



永隆實業
ENTERPRISES

Yonglong

浙江永隆實業股份有限公司

ZHEJIANG YONGLONG ENTERPRISES CO.,LTD.

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

The background of the page is a soft-focus photograph of green leaves. Overlaid on this are several wavy, multi-line patterns in shades of blue and gold, creating a sense of movement and depth.

2003
Interim Report

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

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

HIGHLIGHTS

For the six months ended 30 June 2003,

- turnover of the Company increased from approximately RMB163.1 million to approximately RMB204.9 million, representing a growth of approximately 25.6% when compared to that of the corresponding period in 2002;
- net profit for the period was approximately RMB9.7 million, representing a decrease of approximately 40.1% as compared to that of the corresponding period in 2002; and
- the Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2003.

UNAUDITED CONDENSED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2003

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") is pleased to announce the profit and loss account, cash flow statement and statement of movement in equity of the Company for the three months and six months ended 30 June 2003, and the balance sheet as at 30 June 2003 of the Company, all of which are unaudited and in condensed format, along with selected explanatory notes and the comparative unaudited figures for the corresponding period in 2002 as follows:

	Notes	Three months ended 30 June		Six months ended 30 June	
		2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Turnover	2	121,698	100,319	204,909	163,148
Cost of sales		(108,288)	(83,560)	(183,596)	(139,707)
Gross profit		13,410	16,759	21,313	23,441
Other operating income		2,099	2,461	2,950	2,755
Selling expenses		(689)	(50)	(1,241)	(121)
Administrative expenses		(3,328)	(1,148)	(5,512)	(2,328)
PROFIT FROM OPERATIONS	3	11,492	18,022	17,510	23,747
Finance costs	4	(4,273)	(225)	(6,513)	(416)
PROFIT BEFORE TAXATION		7,219	17,797	10,997	23,331
Taxation	5	181	(5,245)	(1,313)	(7,118)
Net profit for the period		7,400	12,552	9,684	16,213
Dividend paid	6	—	—	—	1,210
Earnings per share — basic (RMB)	7	0.88 cent	2.1 cents	1.2 cents	2.8 cents

CONDENSED BALANCE SHEET

	Notes	As at 30 June 2003 RMB'000 (Unaudited)	As at 31 December 2002 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	267,480	247,978
Restricted cash		24,832	3,000
		292,312	250,978
CURRENT ASSETS			
Inventories		38,913	45,115
Trade receivables	10	72,933	41,959
Other receivables, deposits and prepayments		56,765	36,280
Restricted cash		149,417	53,200
Bank balances and cash		134,634	75,699
		452,662	252,253
CURRENT LIABILITIES			
Trade payables	11	30,787	34,279
Other payables and accruals		32,924	67,204
Bills payable		7,799	20,020
Amounts due to related companies	12	—	8,853
Dividend payable		2,500	—
Taxation		5,146	15,189
Borrowings — due within one year		331,151	90,389
		410,307	235,934
NET CURRENT ASSETS (LIABILITIES)		42,355	16,319
TOTAL ASSETS LESS CURRENT LIABILITIES		334,667	267,297
NON CURRENT LIABILITIES			
Amounts due to related companies	12	27,970	30,205
Borrowings — due after one year		124,833	63,066
Deferred tax liabilities		6,357	—
		159,160	93,271
NET ASSETS		175,507	174,026
Capital and Reserves			
Paid-up capital		83,800	83,800
Reserves		91,707	90,226
SHAREHOLDERS' FUNDS		175,507	174,026

UNAUDITED CONDENSED CASH FLOW STATEMENT

	Six months ended 30 June	
	2003 RMB'000	2002 RMB'000
Net cash from (used in) operating activities	(94,277)	12,368
Net cash used in investing activities	(147,082)	(89,355)
Net cash from (used in) financing activities	300,294	100,673
Net increase in cash and cash equivalents	58,935	23,686
Cash and cash equivalents at beginning of the period	75,699	732
Cash and cash equivalents at end of the period, representing bank balances and cash	134,634	24,418

