



永隆

浙江永隆實業股份有限公司

ZHEJIANG YONGLONG ENTERPRISES CO.,LTD.

A large, abstract graphic design featuring a flowing, multi-colored ribbon (red, orange, yellow, green, blue) that curves across the page. The ribbon is composed of many thin, parallel lines, creating a sense of motion and depth. The background is a gradient of blue and purple.

2002

ANNUAL REPORT

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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: (1) the information contained in this document 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 document misleading; and (3) 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.

ZHEJIANG YONGLONG ENTERPRISES CO., LTD. • 2002 ANNUAL REPORT

Contents

Corporate Information	2
Highlights	4
Corporate Profile	5
Chairman’s Statement	6
Management Discussion & Analysis	8
Comparison of Business Objectives with Actual Business Progress	13
Directors, Supervisors and Senior Management’s Profile	15
Financial Summary	18
Directors’ Report	19
Supervisors’ Report	24
Joint Auditors’ Report	25
Income Statement	27
Balance Sheet	28
Statement of Changes in Equity	29
Cash Flow Statement	30
Notes to the Financial Statements	31
Notice of Annual General Meeting	51

Corporate Information

Executive Directors

Mr. Sun Li Yong
Ms. Fang Xiao Jian
Mr. Fang Han Hong
Mr. Sun Jian Feng
Mr. Xia Xue Nian

Independent Non-executive Directors

Mr. Lui Tin Nang
Mr. Luk Guo Qing

Supervisors

Mr. Fang Guo Liang
Mr. Shao Bao Hua
Mr. Luo Feng Fa

Independent Supervisors

Mr. Wang He Rong
Mr. Hu Jin Huan

Company Secretary

Ms. Chen Yen Yung *AHKSA, CPA (Aust.)*

Audit Committee

Mr. Lui Tin Nang
Mr. Luk Guo Qing

Qualified Accountant

Ms. Chen Yen Yung *AHKSA, CPA (Aust.)*

Legal Address

Yangxun Qiao Town
Shaoxing County
Zhejiang Province
PRC

Head office and Principal Place of Business in Hong Kong

Suite 604, 6th Floor
Prudential Tower
The Gateway, 25 Canton Road
Tsimshatsui, Kowloon
Hong Kong

Company Website

www.zj-yonglong.com

Compliance Officer

Mr. Xia Xue Nian

Authorised Representatives

Mr. Sun Li Yong
Mr. Sun Jian Feng

Principal Bankers

Agriculture Bank of China
Shaoxing Branch
333 Jin Ke Quao Da Road
Shaoxing County
Zhejiang Province
PRC

Joint Auditors

Deloitte Touche Tohmatsu
Certified Public Accountants
26th Floor
Wing On Centre
111 Connaught Road Central
Hong Kong

KLL Associates CPA Limited
Certified Public Accountants
Suite 1303
Shanghai Industrial Investment Building
60 Hennessy Road
Wanchai
Hong Kong

Legal Advisers

As to Hong Kong law
Koo and Partners in associate with Paul,
Hastings, Janofsky & Walker LLP
21-22/F, Bank of China Tower
1 Garden Road
Hong Kong

H Share Share Registrar and Transfer Office

Standard Registrars Limited
G/F, Bank of East Asia Harbour View Centre
56 Gloucester Road, Wanchai
Hong Kong

Corporate Information (Continued)

Joint Sponsors

Kingsway Capital Limited

5th Floor

Hutchison House

10 Harcourt Road

Central

Hong Kong

Guotai Junan Capital Limited

27th Floor, Low Block

Grand Millennium Plaza

181 Queen's Road Central

Hong Kong

Stock Code

8211

Highlights

- Successfully listed on GEM on November 8, 2002
- The first H share company engaged in the research and development, manufacture and sale of woven fabrics listed on GEM
- The first and the only textile manufacturer in the PRC co-operates with Dupont China in setting up research and development centre
- Turnover was up over 108% when compared with that of last year
- Profit from operations increased by 360% when compared with that of last year

Corporate Profile

Zhejiang Yonglong Enterprises Co., Ltd. was established in 1998. After merely several years of development, it has become a fabrics manufacturer with advanced technology and comprehensive equipment in the PRC. Located in Zhejiang Province, the Company is mainly engaged in the research and development, manufacture and sales of woven fabrics. Its development strategy is to provide high quality woven fabrics to customers, with emphasis on overseas markets.

The Company is dedicated to expanding overseas fabrics markets with high potential by providing quality woven fabrics to customers. Through the co-operation with DuPont China, the Company has established the first technological research centre of its kind in the PRC. With this research centre, the Company is capable of developing at least eight types of new fabric products annually, thus boosting its sales and profitability substantially. The Company's products are exported to various overseas markets such as Dubai, Iran, the United States, Europe, Japan, South Africa, Hong Kong, and certain Arabic countries. The Company's excellent quality control process and systematic management procedures have been accredited with an ISO9001-2000 certification.

The Company was successfully listed on GEM on November 8, 2002. This marks an important milestone for the development of the Company.

Chairman's Statement

On behalf of 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"), I am pleased to present to our shareholders the annual report of the Company for the year ended December 31, 2002. This is our first annual report after the H shares of the Company being listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM") on November 8, 2002.

FINANCIAL PERFORMANCE

The Company achieved encouraging results in 2002. For the year ended December 31, 2002, the turnover of the Company was approximately RMB406 million with a gross profit of approximately RMB62 million, representing a gross profit margin of approximately 15%. The turnover increased by approximately 108% as compared with that of previous year. The increase in turnover was mainly due to the increase in the demand of stretch fabric, the major product of the Company. Due to the effort of co-operating with Dupont China and Donghua University in the research and development of quality fabric, the high quality of the Company's stretch fabric successfully stood out from similar products and gained reputation as one of the best amongst its kind in the market. The increase in profit was mainly due to the increase in the proportion of high end products sold, the decrease in the price of raw materials, and the overall decrease in production overhead from economies of scale. In addition, in July 2002, the Company started to export products directly to its overseas customers which saved the handling charges that the Company had to incur in the past. Administrative expenses increased in line with the expansion of business of the Company. Finance cost increased significantly for the year ended December 31, 2002 when compared with that of 2001. It was mainly due to the increase in bank loans for the acquisition of property, plant and equipment during the year.

DIVIDEND

The Directors recommend the declaration of a final dividend at the rate of RMB1 cent per share payable on June 6, 2003 to all persons whose names appeared on the register of members of the Company on April 14, 2003. The management shareholders of the Company, namely Mr. Sun Li Yong, Ms. Fang Xiao Jian, Mr. Fang Han Hong, Mr. Sun Jian Feng and Mr. Xia Xue Nian (the "Management Shareholders") who are holding 382,200,000, 182,280,000, 11,760,000, 5,880,000 and 5,880,000 domestic shares of the Company respectively entered into an agreement with the Company on March 24, 2003, pursuant to which the Management Shareholders have agreed to give up their right to receive the final dividend of the Company for the financial year 2002. Therefore, the Company will only pay the final dividend for the financial year 2002 to holders of H shares of the Company. The share registers will be closed from April 15, 2003 to May 16, 2003, both days inclusive.

PROSPECTS

Being a member of the World Trade Organization, China's economic development is closely entwined with globalization. With a high demand for fashionable clothing and quality fabrics, ample business opportunities for the Company are expected. The following are the corporate strategies designed by the Company to capitalize on the huge market potential:

- To purchase more advanced production facilities to enhance efficiency and productivity.

Chairman's Statement (Continued)

PROSPECTS (Continued)

- To install dyeing facilities in order to reduce subcontracting cost.
- To research and develop new fabrics products to further enhance quality and functionality through the co-operation with DuPont China and Donghua University.
- To develop at least 8 new fabrics annually to maintain competitiveness in both domestic and international markets.
- To provide training for the existing research and development staff in order to strengthen the Company's R&D capabilities.
- To establish a logistics network centre, set up sales offices and appoint authorized marketing agents; and to continue to seek opportunities to expand its overseas market coverage, thus strengthening its business network.
- To produce branded products in Zhejiang Province and build up its own brand name and trademark.
- To participate in major sales exhibitions and trade shows and continue to disseminate the Company's corporate image through the mass media.

The market competition of textile industry was very intense last year, however, with the hard work of the management and the employees, the Company was able to weather the difficult environment and recorded continuous growth. The sophisticated production facilities, world-class research and development centre, together with our seasoned and dedicated staff members, we are ready to further increase market share and strive for better results.

APPRECIATION

On behalf of the Board, I wish to extend my appreciation to our customers, vendors, banks and shareholders for their enthusiasm and support, and to every employee for their hard work and dedication throughout the year.

Sun Li Yong
Chairman

Hong Kong, March 27, 2003

Management Discussion and Analysis

BUSINESS REVIEW

Product Research and Development

To cope with the increasing demand for high quality, comfortable and fashionable clothing in the markets, the Company continued to conduct research in order to improve existing products and explore new products. The Company's co-operation with DuPont China shows its endeavour in this aspect. The co-operation can be traced back to 1998 when DuPont China and the Company 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® in stretch fabrics, the Company had experienced considerable increase in the sales of this product. In July 2002, the Company got the formal endorsement from DuPont China as a LYCRA® Assured™ Partner for the manufacture of LYCRA® stretch fabrics and this rendered the Company greater advantages over its peers since DuPont China will provide the Company with a preferential level of technical and marketing supports as well as access to DuPont China's innovations and new products. To sustain its growth, the Company 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 Company to move forward and be better positioned for future growth opportunities in the fabrics market.

