

Interim Report **2012**



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 “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 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.**

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim 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, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.*

## Highlights

- Achieved a turnover of approximately RMB55.06 million for the six months ended 30 June 2012, representing an increase of approximately 5.88% when compared with that of the corresponding period in 2011.
- Net loss after taxation for the six months ended 30 June 2012 amounted to approximately RMB0.78 million, representing a basic loss per share of approximately RMB0.01.
- The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2012.

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 for the three months and six months ended 30 June 2012, respectively, together with the comparative figures for the corresponding periods in 2011 as follows:

## CONDENSED INCOME STATEMENT

	Note	For the three months ended 30 June		For the six months ended 30 June	
		2012 (Unaudited) RMB'000	2011 (Unaudited) RMB'000	2012 (Unaudited) RMB'000	2011 (Unaudited) RMB'000
Turnover	3	29,321	29,973	55,061	52,000
Cost of sales		(25,226)	(26,431)	(47,251)	(44,908)
Gross profits		4,095	3,542	7,810	7,092
Other revenue	4	357	271	709	729
Distribution costs		(452)	(487)	(1,085)	(1,247)
Administrative expenses		(4,186)	(3,377)	(7,534)	(6,568)
Other operating expenses		(45)	(31)	(76)	(57)
Profit/(loss) from operations	6	(231)	(82)	(176)	(51)
Finance costs	7	(188)	(806)	(604)	(1,460)
Profit/(loss) from ordinary activities before taxation		(419)	(888)	(780)	(1,511)
Taxation	8	–	–	–	–
Profit/(loss) after tax		(419)	(888)	(780)	(1,511)
Dividend	9	–	–	–	–
Earnings/(losses) per share					
Basic (RMB per share)	10	(0.005)	(0.01)	(0.01)	(0.02)

## CONDENSED BALANCE SHEET

		As at 30 June 2012 (Unaudited) RMB'000	As at 31 December 2011 (Audited) RMB'000
	Note		
<b>Non-current assets</b>			
Property, plant and equipment		42,204	43,465
Prepaid lease payments		5,535	5,605
Intangible assets	11	2,194	5,000
		<b>49,933</b>	54,070
<b>Current assets</b>			
Inventories		33,695	41,278
Trade and other receivables	12	34,030	33,548
Prepaid lease payments		70	139
Amount due from a related party		327	1,432
Cash and cash equivalents		14,537	9,843
		<b>82,659</b>	86,240
<b>Current liabilities</b>			
Trade and other payables	13	21,897	28,835
Amount due to a related party		50	50
Short-term bank loans – secured		6,985	6,985
		<b>28,932</b>	35,870
<b>Net current assets</b>		<b>53,727</b>	50,370
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>103,660</b>	104,440
<b>Non-current liabilities</b>			
Secured bank loans		20,000	20,000
<b>NET ASSETS</b>		<b>83,660</b>	84,440
<b>CAPITAL AND RESERVES</b>			
Share capital	14	76,600	76,600
Reserves	15	7,060	7,840
<b>TOTAL EQUITY</b>		<b>83,660</b>	84,440

## CONDENSED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	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 2011	246	5,709	–	–	11,391	17,346
Net profit for the period	–	–	–	–	(1,511)	(1,511)
At 30 June 2011	246	5,709	–	–	(9,880)	15,835
At 1 January 2012	246	5,709	–	–	1,885	7,840
Net profit for the period	–	–	–	–	(780)	(780)
At 30 June 2012	246	5,709	–	–	1,105	7,060

## CONDENSED CASH FLOW STATEMENT

	For the six months ended 30 June	
	2012 (Unaudited) RMB'000	2011 (Unaudited) RMB'000
Net cash inflow/(outflow) from operating activities	5,741	10,087
Net cash inflow/(outflow) from investing activities	(1,047)	–
Net cash inflow/(outflow) from financing activities	–	(9,521)
Increase/(decrease) in cash and cash equivalents	4,694	566
Cash and cash equivalent at beginning of period	9,843	29,246
Cash and cash equivalent at end of period	14,537	29,812
Analysis of balances of cash and cash equivalents		
Cash in hand and at banks	14,537	29,812

## NOTES TO FINANCIAL STATEMENTS

### 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 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 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 2011.

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 returned goods and trade discounts.

