



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
Third Quarterly Report

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

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

HIGHLIGHTS

- Turnover of the Company increased from approximately RMB310,398,000 to approximately RMB348,331,000, representing a growth of approximately 12.3% when compared to the corresponding period in 2002.
- Net profit for the three months ended 30 September 2003 increased by approximately 15.5% when compared with the same period in 2002.
- Operation resumed back to normal as the unfavourable factors during the first half of the year gradually faded away.
- The Directors do not recommend the payment of an interim dividend for the nine months ended 30 September 2003.

UNAUDITED CONDENSED PROFIT AND LOSS ACCOUNT

For the three months and nine months ended 30 September 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 and nine months ended 30 September 2003, together with the comparative results for the corresponding periods in 2002 as follows:

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2003	2002	2003	2002
		RMB'000	RMB'000	RMB'000	RMB'000
Turnover	2	143,422	147,250	348,331	310,398
Cost of sales		(119,756)	(125,116)	(303,352)	(264,823)
Gross profit		23,666	22,134	44,979	45,575
Other operating income		1,928	751	4,185	3,506
Selling expenses		(922)	(168)	(2,163)	(289)
Administrative expenses		(2,300)	(2,247)	(7,119)	(4,566)
PROFIT FROM OPERATIONS	3	22,372	20,470	39,882	44,226
Finance costs	4	(2,073)	(941)	(8,586)	(1,356)
PROFIT BEFORE TAXATION		20,299	19,529	31,296	42,870
Taxation	5	(5,194)	(6,451)	(6,507)	(13,569)
Net profit for the period		15,105	13,078	24,789	29,301
Dividend paid	6	—	—	2,500	1,210
Earnings per share — basic (RMB)	7	1.8 cents	2.2 cents	3.0 cents	5.0 cents

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.*) 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 September 2002, which include the results of Sabrina Garments up to the effective date of its disposal, amounted to approximately RMB32,973,000.

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.

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

3. Profit from operations

	Three months ended 30 September		Nine months ended 30 September	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Profit from operations has been arrived at after charging: Depreciation and amortisation	5,665	1,945	15,592	5,481

4. Finance costs

	Three months ended 30 September		Nine months ended 30 September	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Interest on bank borrowings wholly repayable within five years	2,210	941	8,770	1,356
Interest on other borrowings wholly repayable within five years	194	—	583	—
Less: Amounts capitalized in construction in progress	(331)	—	(767)	—
	2,073	941	8,586	1,356

Borrowing costs capitalised during the period arose on general borrowing pool and are calculated by applying a capitalised rate of 5.46% to expenditure on qualifying assets.

5. Taxation

	Three months ended		Nine months ended	
	30 September		30 September	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
The charge comprises:				
PRC enterprise income tax for the period	(6,173)	(6,451)	(9,801)	(13,569)
PRC enterprise income tax overprovided in previous year	—	—	2,971	—
Deferred income tax	979	—	323	—
	(5,194)	(6,451)	(6,507)	(13,569)

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

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

A final dividend of RMB2,500,000 for the year ended 31 December 2002 was paid on 6 June 2003 to its H shares shareholders whose name appeared on the register of members of the Company on 14 April 2003.

7. Earnings per share

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

	Three months ended 30 September		Nine months ended 30 September	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Earnings for the purpose of calculating basic earnings per share	15,105	13,078	24,789	29,301
Number of shares:				
Number of shares for the purpose of calculating 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 nine months ended 30 September 2003 and 2002 were based on the unaudited net profit for the periods as above as if the sub-division of the Company's shares as described in the note 1 above had taken place at the beginning of the respective periods.

Diluted earnings per share has not been calculated for the three months and nine months ended 30 September 2003 and 2002 as there were no dilutive potential ordinary shares during these periods.

8. Movements in reserves

	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	—	—	—	—	—	29,301	29,301
Dividend	—	—	—	—	—	(1,210)	(1,210)
Balance at 30 September 2002	58,000	—	1,456	727	—	27,141	87,324
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	—	—	—	—	—	24,789	24,789
Deferred tax effect	—	—	—	—	5,703	—	5,703
Transfer	—	—	2,479	1,239	—	(3,718)	—
Balance at 30 September 2003	83,800	26,229	5,686	2,843	27,786	55,674	202,018

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

For the nine months ended 30 September 2003, the Company recorded a turnover of approximately RMB348,331,000, representing an increase of approximately 12.3% as compared with that of the same period in 2002. The gross profit for the period was approximately RMB44,979,000, representing a gross profit margin of approximately 12.9%, which was 1.8% lower than the gross profit of approximately RMB45,575,000 and a gross profit margin of approximately 14.7% for the corresponding period in 2002. The gross profit margin for period was adversely affected by the political event in the Middle East and the sudden outbreak of Severe Acute Respiratory Syndrome ("SARS") in the PRC and its surrounding regions during the first half of the year.

For the three months ended 30 September 2003, the Company recorded a turnover of approximately RMB143,422,000, which decreased slightly by approximately 2.7% when compared with that of the corresponding period in 2002. Gross profit for the period was approximately RMB23,666,000, representing a gross profit margin of approximately 16.5%, which was approximately 1.5% higher than the gross profit of approximately RMB22,134,000 and a gross profit margin of approximately 15% for the corresponding period in 2002.