Production facilities

The Company's modern production facilities are located in Zhejiang Province, the PRC. All the major production machinery, mainly comprising SOMET MYTHOS and PICANOL jet looms and LEONARDO rapier looms, are imported from Belgium and Italy. Modern production facilities guarantee that the Company manufactures products with the best quality.

To cope with the increasing sales order, the Company has purchased additional machinery and recruited additional production staff. During the year, the Company acquired and installed an addition of 300 sets of looms. It is expected that the annual production capacity of the Company 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 Dubai, Iran, the US, Europe, South Africa, Japan, and Hong Kong. Before July 2002, 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 July 2002, the Company started to sell its products to overseas markets without going through licensed export traders since it was 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 year.

Management Discussion and Analysis (Continued)

BUSINESS REVIEW (Continued)

Sales and marketing (Continued)

To strengthen domestic and overseas sales, the Company had set up three sales representative offices in Hangzhou and Shanghai of the PRC and Hong Kong which commenced operation in the first quarter of 2003. 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 trading companies and overseas customers were promising in this year. An increase of 101% in sales was recorded when compared with that of 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.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

As at December 31, 2002, the Company had net current assets of approximately RMB16.3 million.

As at December 31, 2002, the current assets comprised inventories of approximately RMB45.1 million, trade receivables of approximately RMB42.0 million, other receivables, deposits and prepayments of approximately RMB36.3 million, restricted cash of approximately RMB53.2 million and bank balances and cash of approximately RMB75.7 million.

As at December 31, 2002, the current liabilities comprised trade payables of approximately RMB34.3 million, other payables and accruals of approximately RMB67.2 million, bills payable of approximately RMB20.0 million, amounts due to related companies of approximately RMB8.9 million, taxation payable of approximately RMB15.1 million and borrowings due within one year of approximately RMB90.4 million.

Borrowings and banking facilities

The Company generally finances its operations and capital expenditures and other capital requirements with cashflow generated internally and banking facilities provided by its bankers and financing from related companies.

As at December 31, 2002, the Company has bank loans due within one year, other loans due within one year and bank loans due after one year of approximately RMB77.2 million, RMB13.2 million and RMB63.1 million respectively. The loans bear interest at prevailing market rates range from approximately 4.86% per annum to 7.06% per annum and repayable in instalments over a period of six months to two years. The unsecured loans were jointly guaranteed by Zhejiang Gabriel Textile Industrial Company Limited, a related company which Mr. Sun Li Yong, Ms. Fang Xiao Jian, Mr. Sun Jian Feng and Mr. Xia Xue Nian are also directors of this company and an independent third party. The secured loans were pledged by restricted cash of approximately RMB56.2 million, land use rights, buildings and plant and machinery situated in the PRC of net book values as at December 31, 2002 of approximately RMB9.4 million, RMB31.1 million and RMB81.4 million respectively.

Management Discussion and Analysis (Continued)

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE (Continued)

Borrowings and banking facilities (Continued)

As at December 31, 2002, the Company had an outstanding amount of approximately RMB19.1 million due to 紹興宏大針織廠 (“Shaoxing Hongda”) that the Company’s director, Mr. Sun Li Yong’s father was the legal representative of this related company and another outstanding amount of approximately RMB20 million due to 紹興縣嘉利紡織有限公司 (“Shaoxing Jia Li”) that the Company’s director, Mr. Xia Xue Nian had 40% beneficial interest in this company. The outstanding amounts due to Shaoxing Hongda of approximately RMB19.1 million and Shaoxing Jia Li of RMB20 million were unsecured, non-interest bearing. Pursuant to the agreements entered into by the Company with each of Shaoxing Jia Li and Shaoxing Hongda on July 31, 2002, the outstanding amounts due to Shaoxing Hongda and Shaoxing Jia Li are repayable by three and eight quarterly installments respectively from October 31, 2003. Pursuant to the supplemental agreements dated October 25, 2002, Shaoxing Jia Li and Shaoxing Hongda respectively have agreed with and undertaken to the Company that (i) they will not demand repayment of RMB6.4 million and approximately RMB2.5 million respectively within one year from November 8, 2002 (the “Listing Date”) and accordingly, the quarterly installment payable by the Company on October 31, 2003 has been extended to November 30, 2003; (ii) after the expiry of this one year period, they will not demand repayment of any outstanding amount due to them unless the Company has positive cash flow from operations and retained earnings and such positive cashflow is sufficient to fund the repayment of the amount due and all the working capital needs of the Company for the financial year in which such repayment is required to be made (including but not limited to the funding required for the fulfillment of the business plans) and each of the Independent Non-executive Directors has confirmed that such repayment will not adversely affect the Company’s operation or the implementation of its business objectives up to December 31, 2004 and (iii) in the event that the repayment conditions as mentioned in (i) and (ii) above are not or can not be fulfilled on a particular installment payment date, the relevant installment payment shall be accrued for payment on the next coming installment payment date provided always that payment on any payment date shall remain subject to the same payment conditions as mentioned in (i) and (ii) above and further that, in the event that the Company is not able to pay the outstanding amounts due to Shaoxing Jia Li and Shaoxing Hongda (as the case may be) on the final maturity date as stipulated in the relevant agreements as a result of the non-fulfilment of the repayment conditions as mentioned in (i) and (ii) above, the relevant final maturity date shall be extended for further period(s) of three months until the repayment conditions as mentioned in (i) and (ii) above are fulfilled on the relevant repayment date. The outstanding amount due to Shaoxing Hongda and Shaoxing Jia Li will be settled by the internal sources of fund.

CAPITAL COMMITMENTS

As at December 31, 2002, the Company had commitments of approximately RMB8.4 million (2001: RMB44.4 million) for capital expenditure in respect of acquisition of property, plant and equipment.

FORWARD CONTRACTS COMMITMENTS

As at December 31, 2002, the Company had forward contracts commitments expressed in Euro for hedging against bank borrowings and other payables of Euro9,123,000 (2001: Nil).

Management Discussion and Analysis (Continued)

MATERIAL ACQUISITIONS/DISPOSALS

In January 2002, the Company disposed of its entire interest in a subsidiary, Hongxing Sabrina and an associate, Shaoxing Zhiye to an independent third party for a cash consideration of US\$1.47 million and Mr. Sun Li Yong, a Director of the Company for a cash consideration of RMB5 million respectively which were determined by reference to the amount of capital contributed by the Company.

SEGMENTAL INFORMATION

The Company is solely engaged in manufacturing and sale of woven fabrics and most of the turnover and contribution to operating profit of the Company are located in the PRC. Accordingly no segmental analysis was presented.

EMPLOYEE INFORMATION

As at December 31, 2002, the Company had 1,608 (2001: 854) employees, comprising 8 (2001: 6) in research and development, 18 (2001: 12) in sales and marketing, 1,532 (2001: 807) in production, 18 (2001: 8) in quality control, 9 (2001: 5) in management, and 23 (2001: 16) in finance and administration.

The Company has not experienced any disruption of its normal business operations due to labour disputes or significant turnover of staff. The Directors consider that the Company has maintained a very good relationship with its staff.

CHARGES ON ASSETS

As at December 31, 2002, the Company's assets with an aggregate net book value of approximately RMB178.1 million (2001: Nil), were pledged as securities for the banking facilities granted to the Company.

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

Save as disclosed in the section "Statement of business objectives" of the prospectus issued by the Company on October 31, 2002, the Directors do not have any future plans for material investment or capital assets.

GEARING RATIO

The gearing ratio (total debts over total assets) of the Company as at December 31, 2002 was 65.4% (2001: 90.4%).

Management Discussion and Analysis (Continued)

FOREIGN EXCHANGE EXPOSURE

Renminbi currently is not a freely convertible currency. Currently, the Company receives all of its revenues from sales in the PRC in Renminbi. Since May 2002, the Company has obtained an “export right”. Currently, the export revenue are denominated in US dollars. A portion of the Company’s Renminbi revenues must be converted into other currencies to meet the Company’s foreign currency obligations including purchases of imported equipment and materials; and payment of any dividends declared in respect of the H shares. Currently the Company purchases all of its raw materials for production from the PRC suppliers. The Directors believe that except for payment of imported equipment and payment of any dividends declared in respect of the H shares, the Company does not have any material foreign exchange exposure.

Under the existing foreign exchange regulation in the PRC, following the completion of the placing of the Company’s H shares on GEM on November 8, 2002, the Company may undertake current account foreign exchange transactions, including payment of dividends, without prior approval from the State Administration for Foreign Exchange (中華人民共和國國家外匯管理局), by producing commercial documents evidencing such transactions, provided that they are processed through Chinese banks licensed to engage in foreign exchange transactions.

Under the current foreign exchange system in the PRC, the Company is not able to hedge effectively against currency risk, including future depreciation of the Renminbi. Any depreciation in value of Renminbi versus that U.S. dollar could affect the ability of the Company to pay dividends in foreign currencies and the ability of the Company to import equipment and materials.

CONTINGENT LIABILITIES

As at December 31, 2002, the Company did not have any significant contingent liabilities.

