Other revenue		200	186
Distribution costs		(619)	(685)
Administrative expenses		(1,633)	(1,214)
Other operating expenses		(35)	(28)
Profits from operations		523	1,836
Finance costs		(1022)	(389)
Profits/(Loss) from ordinary activities before taxation		(499)	1,447
Taxation	4	-	(564)
Profits/(Loss) after tax		(499)	883
Attributable to:			
Equity holders of the Company		(499)	883
Minority interest		-	-
Dividend	5	-	-
Earnings/(Loss) per share attributable to equity holders			
Basic (RMB per share)	7	(0.007)	0.012

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 2007 annual report of the Company. The unaudited results are prepared under the historical cost convention.

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 25% of the estimated assessable income for the three months ended 31st March, 2008 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 31st March, 2008 (2007: Nil).

5. DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 31st March, 2008 (2007: 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 three months ended 31st March, 2008.

7. EARNINGS PER SHARE

The calculations of basic earnings per share for the quarters ended 31st March, 2008 and 31st March, 2007 are based on the unaudited net loss attributable to shareholders for the quarter ended 31st March, 2008 and unaudited net profits attributable to shareholders for the quarter ended 31st March 2007 of approximately RMB499,000 and RMB883,000 respectively over 76,600,000 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 quarters ended 31st March, 2008 and 31st March, 2007.

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 first three months of 2008, 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 first quarter of 2008 amounted to approximately RMB24.92 million (2007: RMB24.71 million), approximately the same as compared to that of previous period in 2007. The increase in turnover was mainly attributable to the increase in direct export of universal joints.

The loss attributable to shareholders for the three months ended 31st March, 2008 amounted to approximately RMB0.50 million (2007: profit attributable to shareholders of approximately RMB0.88 million) representing 157% decrease than that of the previous period in 2007. The gross profit margin for the period decreased to 10.5% compared to 14.5% that of the corresponding period in 2007 due to sharp rise of the cost of raw material especially steel. Finance cost also increased from approximately RMB0.39 million in the first quarter of 2007 to approximately RMB1.02 million in the first quarter of 2008 mainly due to increase of bank loan of RMB15 million and increase of interest rate.

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 is 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 12 million units per annum by 2008.

The Company is also actively developing new customers and markets and has successfully developed overseas markets in USA, Japan, Germany, 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 20 new products according to customers' requests and had manufactured more than two million pieces of universal joints.

As to diversify its business, the Company entered into share transfer agreements to acquire the equity interest of two PRC-incorporated companies principally engaged in the environmental protection business in September 2007. As at the date hereof, the said acquisitions have not yet been completed. For an update of the said acquisitions, please refer to the paragraph headed "Subsequent event" below.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has not purchased, sold or redeemed any of its listed securities during the three months ended 31st March, 2008.

Directors' and supervisors' interests in shares of the Company

As at 31st March, 2008, 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

Director/ Supervisor of the Company	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%	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:

- (1) 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.
- (2) The Board has been granted conditional specific mandates to, inter alia, issue up to a maximum of 40,000,000 additional domestic shares to Mr. Tang Li Min. Mr. Tang Li Min has undertaken to the Company that he will subscribe the number of new domestic shares that the Company may issue to him. Taking into account the maximum of the 40,000,000 additional domestic shares that may be issued to Mr. Tang Li Min, Mr. Tang Li Min may be deemed, or taken to be interested in an aggregate of 81,093,333 domestic shares, representing approximately 151.29% and 105.87% of the total issued domestic shares and total issued shares of the Company, respectively.

Saved as disclosed above, as at 31st March, 2008, 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 31st March, 2008, the following persons (other than the Directors, chief executives and supervisors of the Company as disclosed in the paragraph headed "Directors' and supervisors' interests in shares of the Company" above) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Other persons

Long position in shares

Names of Shareholders	Capacity	No. and class of securities	Approximate percentage of shareholding in the same class of securities	Approximate percentage of shareholding in the total registered share capital
Mr. Tang Liu Jun (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 31st March, 2008, 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 31st March, 2008.

Subsequent event

As disclosed in the announcement and circular of the Company dated 10 September 2007 and 15 October 2007 respectively, on 9 September 2007, the Company entered into a share transfer agreement (the “Huasheng Share Transfer Agreement”) with Creative Wave Holdings Limited (“Creative Wave”) and Mr. Yang Steven Songxin (“Mr. Yang”) for the acquisition of 45% equity interest in Shaoxing Huasheng Environmental Protection Science And Technology Company Limited 紹興華盛環保科技有限公司 (“Huasheng”) at a cash consideration of RMB180 million from Creative Wave. On the same day, the Company entered into another share transfer agreement (the “Huaxin Share Transfer Agreement”) with Zhejiang Tianhao Industrial Company Limited 浙江天昊實業有限公司 (“Tianhao”), Mr. Zhao Mao Xiang (“Mr. Zhao”) and Mr. Wang Guo Li (“Mr. Wang”) for the acquisition of 100% equity interest in Shaoxing Huaxin Environmental Technology Company Limited 紹興華鑫環保科技有限公司 (“Huaxin”) (which owns 30% equity interest in Huasheng) from Tianhao at a cash consideration of RMB120 million.

Huaxin is primarily engaged in the collection and treatment of medical wastes and dangerous industrial wastes. Huasheng is engaged in the treatment and recycling of industrial and chemical wastes.

The Company, Creative Wave and Mr. Yang entered into an extension letter (the “Huasheng Extension Letter”) dated 7 May 2008 to extend the payment date under the Huasheng Share Transfer Agreement from the end of the eighth month from the date of the Huasheng Share Transfer Agreement to 24 September 2008 to reflect the current progress of the transaction. For the avoidance of doubt, the extension of the payment date does not affect the completion of the Huasheng Share Transfer Agreement.

The Company, Tianhao, Mr. Zhao and Mr. Wang entered into an extension letter (the “Huaxin Extension Letter”) dated 7 May 2008 to extend the payment date under the Huaxin Share Transfer Agreement from the end of the eighth month from the date of the Huaxin Share Transfer Agreement to 24 September 2008 to reflect the current progress of the transaction. For the avoidance of doubt, the extension of the payment date does not affect the completion of the Huaxin Share Transfer Agreement.

Save as disclosed above, all other terms and conditions of the Huasheng Share Transfer Agreement and the Huaxin Share Transfer Agreement remain unchanged.

For details in relation to the Huasheng Extension Letter and the Huaxin Extension Letter, please refer to the announcement of the Company dated 7 May 2008.

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 first quarterly report of 2008 of the Company and has provided advice and comments thereon to the Board. The Committee is of the opinion that the first quarterly report of 2008 of the Company complies 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
14th May, 2008

* *For identification purpose only*