### 4. OTHER REVENUE

	For the three months ended 30 June		For the six months ended 30 June	
	2012 (Unaudited) RMB'000	2011 (Unaudited) RMB'000	2012 (Unaudited) RMB'000	2011 (Unaudited) RMB'000
Insurance claim	93	–	93	–
Government subsidy	–	–	145	273
Sales of work-in-progress and scrap material	238	222	428	384
Bank interest income	26	49	43	72
	<b>357</b>	271	<b>709</b>	729

### 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>2012 (Unaudited) RMB'000</b>	<b>2011 (Unaudited) RMB'000</b>
Revenue from external customers		
– PRC		
Domestic sales	4,313	6,822
Import and export corporations	16,000	18,252
– Overseas	<u>34,748</u>	<u>26,926</u>
Total revenue from external customers	<u><u>55,061</u></u>	<u>52,000</u>

As at 30 June 2012 and 30 June 2011, all the Company's assets were located in the PRC.

**6. PROFIT/(LOSS) FROM OPERATIONS**

Profit/(loss) from ordinary activities before taxation is stated after (crediting)/charging the followings:

	<b>For the three months ended 30 June</b>		<b>For the six months ended 30 June</b>	
	<b>2012 (Unaudited) RMB'000</b>	<b>2011 (Unaudited) RMB'000</b>	<b>2012 (Unaudited) RMB'000</b>	<b>2011 (Unaudited) RMB'000</b>
Cost of inventories sold	25,226	26,431	47,251	44,908
Staff costs	2,413	2,731	4,276	4,678
Staff welfare costs	–	–	–	–
Directors' emoluments	62	61	124	122
Research and development	56	49	110	95
Depreciation of property, plant and equipment	1,326	1,234	2,469	2,413
Amortisation of land use rights	35	27	70	54
Loss on disposal of property, plant and equipment	–	–	–	–



**7. FINANCE COSTS**

	For the three months ended 30 June		For the six months ended 30 June	
	2012	2011	2012	2011
	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000
Interest expense on bank loans, repayable within one year	188	806	604	1,460

**8. TAXATION**

(a) Taxation in the income statements represents:

	For the three months ended 30 June		For the six months ended 30 June	
	2012	2011	2012	2011
	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000
Provision for PRC enterprise income tax	-	-	-	-

The provision for PRC enterprise income tax is calculated at a standard rate of 25% of the estimated assessable income for the period ended 30 June 2012 as determined in accordance with the relevant income tax rules and regulations of the PRC.

The taxation on the Company's profit before taxation which differs from the theoretical amount is as follows:

	For the three months ended 30 June		For the six months ended 30 June	
	2012	2011	2012	2011
	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000
Profit/(loss) before taxation	(419)	(857)	(780)	(1,511)
Calculated at a taxation rate of 25% for the year 2012 and 25% for the year 2011	-	-	-	-
Under provision for prior year	-	-	-	-
Taxation charge	-	-	-	-

(b) Taxation in the balance sheet represents:

	<b>30 June 2012 (Unaudited) RMB'000</b>	30 June 2011 (Unaudited) RMB'000
Provision for PRC enterprise income tax	-	-
Balance of PRC enterprise income tax provision relating to prior years	-	-
Payment of PRC enterprise income tax	-	-
Tax refund relating to prior year	-	-

(c) There was no material un-provided deferred taxation for the six months ended 30 June 2012.

## 9. DIVIDEND

The Board resolved not to declare an interim dividend in respect of the period ended 30 June 2012 (2011: Nil).

## 10. EARNINGS/(LOSSES) PER SHARE

The calculations of basic earnings/(losses) per share for the periods ended 30 June 2012 and 30 June 2011 are based on the unaudited net profit/(loss) attributable to shareholders for the periods ended 30 June 2012 and 30 June 2011 of approximately RMB(780,000) and RMB(1,511,000) 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/(losses) per share have been disclosed as there were no diluting events existed during the periods ended 30 June 2012 and 30 June 2011.

## 11. INTANGIBLE ASSETS

	<b>30 June 2012 (Unaudited) RMB'000</b>	31 December 2011 (Audited) RMB'000
Net book value	<b>2,194</b>	5,000

Intangible assets represent patent rights held by the Company.