Comparison of Business Objectives with Actual Business Progress

The following is a summary of the actual business progress in the comparison with the business objectives set out in the Prospectus of the Company for the period from October 24, 2002 to December 31, 2002:

Business objectives	Actual business progress
Expansion of production capacity	
1. Enhance the functions of the existing production facilities to improve efficiency and increase productivity	In progress
2. Complete installation of 200 weaving machines (including 100 sets of jet looms and 100 sets of rapier looms) to increase the existing production capacity	The 200 sets of weaving machines were installed and fully operated in production in September 2002 and November 2002
3. Commence feasibility study on the installation of dyeing facilities	In progress
Expansion of sales network	
1. Set up two sales offices in Hangzhou and Shanghai	The Company has set up the two sales offices in Hangzhou and Shanghai which will start to operate in the first quarter of 2003
2. Commence feasibility study on setting up additional sales offices in other cities of the PRC	In progress
3. Participate in major sales exhibitions and trade shows	The Company has participated in various exhibitions held in Paris, Shanghai and Hong Kong during the year
4. Place advertisement in the media to promote the Company's overall image	The Company has placed advertisement in various newspapers in Shaoxing and Hangzhou media to promote the overall corporate image
Research and development of new fabric products	
1. Provide training for the existing research and development staff	In progress
2. Jointly research, develop and promote new fabric products and new applications and manufacturing technologies with Donghua University	In progress
3. Jointly research, develop and promote new fibre products and new applications and manufacturing technologies with Dupont China in Zhejiang Yonglong New Fibre Material Promotion Centre	In progress
4. Jointly research, develop and promote "T-400" technology and its related products with Dupont China	In progress
5. Launch 4 new fabric products	Launched to the market in December 2002

Comparison of Business Objectives with Actual Business Progress (Continued)

USE OF NET PROCEEDS FROM THE ISSUING OF THE NEW SHARES

The Company raised net proceeds of HK\$48.3 million (after deduction of listing expenses) from the placing of shares and listing of the shares on GEM on November 8, 2002. From November 8, 2002 to December 31, 2002, the Company utilized approximately HK\$34.2 million in accordance with the Company's business objectives as set out in the Prospectus, which include expansion of production capacity, expansion of sales network and research and development of new fabric products. An analysis of the use of proceeds as at December 31, 2002 is as follows:

	Planned use of proceed as set out in the Prospectus up to December 31, 2002	Actual use of proceeds
	HK\$'000	HK\$'000
Payment of other payables for the purchase of 200 sets of looms	34,100	34,100
Expanding the sales network by setting up sales offices and participating in major sales exhibitions and trade shows	710	18
Placing advertisements in the media to promote the Company's overall image and to build up the Company's brand name and trademark	50	26
Development of new products, product research and product assessment	300	26
Total	35,160	34,170

The actual use of proceeds was lower than the estimation made in the estimation made in the Prospectus because the Company applied a prudence approach in its use of proceeds.

Directors, Supervisors and Senior Management's Profile

EXECUTIVE DIRECTORS

Mr. Sun Li Yong (孫利永), aged 32, is the Chairman and an executive director of the Company. Mr. Sun is the founder of the Company and is responsible for the strategic planning and overall management of the Company. Mr. Sun received his tertiary education from Shaoxing University (紹興文理學院) and completed a diploma course in business administration in 2002. He has about 9 years of experience in corporate management in the PRC.

Ms. Fang Xiao Jian (方曉健), aged 30, is an executive director of the Company and the wife of Mr. Sun Li Yong. She is responsible for sales and marketing management of the Company. Ms. Fang received her tertiary education from Shaoxing University (紹興文理學院) and completed a diploma course in business administration in 2002. She has about 7 years of experience in the textile industry. She joined the Company in March 1998.

Mr. Fang Han Hong (方漢洪), aged 42, is an executive director of the Company and the uncle of Mr. Sun Li Yong. Mr. Fang is responsible for the product operation and manufacturing technology of the Company. Mr. Fang received his tertiary education from Shaoxing University (紹興文理學院) and completed a diploma course in business administration in 2002. He has about 16 years of experience in the textile industry. He joined the Company in June 1998.

Mr. Sun Jian Feng (孫建鋒), aged 32, is an executive director of the Company. Mr. Sun is responsible for the financial management of the Company. Mr. Sun received his diploma in accounting from the Hangzhou University of Commerce (杭州商學院) in 1990. He has about 8 years of experience in finance and accounting. Mr. Sun joined the Company in June 1998.

Mr. Xia Xue Nian (夏雪年), aged 38, is an executive director of the Company. Mr. Xia is responsible for corporate administration of the Company. He received his tertiary education from Shaoxing University (紹興文理學院) and completed a diploma course in business administration in 2002. He has about 14 years of experience in the corporate management. Mr. Xia joined the Company in June 1999.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lui Tin Nang (呂天能), aged 45, is an independent non-executive director of the Company. Mr. Lui has over 11 years of experience in accounting and finance field. He is a practicing certified public accountant at T.N. Lui & Co., Certified Public Accountants in Hong Kong. He is a member of the Hong Kong Society of Accountants, a member of the Institute of Chartered Accountants in England & Wales, a member of the Chartered Institute of Management Accountants. From September 1992 to February 1994, he worked as an audit senior in K.C. Oh & Co.. From March 1994 to April 1995, he was a corporate finance executive in Shanghai International Capital (HK) Ltd.. From May 1995 to December 1996, he was an audit manager in P.W. Yam & Co.. Mr. Lui was appointed as an independent non-executive director of the Company in June 2002.

Directors, Supervisors and Senior Management's Profile (Continued)

INDEPENDENT NON-EXECUTIVE DIRECTORS (Continued)

Mr. Luk Guo Qing (陸國慶), aged 38, is an independent non-executive director of the Company. Mr. Luk graduated from the Hangzhou University in 1986 and holds a degree in law. He is a licensed lawyer and is a partner of 浙江中法大律師事務所 (Zhejiang Zhong Fa Law Firm*), a law firm in Zhejiang Province. He has extensive experience in securities law. During 1988 to 1998, he practised in 浙江國大律師事務所 (Zhejiang Guo Da Law Firm*). Mr. Luk was appointed as an independent non-executive director of the Company in May 2002.

Mr. Fang Guo Liang (方國良), aged 35, is the Supervisor of the Company who joined the Company in March 1999. He is working in the Production Department of the Company. From 1996 to April 2002, he worked as supervisor in the production department of 蕭山衙前草洋布廠 (Xiaoshan Wei Qian Cao Yang Bu Factory*), a textile manufacturing company in Zhejiang Province. He was appointed a Supervisor of the Company in April 2002.

Mr. Shao Bao Hua (邵寶華), aged 37, is the Supervisor of the Company who joined the Company in December 1999. He is working in the Finance Department of the Company. From 1989 to December 1999, he worked as accounts clerk in the finance department of 紹興縣經編廠 (Shaoxing Wrap Knitting Factory), a wrap manufacturing company in Zhejiang Province. He was appointed a Supervisor of the Company in April 2002.

Mr. Luo Feng Fa (羅騰法), aged 27, is the Supervisor of the Company who joined the Company in June 1998. He is the manager of the Research and Development of the Company. From 1998 to April 2002, he worked in the research and development of 龍翔紡織有限公司 (Longxiang Textile Co., Ltd.*), a textile manufacturing company in Zhejiang Province. He graduated from 蘇州絲綢工業學院 (Suzhou Silk Technical College*). He was appointed a Supervisor of the Company in April 2002.

INDEPENDENT SUPERVISORS

Mr. Hu Jin Huan (胡金煥), aged 38, is an independent Supervisor of the Company. He is responsible for performing the supervisory function in relation to the Company's board of directors, manager and other officers and report independently to the Shareholders in general meeting of the Company. He is a PRC Certified Public Accountant and is now working as an audit supervisor of Shaoxing Xingye Certified Public Accountants Firm (紹興興業會計師事務所). He is appointed an independent Supervisor of the Company in June 2002.

Mr. Wang He Rong (王和榮), aged 42, is an independent Supervisor of the Company. He is responsible for performing the supervisory function in relation to the Company's board of directors, manager and other officers and reporting independently to the Shareholders in general meeting of the Company. He is a PRC Certified Public Accountant and is now working as an audit supervisor in Shaoxing Hongtai Certified Public Accountants firm (紹興宏泰會計師事務所). He is appointed an independent Supervisor of the Company in June 2002.

Directors, Supervisors and Senior Management's Profile (Continued)

SENIOR MANAGEMENT

Ms. Chen Yen Yung (陳燕雲), aged 31, is the qualified accountant and company secretary of the Company. Ms. Chen studied in the Hong Kong Polytechnic University for higher certificate in accountancy and holds a bachelor's degree in commerce (accounting) from the Curtin University of Technology, Western Australia. She has over 6 years of experience in accounting and finance field. She is a member of the Australian Society of Certified Public Accountants and an associate member of the Hong Kong Society of Accountants. From February 1995 to February 2001, she was an assistant manager of K L Lee & Partners CPA Limited, a Certified Public Accountant in Hong Kong. From February 2001 to June 2002, she was a director of B & M Consultants Limited, a finance consultancy company in Hong Kong. She joined the Company in June 2002.

Mr. Ding Zhong Xin (丁忠心), aged 32, is the manager of the finance department of the Company. He completed business management from Shanghai Lisin Professional Accounting College (上海立信會計高等專科學校) and has about 12 years of experience in accounting and finance. From April 1990 to February 2002, he worked in 紹興縣信用聯社 (Shaoxing County Credit Cooperation*), a finance company and was responsible for the loan arrangement with its clients in Zhejiang Province. He joined the Company in February 2002.

Mr. Wang Fu Shun (王福順), aged 33, is the manager of sales and marketing department of the Company. He received his tertiary education from Shanghai Tong Ji University (上海同濟大學) and holds a degree of architectronics and has about 10 years of experience in the textile industry. From September 1993 to October 1999, he worked in 浙江蕭山二輕工業 (Zhejiang Xiaoshan Second Light Industry*), a textile company and was responsible for the sales and marketing in Zhejiang Province. He joined the Company in October 1999.

