



永隆

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)

2003

First Quarterly Report

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

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

HIGHLIGHTS

For the three months ended 31 March 2003,

- turnover of the Company increased from approximately RMB66.7 million to approximately RMB83.2 million, representing a growth of approximately 24.7% when compared to the corresponding period in 2002;
- net profit to the period was approximately RMB2.7 million, representing a decrease of approximately 25.3% as compared to the corresponding period in 2002; and
- the Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2003.

UNAUDITED PROFIT AND LOSS ACCOUNT**For the three months ended 31 March 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 unaudited results of the Company for the three months ended 31 March 2003, together with the comparative results for the corresponding period in 2002 as follows:

	Notes	Three months ended 31 March	
		2003 RMB'000	2002 RMB'000
Turnover	2	83,211	62,829
Cost of sales		(75,308)	(56,147)
Gross profit		7,903	6,682
Other revenue		851	294
Selling expenses		(552)	(71)
Administrative expenses		(2,185)	(1,181)
PROFIT FROM OPERATIONS		6,017	5,724
Finance costs		(2,240)	(191)
PROFIT BEFORE TAXATION	3	3,777	5,533
Taxation	4	(1,044)	(1,873)
Net Profit for the period		2,733	3,660
Dividend	5	—	1,210
Earnings per share	6		
Basic (RMB)		0.33 cent	0.62 cent

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 (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 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 the 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.*) 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 profits of the Company and its former subsidiary and associate for the period ended 31 March 2002, which include the results of Sabrina Garments up to the effective date of its disposal, amounted to RMB7,332,000.

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

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 before taxation

Profit before taxation after charging:

	Three months ended	
	31 March	
	2003	2002
	RMB'000	RMB'000
Staff cost including directors' and supervisors' emolument and retirement benefits scheme contributions	6,426	2,615
Depreciation and amortisation of property, plant and equipment	4,351	1,057
Research and development costs	74	20
and after crediting:		
Government grants	612	—
Interest income	231	10

4. Taxation

	Three months ended	
	31 March	
	2003	2002
	RMB'000	RMB'000
The charge comprises:		
PRC enterprise income tax	1,044	1,873

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.

There was no significant unprovided deferred taxation for the period.

5. Dividend

The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2003 (2002: RMB1,210,000).

6. Earnings per share

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

	Three months ended	
	31 March	
	2003	2002
	RMB'000	RMB'000
Earnings for the purpose of calculating basic earnings per share	2,733	3,660
Number of shares:		
Number of shares for the purpose of basic earnings per share <i>(Note)</i>	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

Note:

The calculation of the basic earnings per share for the three months ended 31 March 2003 and 2002 were based on the unaudited net profit for the period as above as if the subdivision 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 ended 31 March 2003 and the corresponding period as there were no dilutive potential ordinary shares during these periods.

7. Movements in reserves

Movements in the reserves of the Company during the three months ended 31 March 2003 are set out as follows:

	Paid-up capital	Share premium	Statutory surplus reserve	Statutory welfare fund	Assets revaluation reserve	Accumulated profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	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	—	—	201	100	—	(301)	—
Profit for the period	—	—	—	—	—	3,660	3,660
Dividend	—	—	—	—	—	(1,210)	(1,210)
Balance at 31 March 2002	58,000	—	201	100	—	3,382	61,683
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	—	—	—	—	—	2,733	2,733
Transfer	—	—	273	137	—	(410)	—
Balance at 31 March 2003	83,800	26,229	3,480	1,741	22,083	36,926	174,259

FINANCIAL REVIEW

For the three months ended 31 March 2003, the Company recorded a turnover of approximately RMB83.2 million, representing an increase of approximately 24.7% as compared with that of the same period in 2002. The gross profit for the period under review was approximately RMB7.9 million, representing a gross profit margin of approximately 9.5% as compared with a gross profit of approximately RMB6.7 million and a gross profit margin of approximately 10.6% for the previous period. The decrease in gross profit margin was mainly due to increase in unit price of raw materials and decrease in production volume which led to increase in unit manufacturing cost and production overheads. The decrease in production volume was mainly caused by decrease in sales orders which was affected by the political event in the Middle East. Net profit for the period was approximately RMB2.7 million, representing a decrease of approximately RMB0.9 million as compared with that of the same period last year. Selling expenses increased in line with the expansion of business of the Company. Administrative expenses increased sharply by 85% as compared with that of the previous period. The increase was mainly due to expansion of business including the set up of new sales offices in Hong Kong and Shanghai which started operation in this quarter. Finance cost increased significantly for the period ended 31 March 2003 when compared with that of 2002. It was mainly due to the increase in bank loans for the acquisition of property, plant and equipment last year. Earnings per share for the period amounted to RMB0.33 cent as compared with earnings per share of RMB0.62 cent for the corresponding period in 2002.