The increase in turnover for the nine months ended 30 September 2003 was in line with the Company's expanding production capacity. The investment in respect of facilities enhancement enabled the Company to produce more and improve its ability to handle more orders. Our Hong Kong, Shanghai and Hangzhou sales offices also played an important role in maintaining good customers relationship and soliciting new customers. All these scaled down the bad influences of the political event in the Middle East and the outbreak of SARS on gross profit margin during the first half of the year.

Operation review

During the period under review, the Company continued to design, develop and implement production and dyeing technologies which further eliminated potential imperfections and smoothened the production processes. It is

estimated that the existing production facilities, which utilization rate has reached 80%, are capable of coping with the sales orders up to 2004. The Board considers that the Company's technologies, systems, processes and locations permit year-round production in a seamless and an efficient manner.

Product research and development

The Company will continuously exploit opportunities with competitive edge. The cooperation with DuPont Fibers (China) Limited and Donghua University enables the Company to innovate and provide more high quality products to customers. For the nine months ended 30 September 2003, the Company innovated and developed five series of new products which involved over 100 models. These new products, representing approximately 94% of the total production of the Company, were all launched to the market during the period and were well received by customers.

Sales and marketing

The Company's sales offices, which are located in Hong Kong, Shanghai and Hangzhou, continued to implement various marketing plans to widen customers base and increase new market opportunities.

Outlook

In view of the gradual elimination of the export quotas for textile products by the World Trade Organisation, the Company will gradually be allowed to export directly to its overseas ultimate users without going through licensed export traders. To yield the biggest benefits from this favourable policy, the Company has already employed experienced sales personnel to further strengthen its marketing team. The proposal of appointing sales agents at certain strategic geographical locations is also being carefully considered.

Recently, there has been a sharp increase in the price of cotton in the industry. The Directors consider that this will not have significant impact on the business of the Company since our major product is fiber fabrics, which involves the use of fibers as raw material while the use of cotton occupies only a small portion in our cost structure. In addition, the application of fiber fabrics to fashion is wider than cotton and it is much preferred by fashion designers. The Directors

are confident that with the strong leadership, proven technologies and long-standing relationship with customers and business partners, the Company is uniquely positioned to deliver better results.

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

As at 30 September 2003, the interests and short positions of the Directors, chief executives and supervisors 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 of Hong Kong Limited (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 the shares of the Company

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

Note: Mr. Sun Li Yong is the spouse of Ms. Fang Xiao Jian and, by virtue of the SFO, Mr. Sun Li Yong and Ms. Fang Xiao Jian are taken to be interested in the 182,280,000 shares and 382,000,000 shares respectively.

Save as disclosed in this paragraph, as at 30 September 2003, none of the Directors, chief executives or supervisors and their respective associates had any interest or short positions in the shares, underlying shares and debentures 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 be Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

So far as it is known to the Directors, chief executives or supervisors of the Company, as at 30 September 2003, the persons (not being a Director, chief executive or supervisor of the Company) who had equity interests or short positions in the shares or underlying shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under 336 of the SFO, were as follows:

Long positions in the shares of the Company

Name	Type of interests	Capacity	Number of H shares held	Approximate percentage of H shares	Approximate percentage of interests in total registered share capital
Martin Currie China Hedge Fund Limited	Corporate	Investment manager	24,930,000 (Note i)	9.97	2.97
J.P. Morgan Chase & Co.	Corporate	Interest of a controlled corporation	20,000,000 (Note ii)	8.00	2.39
Chan Kin Sun	Personal	Beneficial owner	19,000,000	7.60	2.27
Liu Yuen Sung, David	Personal	Beneficial owner	16,000,000	6.40	1.91

Notes:

- i. Martin Currie China Hedge Fund Limited is controlled by Martin Currie Investment Management Limited. By virtue of the SFO, Martin Currie Investment Management Limited was deemed to be interested in the 24,930,000 shares held by Martin Currie China Hedge Fund Limited.
- ii. 20,000,000 shares are held by JF Asset Management Limited, which was 99.99% owned by J.P. Morgan Fleming Asset Management (Asia) Inc. which was wholly-owned by J.P. Morgan Fleming Asset Management Holdings Inc. which was, in turn, wholly-owned by J.P. Morgan Chase & Co.

Save as disclosed above, as at 30 September 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 which were recorded in the register required to be kept by the Company under section 336 of the SFO.

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 is likely to compete, either directly or indirectly, with the business of the Company for the period under review and up to the date of this report.

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 two years thereafter expiring on 31 December 2004.

As at 30 September 2003, Kingsway, Guotai Junan, their directors, employees or any of their respective associates did not have any interest in any securities of the Company or any of its associates.

AUDIT COMMITTEE

An audit committee was established 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 quarterly accounts for the nine months ended 30 September 2003.

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 nine months ended 30 September 2003.

By Order of the Board
Sun Li Yong
Chairman

Zhejiang, the PRC, 28 October 2003

* *For identification purpose only*