Ms. Wong Ai Feng (王愛鳳), aged 66, is the head of research and development department of the Company. She obtained a degree in textile study from Hua Tung Textile Technical College (華東紡織工業學院) and has over 29 years of experience in textile and garment industries. From September 1974 to April 2002, she was a professor of Donghua University and was responsible for the course of textiles in Shanghai. She joined the Company in April 2002.

Financial Summary

RESULTS

	THE COMPANY (Note 1)		THE GROUP (Note 2)		
	For the year ended		For the year ended December 31,		
	December 31,		December 31,		
	2002	2001	2002	2001	2000
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TURNOVER	405,883	195,086	405,883	237,965	101,055
PROFIT BEFORE TAXATION	60,233	12,958	63,905	11,056	2,309
TAXATION	(17,542)	(4,490)	(17,542)	(4,490)	—
PROFIT BEFORE MINORITY INTERESTS	42,691	8,468	46,363	6,566	2,309
MINORITY INTEREST	—	—	—	28	40
NET PROFIT FOR THE YEAR	42,691	8,468	46,363	6,594	2,349

ASSETS AND LIABILITIES

	At December 31,		At December 31,		
	2002	2001	2002	2001	2000
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
TOTAL ASSETS	503,231	132,946	503,231	167,469	60,864
TOTAL LIABILITIES	(329,205)	(120,193)	(329,205)	(154,678)	(54,639)
MINORITY INTEREST	—	—	—	(4,317)	(4,345)
SHAREHOLDERS' FUNDS	174,026	12,753	174,026	8,474	1,880

Note:

- (1) The summary of the results and the assets and liabilities of the Company for the year ended December 31, 2001 and 2002 are extracted from the audited financial statements.
- (2) During the year ended December 31, 2002, the Company disposed of its entire interest in a subsidiary, Zhejiang Hongxing Sabrina Garments Co., Ltd. and its entire interest in an associate, Shaoxing Zhiye Real Estate Development Co., Ltd.. The summary of the consolidated results and the assets and liabilities of the Company for the two years ended December 31, 2000 and 2001 are extracted from the Accountants' Report included in the Prospectus of the Company dated October 31, 2002. The summary of the combined results of the Company and its former subsidiary and associate up to the date of disposal for the year ended December 31, 2002 are extracted from the management accounts of the Company and is prepared for information purposes only.

Directors' Report

The directors of the Company present their first report and the audited financial statements of the Company for the year ended December 31, 2002.

REORGANISATION AND LISTING ON THE GROWTH ENTERPRISE MARKET (THE "GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

The Company was initially established on February 26, 1998 as a collectively-owned enterprise in the People's Republic of China (the "PRC") under the name of Shaoxing Hongxing Textile Factory, which was converted into a privately-owned limited liability company on March 28, 2002 in accordance with the PRC laws. In preparation for the listing of the overseas — listed foreign shares ("H shares") of the Company on GEM, the Company converted from a privately-owned limited liability company into a joint stock limited company on April 16, 2002.

On August 29, 2002, the China Securities Regulatory Commission issued an approval consenting the Company to apply for listing of its H shares.

The H shares of the Company were subsequently listed on GEM on November 8, 2002.

PRINCIPAL ACTIVITY

The Company is principally engaged in the research and development, manufacture and sale of woven fabrics.

During the year, the Company disposed its entire interest in Zhejiang Hongxing Sabrina Garments Co., Ltd. ("Sabrina Garments") for an aggregate consideration of US\$1,470,000. The principal activity of Sabrina Garments is manufacturing and sale of knitted and woven garments.

ARTICLES OF ASSOCIATION

Pursuant to a special resolution passed at an extraordinary general meeting held on October 25, 2002, the Company adopted a new set of Articles of Association.

RESULTS AND APPROPRIATIONS

The results of the Company for the year ended December 31, 2002 are set out in the income statement on page 27 of the annual report.

During the year, the Company declared dividend of approximately RMB1,210,000 to its then shareholders. Such dividends have been paid out of the internal resources of the Company in July 2002.

The Directors recommend the declaration of a final dividend at the rate of RMB1 cent per share payable on June 6, 2003 to all persons whose names appeared on the register of members of the Company on April 14, 2003. The management shareholders of the Company, namely Sun Li Yong, Fang Xiao Jian, Fang Han Hong, Sun Jian Feng and Xia Xue Nian (the "Management Shareholders") who are holding 382,200,000, 182,280,000, 11,760,000, 5,880,000 and 5,880,000 domestic shares of the Company respectively entered into an agreement with the Company on March 24, 2003, pursuant to which the Management Shareholders have agreed to give up their right to receive the final dividend of the Company for the financial year 2002. Therefore, the Company will only pay the final dividend for the financial year 2002 to holders of H shares of the Company. The share registers will be closed from April 15, 2003 to May 16, 2003, both days inclusive.

Directors' Report (Continued)

PROPERTY, PLANT AND EQUIPMENT

During the year, the Company spent approximately RMB191 million in aggregate on factory premises and other plant and machinery to expand and upgrade its production capacity.

Details of these and other movements in the property, plant and equipment of the Company during the year are set out in note 11 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 21 to the financial statements.

DIRECTORS AND SUPERVISORS

The directors and supervisors of the Company during the year and up to the date of this report are:

Executive Directors

Mr. Sun Li Yong	(appointed on April 16, 2002)
Ms. Fang Xiao Jian	(appointed on April 16, 2002)
Mr. Fang Han Hong	(appointed on April 16, 2002)
Mr. Sun Jian Feng	(appointed on April 16, 2002)
Mr. Xia Xue Nian	(appointed on April 16, 2002)

Independent Non-Executive Directors

Mr. Luk Guo Qing	(appointed on May 14, 2002)
Mr. Lui Tin Nang	(appointed on June 26, 2002)
Mr. Lo Wa Kei	(appointed on May 14, 2002 and resigned on June 26, 2002)

Supervisors

Mr. Fang Guo Liang	(appointed on April 15, 2002)
Mr. Shao Bao Hua	(appointed on April 15, 2002)
Mr. Luo Feng Fa	(appointed on April 15, 2002)

Independent Supervisors

Mr. Hu Jin Huan	(appointed on May 14, 2002)
Mr. Wang He Rong	(appointed on June 26, 2002)
Mr. Feng Xun Wei	(appointed on May 14, 2002 and resigned on June 26, 2002)

Each of the directors and supervisors (including the independent non-executive directors and independent supervisors) has entered into a service agreement with the Company for three years from the date of appointment. Each of the directors and supervisors was appointed as director and supervisor of the Company respectively subject to termination in certain circumstances as stipulated in the relevant services contracts.

In accordance with the provisions of the Company's Articles of Association, the directors and supervisors are elected at a shareholders' meeting of the Company for a term of three years, renewable upon re-election and re-appointment.

Directors' Report (Continued)

DIRECTORS' AND SUPERVISORS' INTERESTS IN SECURITIES

At December 31, 2002, the interests of the directors in the paid up capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of Hong Kong's Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

Name of directors	Number of domestic shares held	
	Personal interests	Family interests
Mr. Sun Li Yong (<i>Note 1</i>)	382,200,000	182,280,000
Ms. Fang Xiao Jian (<i>Note 2</i>)	182,280,000	382,200,000
Mr. Fang Han Hong	11,760,000	—
Mr. Sun Jian Feng	5,880,000	—
Mr. Xia Xue Nian	5,880,000	—

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.

Save as disclosed above, as at December 31, 2002, none of the directors or supervisors, nor their associates, had any interests in any securities of the Company or any of its associated corporation.

ARRANGEMENTS TO PURCHASE H SHARES OR DEBENTURES

At no time during the year was the Company a party to any arrangements to enable the directors or supervisors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and neither the directors nor the supervisors, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

DIRECTORS AND SUPERVISORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 27 to the financial statements, no other contracts of significance to which the Company was a party and in which a director or a supervisor of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

On July 31, 2002, the Company and Shaoxing Jia Li Textile Co., Ltd. 紹興嘉利紡織有限公司 ("Jia Li") entered into an agreement (as amended by a supplemental agreement dated October 25, 2002) whereby the parties thereto agreed to convert the outstanding sum due from the Company to Jia Li under their current account into a fixed term unsecured interest free loan in the amount of RMB20,000,000 to be repaid by the Company by eight instalments upon the satisfaction of certain repayment conditions. A director and shareholder of the Company, Mr. Xia Xue Nian, owns 40% equity interest in Jia Li. At the balance sheet date, the amount due from the Company to Jia Li amounting to RMB20,000,000.

Directors' Report (Continued)

CONNECTED TRANSACTIONS (Continued)

The directors confirm that the transaction has been entered into by the Company in the ordinary course of its business and in accordance with the terms of the agreement governing such transactions.

The transaction fell within the exemption under Rule 20.52(2) of the GEM Listing Rules and no reporting, announcement and independent shareholders' approval will be required.

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above in "Directors' and Supervisors' Interests in Securities", the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance discloses no person as having an interest of 10% or more in the paid up capital of the Company as at December 31, 2002.

COMPETING INTERESTS

The directors believe that none of the directors or the management shareholders (as defined in the GEM Listing Rules) of the Company and their respective associates (as defined in the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Company.