BUSINESS AND OPERATION REVIEW

During the three months ended 31 March 2003, the business of the Company was affected by the political event in the Middle East. Accordingly, the proportion of the Company's export sales decreased by approximately 20.5% while domestic sales recorded an increase which compensated the loss of export sales during the period under review. While consumer sentiment in a global context remains uninspiring, the Directors consider that the performance of the Company will continue to be rattled by the weak consumer consumption and deflationary pressure. However, as the fundamentals of the Company remain strong, it is believed that the long-term outlook will remain positive as the unfavourable elements to the economy gradually fade out.

PRODUCT RESEARCH AND DEVELOPMENT

Although the global business environment is difficult, the Directors believe that possessing state-of-the-art industrial and manufacturing facilities is important for maintaining the competitiveness of the Company. The Company will continue to co-operate with DuPont Fibers (China) Limited* to develop "T-400" technology and related products.

Production facilities

In order to enhance product quality and save production cost, the Company has commenced a feasibility study on the installation of dyeing facilities.

Sales and marketing

To strengthen domestic sales and overseas sales, the Company set up sales offices in each of Hong Kong and Shanghai which commenced operation in this quarter. In addition, in order to gain exposure in the fabrics 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 its relatively strong foundation, the Directors are confident that the Company will be able to weather the prolonged economic doldrums. To further consolidate its base and boost sales, the Company's two new sales offices, which are located in Hong Kong and Shanghai, commenced operation during this quarter. The Hong Kong sales office will act as the focal point for the Company and its overseas customers, while the Shanghai sales office caters for the needs of the domestic market. These two offices will definitely add advantages to the sales and marketing strength of the Company and portray a positive background for improving turnover.

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

None of the Directors, chief executives (the "Chief Executives") or supervisors (the "Supervisors") of the Company or their spouses or children under the age of 18 was granted by the Company any right to acquire shares or debentures of the Company or any other body corporate, or had exercised any such right as at 31 March 2003.

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

As at 31 March 2003, the interests of the Directors, the Chief Executives and the Supervisors and their respective associates in the shares or debentures of the Company and its associated corporations, if any, as required to be recorded in the register maintained by the Company under Section 29 of the SDI Ordinance were as follows:

Name	Class of shares	Type of interests	Number of shares	Percentage of deemed beneficial interest in the Company's share capital immediately after the Listing
Mr. Sun Li Yong (Note 1)	Domestic shares	Personal	382,200,000	45.6%
		Family	182,280,000	21.8%
Ms. Fang Xiao Jian (Note 2)	Domestic shares	Personal	182,280,000	21.8%
		Family	382,200,000	45.6%
Mr. Fang Han Hong	Domestic shares	Personal	11,760,000	1.4%
Mr. Sun Jian Feng	Domestic shares	Personal	5,880,000	0.7%
Mr. Xia Xue Nian	Domestic shares	Personal	5,880,000	0.7%

Notes:

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

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

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2003, the shareholders having an interest of 10% or more in the respective class of share capital of the Company as registered in the register required to be kept under Section 16(1) of the SDI Ordinance are listed as follows:

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

Notes:

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

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

COMPETING INTERESTS

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

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 ended 31 December 2002 and for a period of 2 years thereafter expiring on 31 December 2004.

As at 31 March 2003, Kingsway, Guotai Junan, their directors, employees nor any of their respective associates did not have any interest in any securities of the Company or any of its associated corporation.

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 the review of the unaudited quarterly accounts for the three months ended 31 March 2003.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company did not purchase, sell or redeem any of its listed shares during the three months ended 31 March 2003.

By Order of the Board

Sun Li Yong

Chairman

Shaoxing, Zhejiang Province, the PRC

9 May 2003