

Third 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

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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. 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 and no assurance is given that there will be a liquid market in the securities traded on GEM.

The Stock Exchange 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 (the “GEM Listing Rules”) 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 turnover of approximately RMB99.07 million for the nine months ended 30th September, 2008, representing an approximately 2.2% increase as compared with that of the corresponding period in 2007.
- Accomplished profit attributable to shareholders of approximately RMB1.45 million for the nine months ended 30th September, 2008.
- The Directors do not recommend the payment of an interim dividend for the nine months ended 30th September, 2008.

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

QUARTERLY RESULTS (UNAUDITED)

	Note	For the three months ended		For the nine months ended	
		30th September, 2008 RMB'000	30th September, 2007 RMB'000	30th September, 2008 RMB'000	30th September, 2007 RMB'000
Turnover	3	36,838	33,378	99,066	96,941
Cost of sales		(32,186)	(28,913)	(84,727)	(82,507)
Gross profit		4,652	4,465	14,339	14,434
Other revenue		728	828	1,724	1,994
Distribution costs		(539)	(859)	(2,071)	(2,601)
Administrative expenses		(3,841)	(1,476)	(7,810)	(4,504)
Other operating expenses		(37)	(62)	(141)	(197)
Profit from operations		963	2,896	6,041	9,126
Finance costs		(710)	(979)	(4,108)	(2,888)
Profit from ordinary activities before taxation		253	1,917	1,933	6,238
Taxation	4	(63)	(431)	(483)	(2,059)
Profit attributable to shareholders		190	1,486	1,450	4,179
Dividend	5	-	-	-	-
Earnings per share					
Basic (RMB per share)	7	0.002	0.019	0.019	0.055

Notes:

1. GENERAL

The Company was established in the People's Republic of China (the "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 2007 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 25% of the estimated assessable income for the nine months ended 30th September, 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 30th September, 2008 (2007: Nil).

5. DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 30th September, 2008 (2007: Nil).

6. RESERVES

Same as the period during the nine months ended 30th September, 2007, 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, 2008.

7. EARNINGS PER SHARE

The calculations of basic earnings per share for the nine months ended 30th September, 2008 and 30th September, 2007 are based on the unaudited net profit attributable to shareholders for the nine months ended 30th September, 2008 and 30th September, 2007 of approximately RMB1,450,000 and RMB4,179,000 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, 2008 and 30th September, 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

Business 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 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 nine months ended 30th September, 2008 amounted to approximately RMB99.07 million (2007: approximately RMB96.94 million) representing an approximately 2% increase as compared to that of the previous period in 2007. 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, 2008 amounted to approximately RMB1.45 million (2007: approximately RMB4.18 million) representing an approximately 65.31% decrease than that of the previous period in 2007. The drop was primarily attributable to the substantial increase in price of steel and appreciation of RMB during the period. Apart from the above, other expenses of the Company remain fairly stable.

The Board did not proceed with the specific mandates granted by the shareholders on 25th September, 2007 to issue not more than 100,000,000 new H shares and not more than 40,000,000 new domestic shares respectively and the said specific mandates lapsed on 24th September, 2008. On 5th November, 2008, the Board announced not to proceed with the specific mandates granted by the shareholders on 14th October, 2008 to issue not more than 100,000,000 new H shares and not more than 40,000,000 new domestic shares respectively. For details of the above, please refer to the section "Specific Mandates" below.

In light of the recent economic downturn in the PRC, difficult market conditions and uncertain market sentiment, on 5th November, 2008, the Company had terminated the share acquisition of 紹興華盛環保科技有限公司(Shaoxing Huasheng Environmental Protection Science and Technology Company Limited*) ("Huasheng") and 紹興華鑫環保科技有限公司(Shaoxing Huaxin Environmental Technology Company Limited*) ("Huaxin") (the "Share Acquisition"). For details of the above, please refer to the section "Investments or capital assets" below.

Prospects

The Company is actively developing new customers and markets and has successfully secured 6 new customers including customers in Italy, Thailand, Poland and Middle East. During the period, the Company had developed 35 new products according to customers' requests and had manufactured more than 8.2 million pieces of universal joints.

