



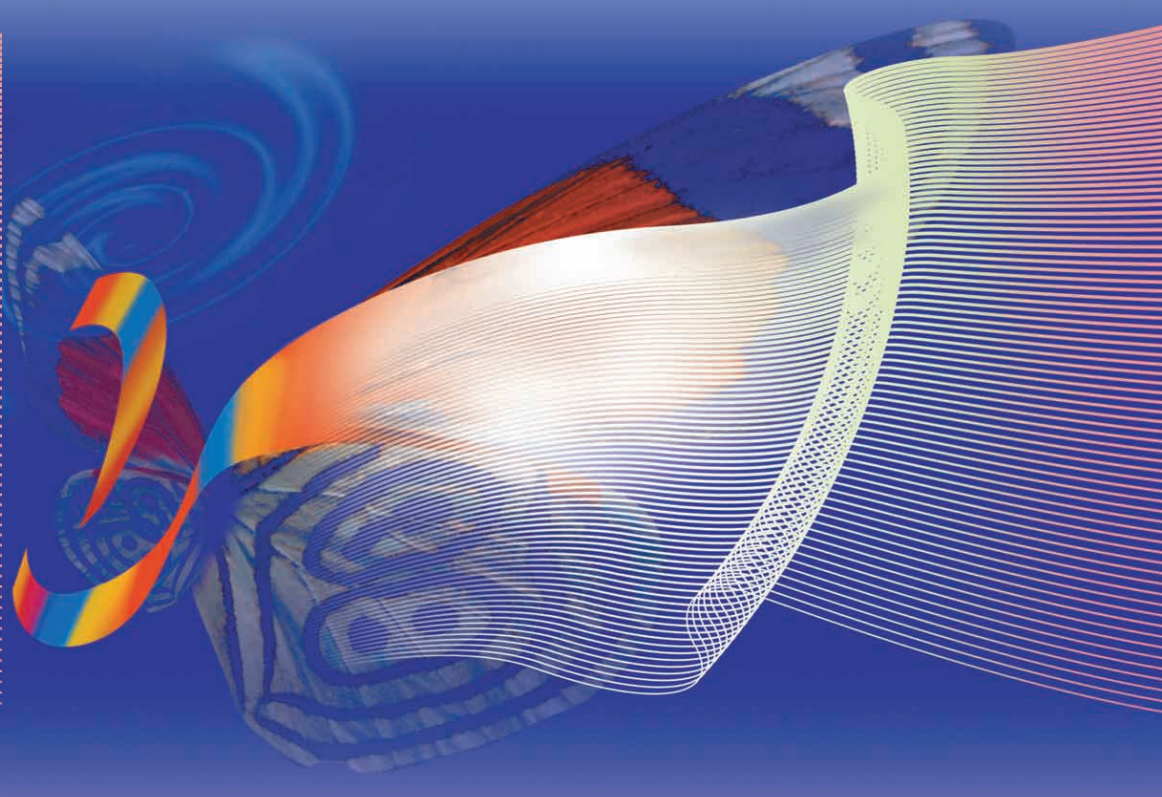
永 隆

Yonglong

浙江永隆實業股份有限公司

ZHEJIANG YONGLONG ENTERPRISES CO.,LTD.

(a joint stock limited company incorporated in the People's Republic of China with limited liability)



2002

Third Quarterly Report

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

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This document, for which the directors of Zhejiang Yonglong Enterprises Co., Ltd. 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 for the purpose of giving information with regard to Zhejiang Yonglong Enterprises Co., Ltd. The directors of Zhejiang Yonglong Enterprises Co., Ltd., having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this document is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this document misleading; and (iii) all opinions expressed in this document have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

For the nine months ended 30 September 2002

- Turnover of the Group increased from approximately RMB168.1 million to RMB310.4 million, representing a growth of approximately 84.7% when compared to the corresponding period in 2001
- Net profit attributable to shareholders was approximately RMB33 million, representing an increase of approximately 617% as compared to the corresponding period in 2001
- The Directors do not recommend the payment of an interim dividend for the nine months ended 30 September 2002

UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT
For the three months and nine months ended 30 September 2002

The board of directors (the “Board” or the “Directors”) of 浙江永隆實業股份有限公司 (Zhejiang Yonglong Enterprises Co., Ltd.*) (the “Company” together with its subsidiary, collectively the “Group”) is pleased to announce the unaudited results of the Group for the nine months and three months ended 30 September 2002, together with the comparative results for the corresponding periods in 2001 as follows:

	Three months ended 30 September					
	2002			2001		
	Continuing operation RMB'000	Discontinued operation RMB'000	Total RMB'000	Continuing operation RMB'000	Discontinued operation RMB'000	Total RMB'000
Turnover (Note 2)	147,250	—	147,250	56,175	18,018	74,193
Cost of sales	(125,116)	—	(125,116)	(51,736)	(17,067)	(68,803)
Gross profit	22,134	—	22,134	4,439	951	5,390
Other revenue	751	—	751	252	21	273
Selling expenses	(168)	—	(168)	(159)	(95)	(254)
Administrative expenses	(2,247)	—	(2,247)	(598)	(338)	(936)
PROFIT FROM OPERATIONS	20,470	—	20,470	3,934	539	4,473
Finance costs	(941)	—	(941)	(198)	(278)	(476)
Share of results of associates	—	—	—	(703)	—	(703)
Gain on disposal of a subsidiary	—	—	—	—	—	—
Gain on disposal of an associate	—	—	—	—	—	—
PROFIT (LOSS) BEFORE TAXATION	19,529	—	19,529	3,033	261	3,294
Taxation (Note 3)	(6,451)	—	(6,451)	(1,331)	—	(1,331)
Profit (loss) before minority interests	13,078	—	13,078	1,702	261	1,963
Minority interests	—	—	—	—	110	110
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS	13,078	—	13,078	1,702	371	2,073
Dividend (Note 4)	—	—	—	—	—	—
Earnings per share (Note 5)						
Basic (Cents in RMB)			2.2			0.35
Diluted (Cents in RMB)			—			—

	Nine months ended 30 September					
	2002			2001		
	Continuing operation	Discontinued operation	Total	Continuing operation	Discontinued operation	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover (Note 2)	310,398	—	310,398	129,999	38,121	168,120
Cost of sales	(264,823)	—	(264,823)	(120,858)	(36,063)	(156,921)
Gross profit	45,575	—	45,575	9,141	2,058	11,199
Other revenue	3,506	—	3,506	2,456	83	2,539
Selling expenses	(289)	—	(289)	(335)	(185)	(520)
Administrative expenses	(4,566)	—	(4,566)	(1,552)	(988)	(2,540)
PROFIT FROM OPERATIONS	44,226	—	44,226	9,710	968	10,678
Finance costs	(1,356)	—	(1,356)	(595)	(383)	(978)
Share of results of associates	—	—	—	(1,768)	—	(1,768)
Gain on disposal of a subsidiary	—	1,489	1,489	—	—	—
Gain on disposal of an associate	2,183	—	2,183	—	—	—
PROFIT (LOSS) BEFORE TAXATION	45,053	1,489	46,542	7,347	585	7,932
Taxation (Note 3)	(13,569)	—	(13,569)	(3,347)	—	(3,347)
Profit (loss) before minority interests	31,484	1,489	32,973	4,000	585	4,585
Minority interests	—	—	—	—	13	13
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS	31,484	1,489	32,973	4,000	598	4,598
Dividend (Note 4)			1,210			—
Earnings per share (Note 5)						
Basic (Cents in RMB)			5.6			0.78
Diluted (Cents in RMB)			—			—

Notes:

1. Group reorganization and basis of preparation

浙江永隆實業股份有限公司 (Zhejiang Yonglong Enterprises Co., Ltd*) was incorporated in the People's Republic of China (the "PRC") on 26 February 1998 as a collectively-owned company under the name of 紹興宏興紡織廠 (Shaoxing Hongxing Textile Factory*) ("Shaoxing Hongxing"), which was solely and beneficially owned by Mr. Sun Li Yong, the major shareholder and director of the Company. Its registered capital was RMB3,500,000.

On 3 December 2001, sale and purchase agreement was entered into between Shaoxing Hongxing and Mr. Xia Xue Nian, a director of the Company, whereby Shaoxing Hongxing sold its equity interest in the amount of RMB4,000,000 in 浙江加佰利紡織實業有限公司 (Zhejiang Gabriel Textile Industrial Co., Ltd.*) to Mr. Xia Xue Nian.

On 8 January 2002, 紹興縣經濟體制改革委員會辦公室 (the Office of the Commission of Economic System Restructuring of Shaoxing County*) granted an approval for the conversion of Shaoxing Hongxing into a privately-owned enterprise with Mr. Sun Li Yong as its sole owner from the date of its establishment.

