

First Quarterly Report **2013**



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”)

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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.

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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, 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.*

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Highlights

- Achieved turnover of approximately RMB19.20 million for the three months ended 31st March, 2013, representing an approximately 25.41% decrease as compared with that of the corresponding period in 2012.
- Recorded loss attributable to equity holders of the Company of approximately RMB0.80 million for the three months ended 31st March, 2013, representing an approximately 122.71% increase as compared with that of the corresponding period in 2012.
- The Board does not recommend the payment of an interim dividend for the three months ended 31st March, 2013.

FINANCIAL RESULTS (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, 2013 together with the unaudited comparative figures for the corresponding period in 2012, as follows:

		For the three months ended 31st March,	
		2013	2012
	Note	RMB'000	RMB'000
Turnover	3	19,197	25,740
Cost of sales		(17,153)	(22,025)
Gross profit		2,044	3,715
Other revenue		300	352
Distribution costs		(422)	(633)
Administrative expenses		(2,252)	(3,348)
Other operating expenses		(18)	(31)
Profit from operations		(348)	55
Finance costs		(456)	(416)
Profit/(loss) from ordinary activities before taxation		(804)	(361)
Taxation	4	-	-
Profit/(loss) after tax		(804)	(361)
Attributable to:			
Equity holders of the Company		(804)	(361)
Minority interest		-	-
Dividend	5	-	-
Earnings/(loss) per share attributable to equity holders			
Basic (RMB per share)	7	(0.010)	(0.005)

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 the 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 2012 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, 2013 as determined in accordance with the relevant income tax rules and regulations of the PRC.

There was no material unprovided deferred taxation for the three months ended 31st March, 2013 (2012: Nil).

5. DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 31st March, 2013 (2012: Nil).

6. RESERVES

There has been no movement of reserves, other than retained earnings, transferred to statutory surplus reserves and statutory public welfare fund, during the three months ended 31st March, 2013.

7. EARNINGS PER SHARE

The calculations of basic earnings per share for the three months ended 31st March, 2013 and 31st March, 2012 are based on the unaudited net loss attributable to shareholders for the three months ended 31st March, 2013 and 31st March, 2012 of approximately RMB(804,000) and RMB(361,000) 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 three months ended 31st March, 2013 and 31st March, 2012.

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 first three months of 2013, 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 three months of 2013 amounted to approximately RMB19.20 million (2012: approximately RMB25.74 million), representing an approximately 25.41% decrease as compared to that of corresponding period in 2012 which is mainly attributable to the decrease in self-operated export.

Loss attributable to equity holders of the Company for the three months ended 31st March, 2013 amounted to approximately RMB0.80 million (2012: loss attributable to equity holders of the Company of approximately RMB0.36 million), representing an approximately 122.71% increase from that of the corresponding period in 2012. The gross profit margin for the first three months of 2013 decreased to 10.65% as compared to 14.43% for the corresponding period of 2012, mainly due to the increase in staff costs. Administrative expenses decreased from approximately RMB3.35 million in the first three months of 2012 to approximately RMB2.25 million in the first three months of 2013, mainly due to the decrease in amortization of intangible assets. Finance costs was approximately the same in the first three months of 2012 and 2013.

Prospects

The Directors anticipate that the overall production capacity of universal joints will be expanded to approximately 9 million units per annum by 2013.

The Company is actively developing new customers and markets and has successfully developed overseas markets in USA, Japan, Italy, Germany, India, Brazil, Russia and the 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 5 new products according to customers' requests and had manufactured more than 1.70 million sets of universal joints.

ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENT

The Company did not have any significant acquisitions, disposals and investment during the period.

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, 2013.

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES OF THE COMPANY

As at 31st March, 2013, 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	Beneficial owner	36,626,666 domestic shares	68.33%	47.82%
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%

Saved as disclosed above, as at 31st March, 2013, 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.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

So far as was known to any Director or chief executive of the Company, as at 31st March, 2013, 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 Jing Qi (formerly known as 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 Jing Qi is the son and Ms. Tang Jing Jing is the daughter of Mr. Tang Li Min, respectively.