JOINT SPONSOR'S INTERESTS

As at December 31, 2002, neither the sponsor of the Company, Kingsway Capital Limited ("Kingsway") and Guotai Junan Capital Limited ("Guotai Junan"), nor its directors, employees or any of their associates (as defined in the GEM Listing Rules), had any interest in any securities of the Company.

Pursuant to the agreement dated October 31, 2002, entered into between the Company, Kingsway and Guotai Junan, Kingsway and Guotai Junan received, and will receive, fees for acting as the Company's sponsor for the periods of the financial year ended December 31, 2002 and for a period of two years thereafter expiring on December 31, 2004.

MAJOR SUPPLIERS AND CUSTOMERS

During the year, the five largest suppliers of the Company accounted for approximately 70% of the Company's purchases. The largest supplier accounted for approximately 38% of the purchases of the Company.

Aggregate sales attributable to the Group's five largest customers were less than 30% of total turnover.

None of the directors, the supervisors, their associates or any shareholders which, to the knowledge of the directors, own more than 5% of the Company's issued share capital had any interest in the five largest suppliers or customers.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company became a listed company on November 8, 2002 and the Company did not purchase, sell or redeem any of the Company's listed securities during the period.

Directors' Report (Continued)

BROAD PRACTICES AND PROCEDURES

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules during the period from its listing date to December 31, 2002.

AUDIT COMMITTEE

The Company has established an audit committee in May 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 quarterly results of the Company for the three months ended September 30, 2002 and the financial statement of the Company for the year ended December 31, 2002 have been reviewed by the audit committee, who was of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures had been made.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association or the laws of the PRC, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

JOINT AUDITORS

The financial statements were audited by Messrs. Deloitte Touche Tohmatsu and KLL Associates CPA Limited. A resolution will be submitted to the annual general meeting to re-appoint them as joint auditors.

On behalf of the Board of
Zhejiang Yonglong Enterprises Co., Ltd.

Sun Li Yong
CHAIRMAN

Zhejiang, the PRC,
March 27, 2003

Supervisors' Report

To: All Shareholders

We are the supervisory committee of Zhejiang Yonglong Enterprises Co., Ltd., in accordance with the Company Law of the PRC, requirements of the relevant laws and regulations of Hong Kong and the articles of association of the Company (the "Articles of Association") during the year ended December 31, 2002, exercised conscientiously its authority, safeguarded the interests of the shareholders and the Company, followed the principle of honesty and trustworthiness and worked cautiously and diligently.

During the year we carefully reviewed the use of the proceeds raised in strict compliance with the plan of use of proceeds disclosed in the Prospectus of the Company and provided reasonable suggestions and advice on the operations and development plans to the Directors and strictly and effectively monitored whether the policies and decisions made had conformed with the state laws and regulations and the Articles of Association or safeguarded the interests of the shareholders.

After review, we consider that the financial statements of the Company, audited by the joint auditors, Deloitte Touche Tohmatsu and KLL Associates CPA Limited, truly and sufficiently reflects the operating results and asset positions of the Company. We also reviewed the Directors' Report and the profit distribution proposal. We consider that the above report and proposal meet the requirements of the relevant regulations and Articles of Association. We have attended the meeting of the Board. We consider that the members of the Board, the general manager and other officers have strictly complied with the principle of honesty and trustworthiness, worked diligently and sincerely acted in the best interests of the Company. Up to now, none of the Directors, general manager and the officers have abused their powers, caused damage the interests of the Company and infringed upon the interests of the Company and its staff, nor have they violated any laws, regulations or the Company's Articles of Association.

We are satisfied with the various tasks achieved as well as the cost-effectiveness gained and are confident about the prospects of future development of the Company.

By order of the Board

Zhejiang Yonglong Enterprises Co., Ltd.

Fang Guo Liang

Chairman of the Supervisory Committee

Shaoxing, Zhejiang Province, The PRC

March 27, 2003

Joint Auditors' Report

**Deloitte
Touche
Tohmatsu**

DELOITTE TOUCHE TOHMATSU
Certified Public Accountants
26th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong



KLL Associates CPA Ltd
華融會計師事務所有限公司

KLL ASSOCIATES CPA LIMITED
Suite 1303
Shanghai Industrial Investment Building
60 Hennessy Road, Wanchai
Hong Kong

TO THE SHAREHOLDERS OF
ZHEJIANG YONGLONG ENTERPRISES CO., LTD.
浙江永隆實業股份有限公司
(established as a joint stock limited company in the People's Republic of China)

We have audited the financial statements on pages 27 to 50 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

We are engaged to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Joint Auditors' Report (Continued)

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at December 31, 2002 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

DELOITTE TOUCHE TOHMATSU
Certified Public Accountants

KLL ASSOCIATES CPA LIMITED
Lee Ka Leung, Daniel
Practising Certificate Number P01220

Hong Kong, March 27, 2003

Income Statement

For the year ended December 31, 2002

	NOTES	2002 RMB'000	2001 RMB'000
Turnover	4	405,883	195,086
Cost of sales		(344,368)	(180,520)
Gross profit		61,515	14,566
Other operating income		7,965	2,710
Selling expenses		(550)	(491)
Administrative expenses		(5,651)	(3,032)
Profit from operations	5	63,279	13,753
Finance costs	7	(3,046)	(795)
Profit before taxation		60,233	12,958
Taxation	8	(17,542)	(4,490)
Profit for the year		42,691	8,468
Dividend	9	1,210	—
Earnings per share — basic	10	8.3 cents	7.0 cents

Balance Sheet

At December 31, 2002

	NOTES	2002 RMB'000	2001 RMB'000
Non-Current Assets			
Property, plant and equipment	11	247,978	42,176
Investment in a subsidiary	12	—	12,169
Investment in an associate	13	—	5,000
Restricted cash		3,000	—
		250,978	59,345
Current Assets			
Inventories	14	45,115	23,830
Trade receivables	15	41,959	18,236
Other receivables, deposits and prepayments		36,280	13,272
Amount due from a subsidiary	16	—	11,026
Amount due from a related company	17	—	6,505
Restricted cash		53,200	—
Bank balances and cash		75,699	732
		252,253	73,601
Current Liabilities			
Trade payables	18	34,279	35,318
Other payables and accruals		67,204	25,150
Bills payable		20,020	—
Amounts due to related companies	19	8,853	49,332
Taxation		15,189	663
Borrowings — due within one year	20	90,389	9,730
		235,934	120,193
Net Current Assets (Liabilities)		16,319	(46,592)
Total assets less current liabilities		267,297	12,753
Non-current liabilities			
Amounts due to related companies	19	30,205	—
Borrowings — due after one year	20	63,066	—
		93,271	—
NET ASSETS		174,026	12,753
Capital and Reserves			
Paid-up capital	21	83,800	3,500
Reserves		90,226	9,253
SHAREHOLDERS' FUNDS		174,026	12,753

The financial statements on pages 27 to 50 were approved and authorised for issue by the Board of Directors on March 27, 2003 and are signed on its behalf by:

DIRECTOR

DIRECTOR

Statement of Changes in Equity

For the year ended December 31, 2002

	Paid-up capital RMB'000 (Note 21(a))	Share premium RMB'000	Assets revaluation reserve RMB'000	Statutory surplus reserve RMB'000 (Note 21(b))	Statutory welfare fund RMB'000 (Note 21(b))	Accumulated profits RMB'000 (Note 21(b))	Total RMB'000
At January 1, 2001	3,500	—	—	—	—	785	4,285
Profit for the year	—	—	—	—	—	8,468	8,468
At December 31, 2001	3,500	—	—	—	—	9,253	12,753
Additional capital injection	46,480	—	—	—	—	—	46,480
Transfer to capital upon conversion into a limited liability company	8,020	—	—	—	—	(8,020)	—
Transfer to capital upon conversion into a joint stock limited company	800	—	—	(201)	(100)	(499)	—
Issue of H shares	25,000	44,485	—	—	—	—	69,485
Expenses paid in connection with the issue of shares	—	(18,256)	—	—	—	—	(18,256)
Revaluation increase for the year	—	—	22,083	—	—	—	22,083
Transfer	—	—	—	3,408	1,704	(5,112)	—
Profit for the year	—	—	—	—	—	42,691	42,691
Dividend	—	—	—	—	—	(1,210)	(1,210)
At December 31, 2002	83,800	26,229	22,083	3,207	1,604	37,103	174,026

Cash Flow Statement

For the year ended December 31, 2002

	2002 RMB'000	2001 RMB'000
OPERATING ACTIVITIES		
Profit from operations	63,279	13,753
Adjustments for:		
Government grant recognised as income	(5,484)	—
Interest income	(355)	(8)
Depreciation and amortisation of property, plant and equipment	7,248	1,632
Operating cash flows before movements in working capital	64,688	15,377
Increase in inventories	(21,285)	(7,691)
Increase in trade receivables	(23,723)	(9,044)
Increase in other receivables, deposits and prepayments	(20,656)	(7,594)
Decrease (increase) in amount due from a subsidiary	11,026	(8,962)
Decrease (increase) in amount due from a related company	6,505	(6,505)
(Decrease) increase in trade payables	(1,039)	14,505
Increase in other payables and accruals	42,054	12,275
Increase in bills payable	20,020	—
(Decrease) increase in amounts due to related companies	(29,332)	44,853
Cash generated by from operations	48,258	47,214
Interest paid	(3,661)	(795)
Government grant received	7,935	—
People's Republic of China ("PRC") enterprise income tax paid	(3,016)	(3,827)
NET CASH FROM OPERATING ACTIVITIES	49,516	42,592
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(170,493)	(42,384)
Increase in restricted cash	(56,200)	—
Proceeds from disposal of a subsidiary	12,169	—
Proceeds from disposal of an associate	5,000	—
Interest received	355	8
NET CASH USED IN INVESTING ACTIVITIES	(209,169)	(42,376)
FINANCING ACTIVITIES		
New borrowings raised	293,029	—
Proceeds from issue of H shares	69,485	—
Proceeds from additional capital injection	46,480	—
Repayment of borrowings	(149,304)	—
Share issue expenses	(18,256)	—
Repayment to a related company	(5,604)	—
Dividend paid	(1,210)	—
NET CASH GENERATED FROM FINANCING ACTIVITIES	234,620	—
INCREASE IN CASH AND CASH EQUIVALENTS	74,967	216
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	732	516
CASH AND CASH EQUIVALENTS AT END OF YEAR, represented by bank balances and cash	75,699	732

Notes to the Financial Statements

For the year ended December 31, 2002

1. GENERAL

The Company was initially established on February 26, 1998 as a collectively-owned enterprise in the People's Republic of China (the "PRC") under the name of Shaoxing Hongxing Textile Factory, which was converted into a privately-owned limited liability company on March 28, 2002 in accordance with the PRC laws. In preparation for the listing of the Company's H shares on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company converted from a privately-owned limited liability company into a joint stock limited company on April 16, 2002.