On 18 January 2002, a sale and purchase agreement was entered into between Shaoxing Hongxing and Mr. Xia Guo Min whereby the Company sold its 70% equity interest in 浙江宏興莎美娜服飾有限公司 (Zhejiang Hongxing Sabrina Garments Co., Ltd.*) ("Sabrina Garments") to Mr. Xia Guo Min at a consideration of US\$1,470,000.

On 18 January 2002, a sale and purchase agreement was entered into between Shaoxing Hongxing and Mr. Sun Li Yong whereby Shaoxing Hongxing sold its 25% equity interest in 紹興市置業房地產開發有限公司 (Shaoxing Zhiye Real Estate Development Co., Ltd.*) to Mr. Sun Li Yong at a consideration of RMB5,000,000.

On 26 March 2002, Shaoxing Hongxing underwent a reorganization and became a limited liability company, namely 紹興縣永隆紡織有限公司 (Shaoxing Yonglong Textile Co., Ltd.*) ("Shaoxing Yonglong"). The registered capital was increased to RMB58,000,000 and its contribution was fulfilled by the transfer of the net assets of Shaoxing Hongxing in the amount of RMB11,519,859.76 and cash contributed by Mr. Sun Li Yong and other four shareholders, Ms Fang Xiao Jian, Mr. Fang Han Hong, Mr. Sun Jian Feng and Mr. Xia Xue Nian.

On 15 April 2002, Shaoxing Yonglong was reorganized and registered as a joint stock limited company, and its name was changed to 浙江永隆實業股份有限公司 (Zhejiang Yonglong Enterprises Co., Ltd*). The registered capital was increased to RMB58,800,000 through the transfer of approximately RMB499,000, RMB201,000 and RMB100,000 from accumulated profits, statutory surplus reserve and statutory welfare fund respectively of Shaoxing Yonglong.

In August 2002, the Company subdivided the Company's Shares from one share of nominal value of RMB1.00 each into ten shares of RMB0.10 each.

Further details of the Group Reorganisation are set out in the prospectus issued by the Company dated 31 October 2002.

The H Shares of the Company have been listed on the GEM of the Stock Exchange since 8 November 2002.

The principal accounting policies used in the preparation of the unaudited consolidated results are consistent with those used in the preparation of the Company's financial information included in the accountants' report as set out in the prospectus issued on 31 October 2002 in connection with the placing of the H Shares of the Company on GEM of the Stock Exchange. The unaudited consolidated results are prepared in accordance with accounting principles generally accepted in Hong Kong.

The unaudited consolidated results incorporate the financial statements of the Company and its subsidiary made up to the balance sheet date. The results of the subsidiary acquired or disposed of during the period are included in the unaudited consolidated income statement up to the effective date of acquisition or disposal, respectively. All significant intercompany transactions and balances with the Group are eliminated on consolidation. A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital or registered capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body. An associate is an enterprise over which the Group is a position to exercise significant influence through participation in the financial and operating policy decisions of the investee. The consolidated income statement includes the Group's share of the post-acquisition results of its associate for the year/period.

2. Turnover

	Three months ended 30 September					
	2002			2001		
	Continuing operation RMB'000	Discontinued operation RMB'000	Total RMB'000	Continuing operation RMB'000	Discontinued operation RMB'000	Total RMB'000
Sales of:						
— woven fabrics	147,250	—	147,250	56,175	—	56,175
— knitted and woven garments	—	—	—	—	18,018	18,018
	147,250	—	147,250	56,175	18,018	74,193

	Nine months ended 30 September					
	2002			2001		
	Continuing operation RMB'000	Discontinued operation RMB'000	Total RMB'000	Continuing operation RMB'000	Discontinued operation RMB'000	Total RMB'000
Sales of:						
— woven fabrics	310,398	—	310,398	129,999	—	129,999
— knitted and woven garments	—	—	—	—	38,121	38,121
	310,398	—	310,398	129,999	38,121	168,120

Turnover represents the amounts received and receivable for goods sold, which is net of value-added tax, less returns and allowances, during the period.