CONDENSED STATEMENT OF CHANGES IN EQUITY

	Paid-up capital RMB'000	Share premium RMB'000	Statutory surplus reserve RMB'000	Statutory welfare fund RMB'000	Assets revaluation reserve RMB'000	Accumulated profits RMB'000	Total RMB'000
Balance at 1 January 2002	3,500	—	—	—	—	9,253	12,753
Additional capital injection	46,480	—	—	—	—	—	46,480
Transfer to capital upon conversion into a privately-owned limited liability company	8,020	—	—	—	—	(8,020)	—
Transfer	—	—	1,456	727	—	(2,183)	—
Profit for the period	—	—	—	—	—	16,213	16,213
Dividend	—	—	—	—	—	(1,210)	(1,210)
Balance at 30 June 2002	58,000	—	1,456	727	—	14,053	74,236
Balance at 1 January 2003	83,800	26,229	3,207	1,604	22,083	37,103	174,026
Final dividend declared	—	—	—	—	—	(2,500)	(2,500)
Profit for the period	—	—	—	—	—	9,684	9,684
Deferred tax effect	—	—	—	—	(5,703)	—	(5,703)
Transfer	—	—	968	484	—	(1,452)	—
Balance at 30 June 2003	83,800	26,229	4,175	2,088	16,380	42,835	175,507

Notes:

1. Basis of preparation

The Company was initially established on 26 February 1998 as a collectively-owned enterprise in the People's Republic of China (the "PRC") under the name of 紹興宏興紡織廠 (Shaoxing Hongxing Textile Factory*), which was converted into a privately-owned limited liability company on 28 March 2002 in accordance with the PRC laws. In preparation for the listing of the Company's H shares on the Growth Enterprise Market ("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 16 April 2002.

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

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

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

During the period ended 31 March 2002, the Company disposed of its entire interest in a subsidiary, 浙江宏興莎美娜服飾有限公司 (Zhejiang Hongxing Sabrina Garments Co., Ltd.*) ("Sabrina Garments") and its entire interest in an associate, 紹興市置業房地產開發有限公司 (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 period ended 30 June 2002, which include the results of Sabrina Garments up to the effective date of its disposal, amounted to RMB19.9 million.

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

The principal accounting policies used in the preparation of the unaudited results are consistent with those used in the preparation of the Company's annual financial statements for the year ended 31 December 2002. The unaudited results are prepared in accordance with accounting principles generally accepted in Hong Kong.

2. Turnover

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

3. Profit from operations

	Three months ended 30 June		Six months ended 30 June	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Profit from operations has been arrived at after charging:				
Depreciation and amortisation	5,576	1,115	9,927	2,172

4. Finance costs

	Three months ended 30 June		Six months ended 30 June	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Interest on bank borrowings wholly repayable within five years	4,079	225	6,560	416
Interest on other borrowings wholly repayable within five years	194	—	389	—
Less: Amounts capitalised in construction in progress	—	—	(436)	—
	4,273	225	6,513	416

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

5. Taxation

	Three months ended 30 June		Six months ended 30 June	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
The charge comprises:				
PRC enterprise income tax for the period	(2,382)	(5,245)	(3,629)	(7,118)
PRC enterprise income tax overprovided in previous year	2,971	—	2,971	—
Deferred income tax	(408)	—	(655)	—
	181	(5,245)	(1,313)	(7,118)

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

6. Dividend paid

The Company has declared a dividend of approximately RMB2,500,000 (2002: RMB1,210,000) from its profits based on the statutory financial statements as at 31 December 2002 to its then shareholders in June 2003.

The Directors do not recommend the payment of an interim dividend for the three months ended 30 June 2003.

7. Earnings per share

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

	Three months ended 30 June		Six months ended 30 June	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Earnings for the purpose of calculating basic earnings per share	7,400	12,552	9,684	16,213
Number of shares:				
Number of shares for the purpose of basic earnings per share (Note)	838,000,000	588,000,000	838,000,000	588,000,000
Weighted average number of shares for the purpose of calculating earnings per share	838,000,000	588,000,000	838,000,000	588,000,000

Note:

The calculation of the basic earnings per share for the three months and six months ended 30 June 2003 and 2002 were based on the unaudited net profit for the period as above as if the sub-division of the Company's shares as described in the note 1 above had taken place at the beginning of the respective periods.

Diluted earnings per share has not been calculated for the three months and six months ended 30 June 2003 and the corresponding period as there were no dilutive potential ordinary shares during these periods.