The H shares of the Company were listed on the GEM on November 8, 2002.

The Company is principally engaged in the research and development, manufacture, and sale of woven fabrics.

During the year, the Company disposed of its entire interest in a subsidiary, Zhejiang Hongxing Sabrina Garments Co., Ltd. ("Sabrina Garments") and its entire interest in an associate, Shaoxing Zhiye Real Estate Development Co. Ltd. ("Shaoxing Zhiye") and this resulted in a gain on disposal of a subsidiary of approximately RMB1,489,000 and a gain on disposal of an associate of approximately RMB2,183,000. The combined profit of the Company and its former subsidiary and associate for the year ended December 31, 2002, which include the results of Sabrina Garments and Shaoxing Zhiye up to the effective date of their disposal, amounted to RMB46,363,000 (2001: RMB6,594,000).

The Company's books and records are maintained in Renminbi ("RMB"), the currency in which the majority of the Company's transactions is denominated.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Company has adopted for the first time a number of new and revised Statements of Standard Accounting Practice ("SSAP(s)") issued by the Hong Kong Society of Accountants. Adoption of these SSAPs had led to a number of changes in the Company's accounting policies but they did not result in a material change to the reported results of the Company in prior year. The new and revised accounting policies are set out in note 3. In addition, the new and revised SSAPs have resulted in a change in the format of presentation of the cash flow statement and an inclusion of the statement of changes in equity. Comparative amounts and disclosures for the prior year have been restated in order to achieve a consistent presentation.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2002

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of land use rights and buildings, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Turnover

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

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Sub-contracting fee income is recognised when services are provided.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less depreciation and amortisation and accumulated impairment losses.

In previous years, the land use rights and buildings were stated in the balance sheet at cost less amortisation and accumulated impairment losses. Upon the listing of the Company, the Company changed its accounting policy and states the land use rights and buildings at their revalued amounts, being the fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation.

Revaluation of land use rights and building is performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of land use rights and buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2002

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Depreciation and amortisation is provided to write off the cost or valuation of property, plant and equipment, other than construction in progress, over their estimated useful lives from the date on which they become fully operational, using the straight-line method, at the following rates per annum:

Land use rights	Over the term of the rights
Buildings	5%
Leasehold improvement	10%
Plant and machinery	10%
Furniture, fixture and equipment	20%
Motor vehicles	20%

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Construction in progress

Construction in progress is stated at cost, which includes land cost and the related construction and borrowings costs, as appropriate, less any identified impairment loss. When the construction is completed and the asset is ready for its intended use, the related cost is transferred to an appropriate category of property, plant and equipment and depreciated in accordance with the above policy.

Impairment

At each balance sheet date, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Investment in a subsidiary

Investment in a subsidiary is included in the Company's balance sheet at cost less any identified impairment loss.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2002

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment in an associate

Investment in an associate is stated at cost less any identified impairment loss. The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, cost of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. No internally-generated intangible asset has been recognised and all development expenditures are recognised as expenses in the period in which they are incurred.

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Where government grants are given for the purposes of immediate financial support to the Company with no further related cost to be incurred, the grants are recognised as income when they become receivable. Grants relating to assets are presented as a deduction from the cost of the relevant asset.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant leases.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2002

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Foreign currencies

Transactions in currencies other than RMB are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

Forward contracts

A forward contract is an agreement to exchange different currencies at a specified future date and at a specified rate. A non-speculative forward contract is one which is designated and effective as a hedge of a net investment in a foreign entity, of a foreign currency asset, of a net monetary asset or liability or of a firm commitment. All other forward contracts, or parts of forward contracts in excess of the amount hedged, are speculative.

Where a non-speculative forward contract is used as a hedge of a net monetary asset or liability, the gain or loss and the discount or premium on the contract is taken to the income statement.

Retirement benefits scheme

The retirement benefit scheme contributions arising from the PRC municipal government retirement scheme charged to the income statement represent contributions paid or payable by the Company at rates specified in the rules of the scheme.

4. SEGMENT INFORMATION

The Company is solely engaged in manufacturing and sale of woven fabrics and most of the turnover and contribution to operating profit of the Company are located in the PRC. Accordingly, no segmental analysis was presented.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2002

5. PROFIT FROM OPERATIONS

	2002	2001
	RMB'000	RMB'000
Profit from operations has been arrived at after charging:		
Staff costs (including directors' and supervisors' remuneration):		
Staff costs	14,093	7,486
Retirement benefits scheme contributions	279	216
	14,372	7,702
Auditors' remuneration	608	212
Depreciation and amortisation of property, plant and equipment	7,248	1,632
Research and development costs	275	179
and after crediting:		
Government grants (<i>note 28</i>)	5,484	415
Interest income	355	8

Notes to the Financial Statements (Continued)

For the year ended December 31, 2002

6. DIRECTORS', SUPERVISORS' AND EMPLOYEES' REMUNERATIONS

Details of emoluments paid by the Company to the Directors and Supervisors are as follows:

	2002	2001
	RMB'000	RMB'000
Fees	—	—
Salaries and allowances	171	55
Bonus	—	941
Retirement benefits scheme contributions	3	2
	174	998
Fees for		
— directors	—	—
— supervisors	—	—
Other emoluments for independent non-executive directors	71	—
Other emoluments for independent supervisors	12	—
	83	—
Other emoluments for executive directors		
— basic salaries and allowances	41	790
— contributions to retirement benefits scheme	2	1
	43	791
Other emoluments for supervisors		
— basic salaries and allowances	47	206
— contributions to retirement benefits scheme	1	1
	48	207
	174	998

Notes to the Financial Statements (Continued)

For the year ended December 31, 2002

6. DIRECTORS', SUPERVISORS' AND EMPLOYEES' REMUNERATIONS (Continued)

The emoluments paid to the Directors and Supervisors during the year were as follows:

	2002 RMB'000	2001 RMB'000
Director A	9	313
Director B	9	89
Director C	9	—
Director D	8	390
Director E	8	—
Director F	53	—
Director G	18	—
Supervisor A	16	128
Supervisor B	16	40
Supervisor C	16	38
Supervisor D	6	—
Supervisor E	6	—
	<hr/> 174	<hr/> 998

Employees' emoluments

The emoluments of the five highest paid individuals were as follows:

	2002 RMB'000	2001 RMB'000
Salaries and allowances	92	—
Retirement benefits scheme contributions	20	—
	<hr/> 112	<hr/> —

There were no directors' or supervisors' emoluments included in the five highest paid individuals during the year (2001: three directors and two supervisors).

The emoluments of each of the five highest paid employees are less than HK\$1,000,000 (equivalent to approximately RMB1,060,000) for the year.

During the year, no emoluments were paid by the Company to any of the Directors, Supervisors or the five highest paid individuals as an inducement to join or upon joining the Company or as compensation for loss of office.

For the year ended December 31, 2002, all of the Executive Directors and three Supervisors waived the emoluments of an aggregate amount of RMB184,000 (2001: Nil).

Notes to the Financial Statements (Continued)

For the year ended December 31, 2002

7. FINANCE COSTS

	2002	2001
	RMB'000	RMB'000
Interest on bank borrowings wholly repayable within five years	2,655	795
Interest on other borrowings wholly repayable within five years	1,006	—
	3,661	795
Less: Amounts capitalised in construction in progress	(615)	—
	3,046	795

Borrowing costs capitalised during the year arose on general borrowing pool and are calculated by applying a capitalised rate of 6.2% to expenditure on qualifying assets.

8. TAXATION

The amount in current year represents provision for PRC enterprise income tax at the rate of 33% on the Company's estimated assessable profit for the year.

There was no significant unprovided deferred taxation for the year or at the balance sheet date.

9. DIVIDEND

The Company has declared a dividend of approximately RMB1,210,000 from its distributable profits based on the statutory financial statements as at December 31, 2001 to its then shareholders in April 2002.

10. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit for the year of RMB42,691,000 (2001: RMB8,468,000) and the weighted average number of 514,786,519 shares in issue during the year (2001: 120,398,600 shares as if the sub-division of the Company's shares and capitalisation of reserves had taken place on January 1, 2001).