3. Taxation

	Three months ended 30 September					
	2002			2001		
	Continuing operation RMB'000	Discontinued operation RMB'000	Total RMB'000	Continuing operation RMB'000	Discontinued operation RMB'000	Total RMB'000
The charge comprises:						
PRC enterprise income tax	6,451	—	6,451	1,331	—	1,331
	6,451	—	6,451	1,331	—	1,331

	Nine months ended 30 September					
	2002			2001		
	Continuing operation RMB'000	Discontinued operation RMB'000	Total RMB'000	Continuing operation RMB'000	Discontinued operation RMB'000	Total RMB'000
The charge comprises:						
PRC enterprise income tax	13,569	—	13,569	3,347	—	3,347
	13,569	—	13,569	3,347	—	3,347

The PRC enterprise income tax is calculated at a rate of 33% on the assessable profits of the Company arising in the PRC during the Relevant Periods.

Pursuant to the relevant laws and regulations in the PRC, Sabrina Garments was entitled to an exemption from PRC Foreign Enterprise Income Tax ("FEIT") for two years starting from its first profit-making year, followed by a 50% tax relief for the next three years. The year ended 31 December 2001 was the first year that Sabrina Garments was entitled to a 50% reduction from FEIT. However, no provision for FEIT had been made by Sabrina Garments for the period ended 30 September 2001 since it had sufficient tax losses brought forward to set off against that period's assessable profit.

There was no significant unprovided deferred taxation for the period.

4. Dividend

The Company had declared a dividend of RMB1,210,000 from its distributable retained profits based on the statutory financial statements as at 31 December 2001 to its owner in April 2002. The dividend had been paid out in full amount in July 2002. The Directors do not recommend the payment of an interim dividend for the three months and nine months ended 30 September 2002 (2001: Nil).

5. Earnings per share

The calculation of the basic earnings per share is based on the following data:

	Three months ended 30 September		Nine months ended 30 September	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Earnings for the purpose of calculating basic earnings per share	13,078	2,073	32,973	4,598
Number of shares:				
Number of shares for the purpose of basic earnings per share (Note)	588,000,000	588,000,000	588,000,000	588,000,000
Weighted average number of shares for the purpose of calculating earnings per share	588,000,000	588,000,000	588,000,000	588,000,000

Note:

The calculation of the basic earnings per share for the three months and nine months ended 30 September 2002 and three months and nine months ended 30 September 2001 were based on the unaudited net profit attributable to the shareholders as above as if the sub-division of the Company's shares as described in the note 1 above had taken place at the beginning of the respective periods.

Diluted earnings per share has not been calculated for the three months and nine months ended 30 September 2002 respectively and the corresponding periods as there were no dilutive potential ordinary shares during these periods.

6. Movements in reserves

Movements in the reserves of the Group during the nine months ended 30 September 2002 are set out as follows:

	Paid-up capital RMB'000	Goodwill reserve RMB'000	Statutory surplus reserve RMB'000	Statutory welfare fund RMB'000	Revaluation reserve RMB'000	Accumulated (losses) profits RMB'000	Total RMB'000
Balance at 1 January 2001	3,500	(608)	—	—	—	(1,012)	1,880
Profit for the period	—	—	—	—	—	2,073	2,073
Balance at 30 September 2001	3,500	(608)	—	—	—	1,061	3,953
Balance at 1 January 2002	3,500	(608)	—	—	—	5,582	8,474
Additional capital injection	46,480	—	—	—	—	—	46,480
Transfer to capital upon conversion into a privately-owned limited liability company	8,020	—	—	—	—	(8,020)	—
Realised on disposal of a subsidiary	—	608	—	—	—	—	608
Transfer	—	—	3,498	1,748	—	(5,246)	—
Transfer to capital upon conversion into a joint stock limited liability company	800	—	(201)	(100)	—	(499)	—
Revaluation reserve	—	—	—	—	17,412	—	17,412
Profit for the period	—	—	—	—	—	32,973	32,973
Dividend	—	—	—	—	—	(1,210)	(1,210)
Balance at 30 September 2002	58,800	—	3,297	1,648	17,412	23,580	104,737

FINANCIAL REVIEW

For the nine months ended 30 September 2002, the Group had stable and sustained growth in turnover and net profits. Turnover was recorded at approximately RMB310.4 million, which represented a 84.7% increase as compared with the same period of the previous financial year, while the Group's net profits surged by 617% to approximately RMB33 million.

For the three months ended 30 September 2002, the Group accomplished a turnover of approximately RMB147.2 million and net profits of approximately RMB13.1 million. These represented a growth of 98.5% in turnover and a growth of 530.9% in net profits as compared to the third quarter of the previous financial year.