8. 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.

9. Movements in property, plant and equipment

During the period for the six months ended 30 June 2003, the Company spent approximately RMB29.4 million (31 December 2002: RMB191 million) on additions of property, plant and equipment.

10. 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:

	2003	2002
	RMB'000	RMB'000
Within 30 days	57,511	27,266
31–60 days	5,421	4,207
61–90 days	2,767	1,546
91–120 days	381	6,195
121–180 days	3,803	1,151
181–365 days	3,050	1,594
	72,933	41,959

11. Trade payables

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

	2003	2002
	RMB'000	RMB'000
Within 30 days	13,534	21,921
31–60 days	6,244	8,487
61–90 days	3,520	1,528
91–120 days	2,187	43
121–180 days	3,072	760
181–365 days	749	810
1–2 years	1,481	730
	30,787	34,279

12. Amounts due to related companies

Name of related company	Notes	2003	2002
		RMB'000	RMB'000
紹興嘉利紡織有限公司 (Shaoxing Jia Li Textile Co., Ltd. *)	(a)	17,500	20,000
紹興宏大針織廠 (Shaoxing Hongda Knitting Factory*) ("Shaoxing Hongda")	(b)	10,470	19,058
Total		27,970	39,058
Less: Amount repayable within one year		—	(8,853)
		27,970	30,205

Note:

- (a) Mr. Xia Xue Nian, a Director of the Company, has beneficial interests in this company.
- (b) The legal representative of Shaoxing Hongda is the father of Mr. Sun Li Yong, a Director and a shareholder of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS**Financial Review**

For the six months ended 30 June 2003, the Company recorded a turnover of approximately RMB204.9 million, representing an increase of approximately 25.6% as compared with that of the same period in 2002. The gross profit for the period under review was approximately RMB21.3 million, representing a gross profit margin of approximately 10.4% as compared with a gross profit of approximately RMB23.4 million and a gross profit margin of approximately 14.3% for the previous period. The decrease in gross profit margin was mainly due to the increase in unit manufacturing cost and production overheads. About 60% of the Company's products were sold to export and import trading companies and overseas customers. The overseas customers of the Company and these export and import trading companies are mainly in the Middle East. Due to the political event in the Middle East and the sudden outbreak of Severe Acute Respiratory Syndrome ("SARS") in the PRC and its surrounding regions, the sales orders of the Company were either decreased or temporary deferred.

Therefore, the Company had to stop certain production lines. Net profit for the period was approximately RMB9.7 million, representing a decrease of approximately RMB6.5 million as compared with that of the same period last year. Administrative expenses and selling expenses increased sharply as compared with that of the previous period which was in line with the expansion of business. Finance cost increased significantly for the period ended 30 June 2003 when compared with that of 2002. The increase was mainly due to the increase in bank loans for the acquisition of the property, plant and equipment last year. Earnings per share for the six months ended 30 June 2003 amounted to RMB1.2 cents as compared with earnings per share of RMB2.8 cents for the corresponding period in 2002.

Business and Operation Review

The six months ended 30 June 2003 was an extremely difficult time for the Company due to the political event in the Middle East and the sudden outbreak of SARS. Sales orders were either deferred or decreased, which led to the under-utilisation of production facilities. The persistent low consumer sentiment put a savage brake on the demand for fabric products, which was originally expected to have an accelerating growth by the management. As a result, the gross profit margin for the six months ended 30 June 2003 decreased. However, since June 2003, the sales orders received by the Company have returned to normal level.

Same as the previous quarter, the major expenses of the Company were administration and finance costs, which accounted for approximately 90.6% of the Company's total expenses for the six months ended 30 June 2003. While these expenses were considered to be inevitable with the expansion of the Company, management will closely monitor such expenses and adopt a comprehensive cost control system to ensure that the resources of the Company are appropriately utilized and allocated.

The Directors consider that as the political condition in the Middle East has been stabilized and the spread of SARS has been under control, together with the strong management team and production facilities, the Company will be able to deliver better results in the coming quarters.

Product Research and Development

To cope with the increasing demand for quality, comfortable and fashionable clothing in the market, the Company continued to conduct research in order to improve existing products and explore new products. The Company will continue to co-operate with DuPont Fibers (China) Limited and Donghua University in developing new products and improving the existing techniques.