**12. TRADE AND OTHER RECEIVABLES**

	<b>30 June 2012 (Unaudited) RMB'000</b>	31 December 2011 (Audited) RMB'000
Trade receivables	<b>31,264</b>	29,635
Bills receivables	<b>2,647</b>	832
	<b>33,911</b>	30,467
Prepayments, deposits and other receivables	<b>119</b>	1,399
Trade deposits paid to suppliers	<b>-</b>	1,682
	<b>34,030</b>	33,548

The aging analysis of trade receivables is as follows:

	<b>30 June 2012 (Unaudited) RMB'000</b>	31 December 2011 (Audited) RMB'000
1-30 days	<b>9,841</b>	7,947
31-60 days	<b>9,180</b>	6,789
61-90 days	<b>3,788</b>	4,722
91-180 days	<b>4,769</b>	7,265
More than 180 days	<b>11,589</b>	10,732
	<b>39,167</b>	37,455
Less: Provision for bad and doubtful debts	<b>(5,256)</b>	(6,988)
	<b>33,911</b>	30,467

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.

**13. TRADE AND OTHER PAYABLES**

	<b>30 June 2012 (Unaudited) RMB'000</b>	31 December 2011 (Audited) RMB'000
Trade payables	8,286	12,503
Other payables	12,906	13,931
Value added tax, business tax and other taxes payable	(51)	409
Dividend payable	756	394
Trade deposits from customers	–	1,598
	<b>21,897</b>	<b>28,835</b>

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 2012 (Unaudited) RMB'000</b>	31 December 2011 (Audited) RMB'000
Due within 3 months	5,750	10,851
Due after 3 months but within 6 months	1,814	923
Due after 6 months but within 12 months	722	628
Due after 12 months	–	101
	<b>8,286</b>	<b>12,503</b>

**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 2011	76,600,000	–	76,600
Addition for the period	–	–	–
At 30 June 2012	76,600,000	–	76,600

**15. RESERVES**

	<b>Share premium</b> <i>RMB'000</i>	<b>Statutory surplus reserve</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 31 December 2011	246	5,709	–	1,885	7,840
Net profit/(loss) for the year	–	–	–	(780)	(780)
At 30 June 2012	246	5,709	–	1,105	7,060

**(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 2012 and 30 June 2011 amounted to approximately RMB7,060,000 and approximately RMB15,835,000 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 six months ended 30 June 2012, the Company recorded turnover of approximately RMB55,061,000 (2011: approximately RMB52,000,000), representing an increase of approximately 5.88% as compared with the corresponding period last year. Losses attributable to shareholders amounted to approximately RMB780,000, representing a decrease of approximately RMB731,000 as compared with the loss attributable to shareholders of approximately RMB1,511,000 for the corresponding period in 2011. The increase in the Company's turnover during the first half of 2012 was mainly attributable to improvement in global business environment and increase of overseas sales. For the six months ended 30 June 2012, the Company recorded losses attributable to shareholders mainly due to the decrease of finance expenses.

Gross profit margin of the Company is 14.18% in the first half of 2012 (13.64% in the first half of 2011) which has increased as compared to the same period last year due to decrease in cost of raw materials (mainly steel).

Finance expenses for the six months ended 30 June 2012 were approximately RMB0.6 million (for the six months ended 2011: approximately RMB1,460,000). Finance expenses decreased mainly due to decrease in bank loans. Apart from the above, other expenses of the Company remained fairly stable as compared with the corresponding period last year.

## BUSINESS REVIEW AND PROSPECTS

The Company's business increased as a result of the improvement in the global financial environment which caused an increase in overseas sales in the first half of 2012. 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. Five new customers were acquired during the six months ended 30 June 2012. The Company offered an additional 11 products during the six months ended 30 June 2012 upon customers' request and total production amounted to more than 4.69 million units of universal joints.

The PRC automotive industry continued to grow steadily during the first half of 2012. The Directors believe that the recent debt crisis in Europe will have a relatively significant impact on the overseas automobile manufacturing industry for the second half of 2012, hence such crisis will have a material impact to the turnover of the Company for the second half of 2012.

## LIQUIDITY AND FINANCIAL RESOURCES

The Company's shareholders equity amounted to approximately RMB83.66 million as at 30 June 2012 (31 December 2011: approximately RMB84.44 million). Current assets amounted to approximately RMB82.66 million as at 30 June 2012 (31 December 2011: approximately RMB86.24 million), of which approximately RMB14.54 million were cash and cash equivalents (31 December 2011: approximately RMB9.84 million). As at 30 June 2012, the Company had short-term bank loans of about RMB6.99 million (31 December 2011: approximately RMB6.99 million) which were repayable within one year. Long term bank loans of RMB20.00 million (31 December 2011: RMB20.00 million) which were repayable within two years.