The increases in turnover and profit were mainly attributable to the increase in sales of stretch fabrics, which has a higher profit margin than the products previously sold by the Company. Operational and administrative expenses increased remarkably, which were in line with the expansion of business of the Group.

Finance cost increased significantly for the three months and nine months ended 30 September 2002 when compared with that of 2001. It was mainly due to the increase in bank loans for the acquisition of machinery during the period.

BUSINESS AND OPERATION REVIEW

In the third quarter, the sales of stretch fabrics continued to be both the major source of income and growth driver amongst the Group's products. Sales of stretch fabrics accounted for approximately 81.6% of the Group's total turnover for the nine months ended 30 September 2002.

Product Research and Development

To cope with the increasing demand for high quality, comfortable and fashionable clothing in the markets, the Group continued to conduct research in order to improve existing products and explore new products. The Group's co-operation with DuPont Fibers (China) Limited ("DuPont China") shows its endeavour in this aspect. The co-operation can be traced back to 1998 when DuPont China and the Group jointly involved in the research and development of new fabric materials, technology and craftsmanship. The most important achievement was the development of new fabrics from application of LYCRA[®] and the co-development of "T-400" technology and related products. Since the application of LYCRA[®] in stretch fabrics, the Group had experienced considerable increase in the sales of this product. In July 2002, the Group got the formal endorsement from DuPont China as

a LYCRA® Assured™ Partner for the manufacture of LYCRA® stretch fabrics and this rendered the Group greater advantages over its peers since DuPont China will provide the Group with a preferential level of technical and marketing supports as well as access to DuPont's innovations and new products. To sustain its growth, the Group further worked with DuPont China to develop "T-400" technology and related products and it is expected that the adoption of this technology will result in improvement of existing products and exploration of other new products. The Directors believe that the devotion and initiatives to research and development will enable the Group to move forward and be better positioned for future growth opportunities in the fabrics market.

Production facilities

The Group's modern production facilities is located in Zhejiang Province, the People's Republic of China (the "PRC") where all the major production machinery are imported from Belgium and Italy which guarantee the products manufactured by the Group are of the best quality.

To cope with the increasing sales order, the Group purchased additional machinery and recruited additional production staff. During this quarter, the Company acquired and installed an additional 200 sets of looms and it is expected that the annual production capacity of the Group can reach 75 million meters of fabrics.

Sales and marketing

The Company's customers comprise both domestic and overseas customers. Domestic customers consist local textile wholesalers, manufacturers and trading companies in the PRC while overseas markets include the US and European countries, South Africa, Japan and Hong Kong. Sales to overseas markets account for more than 50% of the total turnover of the Group. The Company used to sell its products to licensed export traders, which in turn sold and exported the products to overseas countries. The Company had to incur extra handling charges through these traders. Starting from this quarter, the Company can sell its products to overseas markets without going through licensed export traders since it had been granted the right to export products directly to overseas markets. The Directors are confident that the benefits of this export right will be reflected in the Group's turnover in the coming quarters.

To strengthen domestic sales, the Company is planning to expand its sales network in the PRC by setting up sales/representative offices. To gain exposure in the fabrics market and to inform the customers of its new products, the Company has been actively participating in various trade fairs held in the PRC and overseas. Sales to domestic customers were promising in this quarter. An increase of 120% in sales was recorded when compared with

that for the respective periods in 2001. To further capitalise its effort in the fabrics market, the Company is now formulating its own brand name and a series of brand enhancement activities will then be arranged. The Directors believe that a strong and effective brand is a useful tool to spread the name of the Company and broaden its customer base. It will be one of the key marketing strategies for the future direction of the Company.

OUTLOOK

Since its establishment in 1998, the Company has been growing rapidly. The Directors are especially pleased that in less than five years, the Company becomes a listed company in Hong Kong. The Company has achieved growth beyond numbers. It is expected that the next quarter will be our another phase of growth and, more importantly, it is not just in the near term, the Company is expected to generate sustained growth in the years ahead.

DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' RIGHTS TO ACQUIRE H SHARES OR DEBENTURES

None of the Directors, chief executive (the "Chief Executive") or supervisors (the "Supervisors") of the Company or their spouse or children under the age of 18 was granted by the Company or its subsidiary any right to acquire shares or debentures of the Company or any other body corporate, or had exercised any such right as at 13 November 2002.

DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' INTERESTS IN SHARES OF THE COMPANY

As the shares of the Company were listed on the GEM of the Stock Exchange on 8 November 2002, the Company was not required to keep a register under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") as at 30 September 2002.