Diluted earnings per share is not presented for the two years ended December 31, 2002 as there were no potential ordinary shares in existence for both years.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2002

11. PROPERTY, PLANT AND EQUIPMENT

	Land use right RMB'000	Building RMB'000	Leasehold improvement RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
COST/VALUATION							
At January 1, 2002	—	—	—	40,906	295	2,804	44,005
Additions	4,686	21,467	8,610	137,221	1,032	17,951	190,967
Transfer	—	—	935	—	—	(935)	—
Surplus arising on revaluation	11,793	10,290	—	—	—	—	22,083
At December 31, 2002	16,479	31,757	9,545	178,127	1,327	19,820	257,055
Comprising:							
At cost	—	—	9,545	178,127	1,327	19,820	208,819
At valuation — 2002	16,479	31,757	—	—	—	—	48,236
	16,479	31,757	9,545	178,127	1,327	19,820	257,055
DEPRECIATION AND AMORTISATION							
At January 1, 2002	—	—	—	1,677	152	—	1,829
Provided for the year	90	618	38	6,403	99	—	7,248
At December 31, 2002	90	618	38	8,080	251	—	9,077
NET BOOK VALUES							
At December 31, 2002	16,389	31,139	9,507	170,047	1,076	19,820	247,978
At December 31, 2001	—	—	—	39,229	143	2,804	42,176

The buildings are situated on land held under medium-term land use rights in the PRC.

The cost of land use rights is amortised over the term of the rights on a straight-line basis ranging from 46 years to 50 years.

At the balance sheet date, the interest costs capitalised in the construction in progress amounted to approximately RMB615,000 (2001: Nil).

During the year, the Company received government grants of approximately RMB4,803,000 in respect of the acquisition of land use rights and buildings and the amount had been deducted from the cost of the relevant assets. Further details of the government grant are presented in note 28.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2002

11. PROPERTY, PLANT AND EQUIPMENT (Continued)

In the opinion of the directors, the fair value of the Company's land use rights and buildings at December 31, 2002 approximated their latest valuation performed by BMI Appraisals Limited, an independent valuer, as at August 31, 2002.

If land use rights and buildings had not been revalued, they would have been included in the financial statements at historical cost less accumulated depreciation and amortisation at RMB4,659,000 (2001: Nil) and RMB21,055,000 (2001: Nil) respectively.

12. INVESTMENT IN A SUBSIDIARY

	2002	2001
	RMB'000	RMB'000
At cost	—	12,169

At December 31, 2001, the Company held a 70% interest in the paid up capital of Sabrina Garments, a company established in the PRC and was engaged in the manufacture and sale of knitted and woven garments. In January 2002, the Company disposed of its entire interest in Sabrina Garments to an independent third party for a consideration of US\$1.47 million.

13. INVESTMENT IN AN ASSOCIATE

	2002	2001
	RMB'000	RMB'000
At cost	—	5,000

At December 31, 2001, the Company held a 25% equity interest in the registered capital of Shaoxing Zhiye, a company established in the PRC and was engaged in the property development in Shaoxing city. In January 2002, the Company disposed of its entire interest in Shaoxing Zhiye to Mr. Sun Li Yong, a director of the Company, for a consideration of RMB5,000,000.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2002

14. INVENTORIES

	2002	2001
	RMB'000	RMB'000
Raw materials	4,897	3,461
Work in progress	10,450	6,477
Finished goods	29,768	13,892
	45,115	23,830

Included above are finished goods of RMB253,000 (2001: Nil) which are carried at net realisable value.

15. TRADE RECEIVABLES

The Company allows an average credit period of 30 to 120 days to its trade customers. The aged analysis of trade receivables at the respective balance sheet dates is as follows:

	2002	2001
	RMB'000	RMB'000
Within 30 days	27,266	14,083
31 – 60 days	4,207	2,248
61 – 90 days	1,546	530
91 – 120 days	6,195	500
121 – 180 days	1,151	441
181 – 365 days	1,594	434
	41,959	18,236

16. AMOUNT DUE FROM A SUBSIDIARY

The amount was unsecured, interest-free and was fully settled during the year.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2002

17. AMOUNT DUE FROM A RELATED COMPANY

Particulars of the amount due from a related company are as follows:

Name of related company	Balance at	Balance at	Maximum
	31.12.2002	1.1.2002	amount
	RMB'000	RMB'000	outstanding
			during the year
			RMB'000
浙江加佰利紡織實業有限公司 (Zhejiang Gabriel Textile Industrial Company Limited) ("Zhejiang Gabriel") (Note)	—	6,505	6,505

Note: Messrs. Sun Li Yong, Xia Xue Nian and Sun Jian Feng and Ms. Fang Xiao Jian, directors of the Company, have beneficial interests in this company.

The above amount was unsecured, interest-free and fully settled during the year.

18. TRADE PAYABLES

The aged analysis of trade payables at the respective balance sheet dates is as follows:

	2002	2001
	RMB'000	RMB'000
Within 30 days	21,921	17,403
31 – 60 days	8,487	4,133
61 – 90 days	1,528	3,180
91 – 120 days	43	1,323
121 – 180 days	760	2,106
181 – 365 days	810	3,964
1 – 2 years	730	3,209
	34,279	35,318

Notes to the Financial Statements (Continued)

For the year ended December 31, 2002

19. AMOUNTS DUE TO RELATED COMPANIES

Name of related company	Notes	2002 RMB'000	2001 RMB'000
紹興嘉利紡織有限公司 (Shaoxing Jia Li Textile Co., Ltd.) ("Jia Li")	(a)	20,000	13,400
浙江宏興紡織有限公司 (Zhejiang Hongxing Textile Co., Ltd.) ("Zhejiang Hongxing")	(b) & (c)	—	35,932
紹興宏大針織廠 (Shaoxing Hongda Knitting Factory) ("Shaoxing Hongda")	(d)	19,058	—
Total		39,058	49,332
Less: Amount repayable within one year		(8,853)	(49,332)
		30,205	—

On July 16, 2002, the Company acquired the land use rights and buildings from Shaoxing Hongda at an aggregate consideration of approximately RMB24,662,000. The transactions were carried out in accordance with the relevant agreements. The consideration will be repaid by the Company by four instalments up to 2004 or upon the satisfaction of certain repayment conditions, which is later. The amount is unsecured and interest-free.

On July 31, 2002, the Company and Jia Li entered into an agreement (as amended by a supplemental agreement dated October 25, 2002) whereby the parties thereto agreed to convert the outstanding sum due from the Company to Jia Li under their current account into a fixed term unsecured interest free loan in the amount of RMB20,000,000 to be repaid by the Company by eight instalments up to 2005 or upon the satisfaction of certain repayment conditions, which is later.

Note:

- (a) Mr. Xia Xue Nian, a director of the Company, has beneficial interests in this company.
- (b) Mr. Fang Han Hong, a director of the Company, was also a director of this company. He resigned as a director of Zhejiang Hongxing on October 8, 2002.
- (c) Mr. Sun was also a director and legal representative of this company. He resigned the two positions on January 18, 2002.
- (d) The legal representative of Shaoxing Hongda is the father of Mr. Sun Li Yong, a director and shareholder of the Company.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2002

20. BORROWINGS

	2002 RMB'000	2001 RMB'000
Borrowings comprise:		
Bank loans	140,225	9,730
Other loans	13,230	—
	<u>153,455</u>	<u>9,730</u>
Analysed as:		
Secured (note 24)	100,360	—
Unsecured	53,095	9,730
	<u>153,455</u>	<u>9,730</u>
Bank borrowings are repayable as follows:		
Within one year or on demand	77,159	9,730
More than one year but not exceeding two years	63,066	—
	<u>140,225</u>	<u>9,730</u>
Other borrowing repayable within one year or on demand	13,230	—
Total	153,455	9,730
Less: Amount repayable within one year or on demand and shown under current liabilities	<u>(90,389)</u>	<u>(9,730)</u>
Amount due after one year	<u>63,066</u>	<u>—</u>
The unsecured loans were guaranteed by:		
Zhejiang Gabriel and an independent third party as joint guarantors	39,865	—
Independent third party	13,230	—
Zhejiang Hongxing, Sabrina Garments and an independent third party	—	9,730
	<u>53,095</u>	<u>9,730</u>

During the year, the Company obtained new bank and other loans in the amount of RMB293 million. The loans bear interest at prevailing market rates and repayable in instalments over a period of six months to two years. The proceeds were used to finance the acquisition of property, plant and equipment and for working capital usage of the Company.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2002

21. CAPITAL AND RESERVES

(a) Capital

Details of the capital of the Company are as follows:

	Number of share	Value RMB'000
Registered capital at January 1, 2001 and January 1, 2002	—	3,500
Increase in registered capital contributed by:		
— Injection of cash	—	46,480
— Capitalisation of reserves upon conversion into a privately-owned limited liability company	—	8,020
— Capitalisation of reserves upon conversion into a joint stock limited company	—	800
Registered capital before the Conversion	—	58,800
Conversion into 58,800,000 Domestic Shares of RMB1.00 each upon the Conversion	58,800,000	—
Subdivision of each issued share into 10 shares of RMB0.10 each	529,200,000	—
Registered, issued and fully paid Domestic Shares as at December 31, 2002	588,000,000	58,800
Issue of H shares upon listing on the GEM and as at December 31, 2002	250,000,000	25,000
Balance of share capital of RMB0.10 each as at December 31, 2002	838,000,000	83,800

On March 26, 2002, the Company was converted into a privately-owned limited liability company. Upon the conversions, certain new investors contributed a total cash consideration of RMB46,480,140 as capital and the Company transferred from retained profits of RMB8,019,860 to capital. This transfer of the retained profits was approved by the relevant government authority and verified by a certified public accountant in the PRC.