Despite the termination of the Share Acquisition, the Company will closely monitor the market condition and development and seek other opportunities to acquire assets or businesses so as to diversify the business of the Company.

Investments or capital assets

On 9th September, 2007, the Company, Creative Wave Holdings Limited (“Creative Wave”) and Mr. Yang Steven Songxin (“Mr. Yang”) entered into a share transfer agreement (the “Huasheng Share Transfer Agreement”) in relation to the proposed acquisition of 45% equity interest in Huasheng at a consideration of RMB180 million. On the same date, the Company, 浙江天昊實業有限公司 (Zhejiang Tianhao Industrial Company Limited*) (“Tianhao”), Mr. Zhao Mao Xiang (“Mr. Zhao”) and Mr. Wang Guo Li (“Mr. Wang”) entered into a share transfer agreement (the “Huaxin Share Transfer Agreement”) in relation to the proposed acquisition of 100% equity interest in Huaxin at a consideration of RMB120 million.

On 5th November, 2008, the Company entered into a termination agreement with Creative Wave and Mr. Yang to terminate the Huasheng Share Transfer Agreement with immediate effect. On the same date, the Company entered into another termination agreement with Tianhao, Mr. Zhao and Mr. Wang to terminate the Huaxin Share Transfer Agreement with immediate effect. For details of the aforesaid two termination agreements, please refer to the Company’s announcement dated 5th November, 2008.

Specific Mandates

On 25th September, 2007, at the relevant extraordinary general meeting and class meetings of the Company, the shareholders had approved to grant to the Board specific mandates to issue not more than 100,000,000 new H shares and not more than 40,000,000 new domestic shares respectively (the “Original Specific Mandates”). The Board did not proceed with the Original Specific Mandates and the Original Specific Mandates lapsed on 24th September, 2008.

For details of the above, please refer to the Company’s announcements dated 20th July, 2007 and 25th September, 2007 respectively and the Company’s circulars dated 10th August, 2007 and 25th August, 2008 respectively.

As disclosed in the Company’s announcement dated 4th August, 2008 and the circular dated 25th August, 2008, the Board resolved to convene an extraordinary general meeting and class meetings (together, the “Shareholders’ Meetings”) on 14th October, 2008, in which the shareholders would grant the proposed specific mandates to the Board to issue not more than 100,000,000 new H shares and not more than 40,000,000 new domestic shares (the “Proposed Specific Mandates”). The Proposed Specific Mandates had been approved by the shareholders at the Shareholders’ Meetings. If the Board proceeded with the Proposed Specific Mandates to issue new H shares and new domestic shares, the net proceeds were intended to be used to finance the consideration under the Huasheng Share Transfer Agreement and the Huaxin Share Transfer Agreement.

As the Huasheng Share Transfer Agreement and the Huaxin Share Transfer Agreement had been terminated on 5th November, 2008, on the same date, the Board announced not to proceed with the Proposed Specific Mandates. For details of the termination of the Proposed Specific Mandates, please refer to the Company’s announcement dated 5th November, 2008.

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, 2008.

Directors' and supervisors' interests in shares of the Company

As at 30th September, 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 Rules 5.46 of 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 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, 2008, 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 30th September, 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 Listing Rules.

INTEREST OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

So far as was known to any Director or chief executives of the Company, as at 30th September, 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 30th September, 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.

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, 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 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, namely, Mr. Wang He Rong, Mr. Lu Guo Qing and Mr. Ma Hong Ming.

The Committee has reviewed the unaudited results and report for the nine months ended 30th September, 2008 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.

SUBSEQUENT EVENTS

Save as disclosed above in relation to the termination of the Share Acquisition and the Proposed Specific Mandates, as at the date of this report, there are no other material subsequent events.

As at the date of this report, the Board comprises Mr. Tang Li Min, Mr. Hong Guo Ding, Mr. Fei Guo Yang and Mr. Hong Chun Qiang as executive directors; Mr. Tang Cheng Fang and Mr. Li Zhang Rui as non-executive directors; and Mr. Wang He Rong, Mr. Lu Guo Qing and Mr. Ma Hong Ming as independent non-executive directors.

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

Zhejiang Province, the PRC

13th November, 2008

* For identification purpose only