As at 13 November 2002, the interests of the Directors, the Chief Executive and the Supervisors and their respective associates in the shares or debentures of the Company and its associated corporations, if any, as required to be recorded in the register maintained by the Company under Section 29 of the SDI Ordinance were as follows:

Name	Class of shares	Type of interests	Number of shares	Percentage of deemed beneficial interest in the Company's share capital immediately after the Listing
Mr. Sun Li Yong (Note 1)	Domestic shares	Personal	382,200,000	45.6%
		Family	182,280,000	21.8%
Ms. Fang Xiao Jian (Note 2)	Domestic shares	Personal	182,280,000	21.8%
		Family	382,200,000	45.6%

Notes:

1. Mr. Sun Li Yong is the husband of Ms. Fang Xiao Jian and shall be deemed by virtue of the SDI Ordinance to be interested in 182,280,000 shares beneficially owned by Ms. Fang Xiao Jian.
2. Ms. Fang Xiao Jian is the wife of Mr. Sun Li Yong and shall be deemed by virtue of the SDI Ordinance to be interested in 382,200,000 shares beneficially owned by Mr. Sun Li Yong.

Apart from the aforesaid, none of the Directors, the Chief Executive and the Supervisors and their respective associates had, following the listing of the Company, any interests in the shares or debentures of the Company and its associated corporations, if any, as recorded in the register under Section 29 of the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS

As the shares of the Company were listed on the GEM of the Stock Exchange on 8 November 2002, the Company was not required to keep a register under Section 16(1) of the SDI Ordinance as at 30 September 2002.

So far as the Directors are aware, as at 13 November 2002, the shareholders having an interest of 10% or more in the respective class of share capital of the Company as registered in the register required to be kept under Section 16(1) of the SDI Ordinance are listed as follows:

Shareholder	Class of shares	Type of interests	Number of shares	Percentage of deemed beneficial interest in the Company's share capital immediately after the Listing	
Mr. Sun Li Yong (Note 1)	Domestic shares	Personal	382,200,000		45.6%
		Family	182,280,000		21.8%
Ms. Fang Xiao Jian (Note 2)	Domestic shares	Personal	182,280,000		21.8%
		Family	382,200,000		45.6%

Notes:

1. Mr. Sun Li Yong is the husband of Ms. Fang Xiao Jian and shall be deemed by virtue of the SDI Ordinance to be interested in 182 280,000 shares beneficially owned by Ms. Fang Xiao Jian.
2. Ms. Fang Xiao Jian is the wife of Mr. Sun Li Yong and shall be deemed by virtue of the SDI Ordinance to be interested in 382,200,000 shares beneficially owned by Mr. Sun Li Yong.

Apart from the aforesaid, no other person is recorded in the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance as having an interest in 10% or more of the issued share capital of the Company.

COMPETING INTERESTS

None of the Directors or the management shareholders of the Company and their respective associates (as defined under the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Group.

JOINT SPONSORS' INTERESTS

Pursuant to a sponsors agreement dated 31 October 2002 between the Company, Kingsway Capital Limited (“Kingsway”) and Guotai Junan Capital Limited (“Guotai Junan”), Kingsway and Guotai Junan have been appointed as the joint sponsors to the Company as required under the GEM Listing Rules at a fee for the remainder of the financial year of the Company ending 31 December 2002 and for a period of 2 years thereafter expiring on 31 December 2004.

As at 13 November 2002, Kingsway, Guotai Junan, their directors, employees nor any of their respective associates did not have any interest in any securities of the Company or any of its associates.

AUDIT COMMITTEE

The Company has established an audit committee in October 2002 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Company and provide advice and comments to the Board. The audit committee has two members comprising the two independent non-executive Directors, Mr. Lui Tin Nang and Mr. Luk Guo Qing. Mr. Lui Tin Nang is the chairman of the audit committee.

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited quarterly accounts for the nine months ended 30 September 2002.

PURCHASE, SALE OR REDEMPTION OF SHARES

Apart from the placing of H shares of the Company on the GEM of the Stock Exchange, neither the Company nor its subsidiary purchased, sold or redeemed any of the Company's listed shares during the period from 8 November 2002 (date of listing of the Company's shares on the GEM) to 13 November 2002.

By Order of the Board
Sun Li Yong
Chairman

Hong Kong, 13 November 2002