On April 15, 2002, the Company was recognised and registered as a joint stock limited company. The registered capital was increased to RMB58,800,000 through the transfer of approximately RMB499,000, RMB201,000 and RMB100,000 from retained profits, statutory surplus reserve and statutory welfare fund respectively. This conversion was approved by the relevant government authority and verified by a certified public accountant in the PRC.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2002

21. CAPITAL AND RESERVES (Continued)

(a) Capital (Continued)

Prior to the conversion of the Company into a joint stock limited company in the PRC, the capital of the Company was not divided into shares and accordingly, no information regarding the number of shares is presented.

Pursuant to the resolutions of the shareholders' meeting held on October 25, 2002 and the approval issued by China Securities Regulatory Commission ("CSRC") on August 29, 2002, each Domestic Share of nominal value of RMB1.00 was sub-divided into ten Domestic Shares of nominal value of RMB0.10 each.

Pursuant to a resolution of the Shareholders' meeting held on October 25, 2002 and the approval dated August 29, 2002 issued by the CSRC, the Company is authorised to offer the H shares for subscription and apply for listing of the H Shares on GEM.

(b) Reserves

Statutory surplus reserve

As stipulated by the relevant PRC laws and regulations, when distributing the net profit for each year, the Company (after conversion to a limited liability company) shall set aside 10% of its net profit after taxation (based on the Company's PRC statutory accounts) for the statutory surplus reserve fund (except where the reserve balance has reached 50% of the Company's paid-up capital). The reserve fund can only be used, upon approval by the board of directors and by the relevant authority, to offset accumulated losses or increase capital.

Statutory welfare fund

As stipulated by the relevant PRC laws and regulations, the Company (after conversion to a limited liability company) shall appropriate 5% to 10% of its net profit after taxation (based on the Company's PRC statutory accounts) as the statutory welfare fund. The directors shall have discretion in determining the percentage within the range specified by the relevant PRC laws and regulations.

Accumulated profits

Profit appropriation is subject to the approval of the board of directors. In accordance with the Articles of Association of the Company, the reserve available for distribution is the lower of the amount determined under the accounting principles generally accepted in the PRC and the amount determined under accounting principles generally accepted in Hong Kong. As at December 31, 2002, the amount of reserve available for distribution was approximately RMB28,469,000 (2001: RMB3,357,000).

Notes to the Financial Statements (Continued)

For the year ended December 31, 2002

22. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Company had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	2002	2001
	RMB'000	RMB'000
Within one year	441	—
More than one year but within five years	991	—
	1,432	—

Operating lease payments represent rentals payable by the Company for its office premises. Leases are negotiated for an average term of three years and rentals are fixed for the lease term.

23. CAPITAL COMMITMENTS

At the balance sheet date, the Company had commitments of approximately RMB8,367,000 (2001: RMB44,352,000) for capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property, plant and equipment.

24. PLEDGE OF ASSETS

At the balance sheet date, certain assets of the Company with the following carrying values had been pledged to secure borrowings granted to the Company:

	2002	2001
	RMB'000	RMB'000
Buildings	31,139	—
Land use rights	9,410	—
Plant and machinery	81,352	—
Restricted cash	56,200	—
	178,101	—

Notes to the Financial Statements (Continued)

For the year ended December 31, 2002

25. FORWARD CONTRACTS COMMITMENTS

At the balance sheet date, the Company had forward contracts commitments, expressed in Euro, as follows:

	2002	2001
	EURO	EURO
Principal amounts of forward contracts held for hedging purposes against bank borrowings and other payables		
— purchase of Euro	9,123,000	—

26. RETIREMENT BENEFIT SCHEME

The Company contributed to a local municipal government retirement scheme for all qualified employees in the PRC. The employer and its employees are each required to make contributions to the scheme at the rates specified in the rules. The only obligation of the Company with respect to the retirement scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The total cost charged to income statement of approximately RMB279,000 (2001: RMB216,000) represents contributions payable to the scheme by the Company during the year.

27. RELATED PARTY TRANSACTIONS

During the year, the Company had the following significant transactions with the related parties:

Name of related party	Nature	2002	2001
		RMB'000	RMB'000
Zhejiang Hongxing	Subcontracting fee paid (Note a)	3,450	9,212
	Purchase of machinery (Note a)	1,298	2,247
	Sales of goods (Note b)	—	15,868
	Subcontracting fee income received (Note c)	—	1,709
Mr. Sun	Proceeds from disposal of an associate (Note a)	5,000	—
Mr. Xia Xue Nian	Proceeds from disposal of investment in securities (Note d)	—	4,000

During the year ended December 31, 2001 and 2002, the Company occupied certain properties, which are owned by Shaoxing Hongda for industrial production and office administration purposes, at a nil rental payment.

Notes to the Financial Statements (Continued)

For the year ended December 31, 2002

27. RELATED PARTY TRANSACTIONS (Continued)

In addition to the guarantees given by Zhejiang Hongxing, Zhejiang Gabriel and Sabrina Garments to the financial institutions in respect of the loans granted to the Company as at December 31, 2001 and 2002, details of which are set out in note 20, Zhejiang Gabriel, Sabrina Garment, Mr. Sun and Ms. Fang had also given joint guarantees to banks in respect of certain banking facilities arrangements granted to the Company with an aggregate amount of approximately RMB156 million (2001: Nil) during the year as joint guarantors for the purchase of property, plant and equipment and working capital of the Company. The respective loans were repaid during the year and the guarantees were therefore released.

Notes:

- (a) The transactions were carried out in accordance with the relevant agreements.
- (b) The transactions were carried out at cost plus a percentage mark up.
- (c) The transactions were carried out at terms determined and agreed by both parties.
- (d) The transaction was carried out in accordance with the relevant agreements. The considerations were determined by reference to the amounts of capital contributed by the Company.

Balances and other transactions with related parties as at December 31, 2002 are set out in notes 16, 17 and 19.

28. GOVERNMENT GRANTS

Government grants of approximately RMB5,484,000 (2001: RMB415,000) have been received during the year for the encouragement of the development of business in Zhejiang Province. The amounts have been included in other operating income for the year.

During the year, the Company received government grants of RMB4,803,000 towards the acquisition of land use rights and buildings. The amounts have been deducted from the cost of the relevant assets.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the 2002 annual general meeting (“AGM”) of Zhejiang Yonglong Enterprises Co., Ltd. (the “Company”) will be held at Yangxun Qiao Town, Shaoxing County, Zhejiang Province, the People’s Republic of China on Friday, May 16, 2003 at 10:00 a.m. for the purpose of considering, and, if thought fit, passing the following ordinary resolutions:

1. To consider and approve Report of the Directors for the year 2002;
2. To consider and approve Report of the Supervisory Committee for the year 2002;
3. To consider and approve the audited financial statements for the year ended December 31, 2002;
4. To consider and approve the dividend distribution proposal for the year 2002;
5. To consider and approve the appropriation to statutory surplus reserve and statutory public welfare fund for the year 2002;
6. To consider and approve the proposal of re-appointing Deloitte Touche Tohmatsu and KLL Associates CPA Limited as joint international auditors and Zhejiang East Certified Public Accountants Company Limited as domestic auditor for the year 2003 and authorize the directors of the Company to fix their remuneration;
7. To consider and approve the remuneration proposals for directors and supervisors of the Company for the year 2003 and to authorise the directors of the Company to fix their remuneration; and
8. To transact any other business.

By Order of the Board

Sun Li Yong

Chairman

Zhejiang, the PRC, March 27, 2003

Notes:

1. The register of members of the Company will be closed from April 15, 2003 to May 16, 2003 (both days inclusive), during which no transfer of shares will be effected. The holders of shares whose name appears on the register of members of the Company at 4:00 p.m. on April 14, 2003 will be entitled to attend and vote at the AGM. In order to qualify for attendance at the above meeting, instruments of transfer accompanied by share certificates and other appropriate documents must be lodged with the Company’s H share registrar, Standard Registrars Limited at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong by 4:00 p.m. on April 14, 2003.
2. Any holder of H shares and domestic shares entitled to attend and vote at the AGM convened by the above notice is entitled to appoint in written form one or more proxies to attend and vote at the AGM on his behalf. A proxy needs not be a holder of H shares and domestic shares of the Company.

Notice of Annual General Meeting (Continued)

3. In order to be valid, the voting proxy form for the AGM shall be signed by the appointer or his attorney duly authorised in writing. If the appointer is a legal person, then the form shall be signed under a legal person's seal or signed by its director or an attorney duly authorised in writing. If the form is signed by a person authorised by the appointer, the power of attorney or other document of authority under which the form is signed shall be notarised. In order to be valid, the voting proxy form together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of the power of attorney must be delivered to the Company's H shares registrar, Standard Registrars Limited at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 24 hours before the time appointed for holding the AGM or any adjournment thereof.
4. Holders of H shares and domestic shares who intend to attend the AGM should notify in writing of their attendance by sending such to the Company by hand, post or fax on or before April 30, 2003.
5. The AGM is expected to take not more than one day. Shareholders who attend shall bear their own traveling and accommodation expenses.
6. Principal place of business in the PRC and the contact details of the Company are as follows:

Yangxun Qiao Town, Shaoxing County, Zhejiang Province, the People's Republic of China Fax No. (86)(575) 4573218.