Production facilities

The Company has completed a feasibility study on the installation of dyeing facilities. The Company has also obtained an approval from the relevant local governmental bodies in the PRC for setting up a production line for its dyeing processes. The installation of dyeing facilities will commence by the end of the third quarter of 2003 and it is planned to commence operation in the second quarter of 2004. With these dyeing facilities, the Company no longer has to outsource its dyeing processes to subcontractors. The quality of fabrics will be more guaranteed and the production cost can also be better controlled.

Sales and marketing

In view of the impact caused by the political event in the Middle East, the Company will continue to diversify its customers in different geographical areas. In addition, in order to gain exposure in the fabric market and to keep customers informed of its latest products, the Company has been actively participating in various trade fairs held in the PRC and overseas in this quarter.

OUTLOOK

In view of the improving consumer sentiment, the Directors have confidence that based on the strong management team and production facilities, the Company will be able to record growth in the coming quarters. In addition, the Hong Kong and Shanghai sales offices have commenced operations. The Directors believe that through these two offices, the Company can better serve its customers and bring in new business opportunities.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

According to the business objectives as stated in the prospectus dated 31 October 2002 **Actual business progress**

Expansion of production capacity

- | | |
|--|-------------|
| 1. Install dyeing facilities in order to reduce subcontracting cost and enhance the quality of the product | In progress |
|--|-------------|

Expansion of sales network

- | | |
|--|---|
| 1. Set up two sales offices in Guangzhou and Xiamen | In progress |
| 2. Explore opportunities to expand the distribution network in the overseas market | In progress |
| 3. Participate in major sales exhibitions and trade shows | The Company has participated in various exhibitions held in Hong Kong and Guangzhou during the period |

According to the business objectives as stated in the prospectus dated 31 October 2002

4. Recruit 4 to 6 sales staff
5. Place advertisement in the media to promote the Company's overall image

Actual business progress

The Company has recruited 4 sales staff for Hong Kong, Hangzhou and Shanghai offices

In progress

Research and development of new fabric products

1. Recruit an additional 4 to 6 high caliber research and development staff and acquire advance and comprehensive facilities to strengthen the research and development capabilities
2. Continue to provide training to the existing research and development staff
3. Continue to jointly research, develop and promote new fabric products and new applications and manufacturing technologies with Donghua University

In progress

In progress

In progress

**According to the business objectives
as stated in the prospectus
dated 31 October 2002**

Actual business progress

- | | |
|--|-------------|
| 4. Continue to 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 |
| 5. Continue to jointly research, develop and promote "T-400" technology and its related products with DuPont China | In progress |
| 6. Launch 4 new fabric products | completed |

USE OF NET PROCEEDS

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 8 November 2002. For the six months ended 30 June 2003, the Company utilized approximately HK\$32.4 million in accordance with the Company's business objectives as set out in the Company's prospectus dated 31 October 2002 (the "Prospectus"). An analysis of the use of proceeds as at 30 June 2003 is as follows:

	Actual use of proceeds	Planned use of proceed as set out in the Prospectus for the six month ended 30 June 2003
	HK\$'000	HK\$'000
Payment of other payables for the purchase of 200 sets of looms	31,800	31,800
Expanding the sales network by setting up sales offices and participating in major sales exhibitions and trade shows	475	640
Placing advertisements in the media to promote the Company's overall image and to build up the Company's brand name and trademark	30	100
Development of new products, product research and product assessment	136	300
Purchasing dyeing facilities	—	10,000
Total	32,441	42,840

Note:

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

As the Company has just obtained from the relevant local governmental bodies the approval regarding set up of dyeing facilities since May 2003, the installation of dyeing facilities will be commenced by the end of the third quarter of 2003. Hence, the use of proceeds for purchasing dyeing facilities is planned to be applied at the end of the third quarter of 2003.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

As at 30 June 2003, the Company had net current assets of approximately RMB42.4 million.

As at 30 June 2003, the current assets comprised inventories of approximately RMB38.9 million, trade receivables of approximately RMB72.9 million, other receivable, deposits and prepayments of approximately RMB56.8 million, restricted cash of approximately RMB149.4 million and bank balances and cash of approximately RMB134.6 million.