## GEARING RATIO

As at 30 June 2012, the gearing ratio of the Company as total liabilities over total assets was approximately 0.58 decreased compared to the same period last year (30 June 2011: approximately 0.85).

## FOREIGN EXCHANGE EXPOSURE

For the first half of 2012, the Company's sales were principally denominated in USD which comprised about 63.1% of the total sales for the first half of 2012. Fluctuation of the exchange rates of Renminbi against foreign currencies would have a slight effect to the operating results of the Company.

## CHARGES ON COMPANY ASSETS

As at 30 June 2012, the bank loans of RMB26.99 million were secured by guarantees provided by 浙江嘉利蛋白纖維有限公司 (Zhejiang Jiali Protein Fiber Company Limited\*) in favour of the banks (30 June 2011: bank loans of RMB46.66 million were secured by the Company's land use rights and buildings at net book value of RMB15.16 million. Mr. Tang Li Min, an executive Director and the controlling shareholder of the Company, Ms. Chen Yan Jing, the spouse of Mr. Tang, Zhejiang Prospect New Synthetic Fibre Company Limited\* (浙江展望新合纖維有限公司), Zhejiang Jiali Protein Fiber Company Limited\* (浙江嘉利蛋白纖維有限公司) and Shaoxing Kecheng Light Textile Materials Company Limited\* (紹興柯城輕紡原料有限公司) provided guarantees in favour of banks for the above bank loans).

## CONTINGENT LIABILITIES

The Company had no significant contingent liabilities as at 30 June 2012 (30 June 2011: nil).

## CAPITAL STRUCTURE

There were no changes in the capital structure of the Company during the six months ended 30 June 2012 and 2011.

## ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENTS

The Company did not have any material acquisitions and disposals of subsidiaries and affiliated companies, and significant investments during the six months ended 30 June 2012.

## EMPLOYEE INFORMATION

As at 30 June 2012, the Company had 400 employees (as at 30 June 2011: 430). The Company pays employees remuneration according to market practice, working experiences and performances of the employees. Other benefits are available to eligible employees, including retirement benefits.



## 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 2012.

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

As at 30 June 2012, 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	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%	4.20%
Mr. Tang Cheng Fang	Beneficial owner	2,680,000 domestic shares	5.00%	3.50%
Mr. Fei Guo Yang	Beneficial owner	1,072,000 domestic shares	2.00%	1.40%
Mr. Feng Yun Lin	Beneficial owner	1,072,000 domestic shares	2.00%	1.40%

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 2012, 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 2012, 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 ( <i>Note</i> )	Beneficial owner	4,466,667 domestic shares	8.33%	5.83%
Ms. Tang Jing Jing ( <i>Note</i> )	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 2012, 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 controlling shareholders of the Company and their respective associates has any interest in any businesses which directly or indirectly competes with the business of the Company for the six months ended 30 June 2012.

## AUDIT COMMITTEE

The Company had set up an audit committee (the “Committee”) on 14 January 2004 with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the Committee are to be responsible for the relationship with the Company’s auditors, review and provide supervision over the Company’s financial information and monitoring of the Company’s financial reporting process and internal control procedures 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 this report and has provided advice and comments thereon to the Board. The Committee is of the opinion that this report complied with applicable accounting standards, the GEM Listing Rules, and that adequate disclosures have been made.

## CORPORATE GOVERNANCE

The Directors consider that the Company had complied with the code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 15 to the GEM Listing Rules (the “Code”) during the period from 1 January 2012 to 31 March 2012. The Code had been amended which took effect from 1 April 2012 (the “Revised Code”). The Directors consider that the Company had complied with the code provisions as set out in the Revised Code during the period from 1 April 2012 to 30 June 2012.

## REQUIRED STANDARD OF SECURITIES DEALINGS BY DIRECTORS

During the six months ended 30 June 2012, 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. The Company has made specific enquiries with all the Directors and all Directors confirmed that they have complied with the required standard of dealings and the code of conduct for directors’ securities transactions during the six months ended 30 June 2012.

## SUBSEQUENT EVENTS

There are no material subsequent events as at the date of this report.

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  
13 August 2012

\* For identification purpose only