Saved as disclosed above, as at 31st March, 2013, 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 compete with the business of the Company for the period ended 31st March, 2013.

AUDIT COMMITTEE

The Company set up an audit committee (the "Committee") on 14th January, 2004 with written terms of reference (which had been revised on 29th March, 2012) 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 namely, Mr. Wang He Rong, Mr. Lu Guo Qing and Mr. Ma Hong Ming. The Committee has reviewed the unaudited results for the three months ended 31st March, 2013 and the first quarterly report of 2013 of the Company and has provided advice and comments thereon to the Board. The Committee is of the opinion that the unaudited results for the three months ended 31st March, 2013 and the first quarterly report of 2013 of the Company complies with applicable accounting standards and the GEM Listing Rules, and that adequate disclosures have been made.

COMPLIANCE ADVISER

The Company has appointed Octal Capital Limited to be the compliance adviser of the Company (the "Compliance Adviser") for a term of two years commencing on 10 October 2012. For further details regarding the appointment of the Compliance Adviser, please refer to the announcement of the Company dated 22 October 2012.

INTERESTS OF THE COMPLIANCE ADVISER

None of the Group's compliance adviser, Octal Capital Limited, its directors, employees or associates (as defined under the GEM Listing Rules) had any interest in the share capital of the Company from the date of its appointment to 31 March 2013 pursuant to Rule 6A.32 of the GEM Listing Rules.

INTERNAL CONTROL ADVISER

In October 2012, the Company appointed Zenith Risk Management Advisory Limited (“Zenith”) to be the internal control adviser of the Company.

In accordance with the directions of the GEM Listing Committee, Zenith conducted a follow-up review based on the first report (the “First Report”) issued by Zenith and the follow-up report (the “Follow-up Report”) was submitted to the Stock Exchange on 23 January 2013. The follow-up review conducted by Zenith aimed to review on the progress of implementation of the recommendations (the “First Recommendations”) stated in the First Report. The follow-up review included conducting interviews with relevant management and staff members relating to their progress in addressing the internal controls weaknesses identified in the First Report; reviewing relevant documentation on site; and discussing with the Company on steps taken to implement the First Recommendations.

As stated in the Follow-up Report, all the First Recommendations have been fully implemented. The Board believes that by adopting the First Recommendations, the Company’s internal controls, including its procedures and compliance systems to ensure compliance with (i) the obligations under Chapters 19 and 20 and (ii) Appendix 15 of the GEM Listing Rules, have been in place.

For further details regarding the review on the relevant internal control system of the Company, please refer to the announcements of the Company dated 22 October 2012, 30 November 2012 and 5 February 2013.

PROPOSED CHANGE OF AUDITORS

CCIF CPA Limited, the Company’s auditors for the financial year ended 31 December 2012, will hold office until the conclusion of the forthcoming annual general meeting of the Company (the “AGM”) to be held on 21 May 2013.

CCIF CPA Limited had merged its business with PCP CPA Limited in October 2009 and resulting in Crowe Horwath (HK) CPA Limited operating as the merged firm. The Board considers that it is in the best interests of the Company and the shareholders of the Company (the “Shareholders”) as a whole if the auditor is able to continue to serve the Company under the more internationally renowned name of Crowe Horwath (HK) CPA Limited, a member of Crowe Horwath International. Therefore, an ordinary resolution has been proposed at the AGM to appoint Crowe Horwath (HK) CPA Limited as the new auditors of the Company to fill the vacancy arising from the retirement of CCIF CPA Limited.

Both CCIF CPA Limited and Crowe Horwath (HK) CPA Limited have confirmed that there are no matters that need to be brought to the attention of the Shareholders and the creditors of the Company in connection with their respective retirement and appointment as the auditors of the Company.

Neither the Board nor the audit committee of the Company is aware of any matters in relation to the proposed change of auditors that need to be brought to the attention of the Shareholders and the creditors of the Company.

The proposed appointment of new auditors is subject to the approval of Shareholders at the AGM.

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

Zhejiang Province, the PRC

13th May, 2013

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.

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