As at 30 June 2003, the current liabilities comprised trade payables of approximately RMB30.8 million, other payables and accruals of approximately RMB32.9 million, bills payable of approximately RMB7.8 million, dividend payable of approximately RMB2.5 million, taxation payable of approximately RMB5.1 million and borrowings due within one year of approximately RMB331.2 million.

Borrowings and banking facilities

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

As at 30 June 2003, the Company had bank loans due within one year, other loans due within one year and bank loans due after one year of approximately RMB317.9 million, RMB13.2 million and RMB124.8 million respectively. The loans bear interest at prevailing market rates at a range from approximately 3.78% per annum to 6.59% per annum and repayable in instalments over a

period of six months to two years. The unsecured loans were jointly guaranteed by 浙江加佰利紡織實業有限公司 (Zhejiang Gabriel Textile Industrial Co. Ltd.*), a related company in 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 certain independent third parties. The secured loans were pledged by restricted cash of approximately RMB174.3 million, land use right, buildings, and plant and machinery situated in the PRC of net book value as at 30 June 2003 of approximately RMB11.2 million, RMB30.3 million and RMB77 million respectively.

At 30 June 2003, the Company had an outstanding amount of approximately RMB17.5 million due to 紹興嘉利紡織有限公司 (Shaoxing Jia Li Textile Co., Ltd.*) ("Jia Li") that the Company's director, Mr. Xia Xue Nian had 40% beneficial interest in this company and another outstanding amount of approximately RMB10.5 million due to 紹興宏大針織廠 (Shaoxing Hongda Knitting Factory*) ("Shaoxing Hongda") that the Company's director, Mr. Sun Li Yong's father was the legal representative of this related company. The above outstanding amounts are unsecured and non-interest bearing. The amount due to Jia Li is repayable in seven instalments and the repayment date of the last instalment is 31 July 2005 while the amount due to Shaoxing Hongda is repayable in two instalments and the repayment date of the last instalment is 30 April 2004 according to the agreements and the supplemental agreements dated 31 July 2002 and 25 October 2002 respectively.

CAPITAL COMMITMENTS

As at 30 June 2003, the Company had capital commitments of approximately RMB7.2 million (31 December 2002: RMB8.4 million) in respect of acquisition of property, plant and equipment.

FORWARD CONTRACTS COMMITMENTS

As at 30 June 2003, the Company had forward contracts commitments expressed in Euro for hedging against bank borrowing of Euro8,887,600 (31 December 2002: Euro9,123,000).

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

Segmental information of the Company is set out in note 8 to the financial statements.

EMPLOYEE INFORMATION

As at 30 June 2003, the Company had 2,003 employees (31 December 2002: 1,608), comprising 10 (31 December 2002: 8) in research and development, 22 (31 December 2002: 18) in sales and marketing, 1,888 (31 December 2002: 1,532) in production, 50 (31 December 2002: 12) in quality control, 10 (31 December 2002: 9) in management, and 23 (31 December 2002: 23) 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 COMPANY ASSETS

As at 30 June 2003, the Company's fixed assets with an aggregate net book value of approximately RMB118.5 million (31 December 2002: RMB178.1 million), 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, the Directors do not have any future plans for material investment or capital assets.

GEARING RATIO

The gearing ratio (total debts over equity) of the Company as at 30 June 2003 was 75.5% (31 December 2002: 65.4%).

FOREIGN EXCHANGE EXPOSURE

Renminbi currently is not a freely convertible currency. Currently, the Company receives all of its revenues from sales in PRC in Renminbi. Since May 2002, the Company has obtained an “export right”. Currently, the export revenue is 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 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 8 November 2002, the Company may undertake current account foreign exchange transactions, including payment of dividends, without prior approval from the State Administration for Foreign Exchange (中華人民共和國國定外匯管理局), 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 30 June 2003, the Company did not have any significant contingent liabilities.

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

As at 30 June 2003, the interests and short positions of the Directors, Supervisors and Chief Executives in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

Long positions in shares

Name	Class of shares	Type of interests	Capacity	Number of shares	Approximate percentage of domestic shares	Approximate percentage of total registered share capital
Mr. Sun Li Yong	Domestic shares	Personal	Beneficial	382,200,000	65%	45.6%
		Family	owner	182,280,000	31%	21.8%
				(Note 1)		
Ms. Fang Xiao Jian	Domestic shares	Personal	Beneficial	182,280,000	31%	21.8%
		Family	owner	382,200,000	65%	45.6%
				(Note 2)		
Mr. Fang Han Hong	Domestic shares	Personal	Beneficial owner	11,760,000	2%	1.4%
Mr. Sun Jian Feng	Domestic shares	Personal	Beneficial owner	5,880,000	1%	0.7%
Mr. Xia Xue Nian	Domestic shares	Personal	Beneficial owner	5,880,000	1%	0.7%

Notes:

1. Mr. Sun Li Yong is the spouse of Ms. Fang Xiao Jian and, under section 316 of the SFO, is therefore deemed to be interested in the 182,280,000 shares beneficially owned by Ms. Fang Xiao Jian.
2. Ms. Fang Xiao Jian is the spouse of Mr. Sun Li Yong and, under section 316 of the SFO, is therefore deemed to be interested in the 382,200,000 shares beneficially owned by Mr. Sun Li Yong.

Save as disclosed in this paragraph, as at 30 June 2003, none of the Directors, Supervisors and Chief Executives had interest in any shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies relating to securities transactions by directors to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

So far as was known to the Directors or Chief Executives of the Company, as at 30 June 2003, the persons or companies (not being a Director or chief executive of the Company) who had equity interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO or who were directors indirectly deemed to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Company were as follows:

Long positions in shares

Name	Class of shares	Type of interests	Capacity	Number of shares	Approximate percentage of H shares	Approximate percentage of domestic shares	Approximate percentage of total registered share capital
Mr. Sun Li Yong	Domestic shares	Personal Family	Beneficial owner	382,200,000	—	65%	45.6%
				182,280,000 <i>(Note 1)</i>	—	31%	21.8%
Ms. Fang Xiao Jian	Domestic shares	Personal Family	Beneficial owner	182,280,000	—	31%	21.8%
				382,200,000 <i>(Note 2)</i>	—	65%	45.6%
Martin Currie China Hedge Fund Limited	H shares	Corporate	Investment manager	30,660,000	12.26%	—	3.7%
Chan Kin Sun	H shares	Personal	Beneficial owner	19,000,000	7.6%	—	2.3%
Liu Yuen Sung, David	H shares	Personal	Beneficial owner	16,000,000	6.4%	—	1.9%

Notes:

1. Mr. Sun Li Yong is the spouse of Ms. Fang Xiao Jian and, under section 316 of the SFO, is therefore deemed to be interested in the 182 280,000 shares beneficially owned by Ms. Fang Xiao Jian.
2. Ms. Fang Xiao Jian is the spouse of Mr. Sun Li Yong and, under section 316 of the SFO, is therefore deemed to be interested in the 382,200,000 shares beneficially owned by Mr. Sun Li Yong.

Save as disclosed above, as at 30 June 2003, the Directors were not aware of any other person who had an interest or short position in the shares or underlying shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who was interested in 10% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company.

DIRECTORS' AND SUPERVISORS' INTERESTS IN THE UNDERLYING SHARES PURSUANT TO EQUITY DERIVATIVES

Save as disclosed above, during the six months ended 30 June 2003, none of the Directors, Supervisors or Chief Executives was granted options to subscribe for H shares of the Company. As at 30 June 2003, none of the Directors or the Supervisors nor their spouses or children under the age of 18 had any rights to acquire H shares in the Company or had exercised any such right during the period.

COMPETING INTERESTS

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

JOINT SPONSORS' INTERESTS

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

As at 30 June 2003, neither Kingsway, Guotai Junan, their directors, employees nor any of their respective associates had any interest in any securities of the Company or any of its associates.

AUDIT COMMITTEE

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

The audit committee has reviewed with management the accounting principles and practices adopted by the Company and discussed internal controls and financial reporting matters including a review of the unaudited interim accounts for the six months ended 30 June 2003.

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

The Company had complied throughout the period under review the minimum standards of good practice concerning the general management responsibilities of the board of directors as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor its subsidiary purchased, sold or redeemed any of the Company's listed shares during the six months ended 30 June 2003.

By Order of the Board

Sun Li Yong

Chairman

Zhejiang, the PRC, 12 August 2003